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**United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General**

Office of Audit

Independent Auditor's Report on the Review of Middle East Broadcasting Networks, Inc., Awards to Three Contractors

Report Number AUD/IB-07-26, March 2007

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SUMMARY

At the request of the then Executive Director of the Broadcasting Board of Governors (BBG), the Office of Inspector General (OIG) reviewed awards the Middle East Broadcasting Networks, Inc. (MBN), made to three contractors. The review was conducted to determine whether the awards, totaling about \$9.3 million, were competed in compliance with Office of Management and Budget (OMB) Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, as required by the grant agreement between BBG and MBN. In reviewing compliance, OIG's objective was also to identify any indication of favoritism, fraud, or other procurement improprieties related to these awards. Finally, in conducting the review, OIG was cognizant to general observations about MBN's overall procurement process.

OIG found that MBN did not compete awards to the three contractors reviewed or adequately document its procurement activities in compliance with Circular A-110. In reviewing compliance with the Circular, nothing came to OIG's attention to indicate favoritism, fraud, or other procurement improprieties related to these awards. Awards made to two of the three contractors lacked adequate justification for sole-source selection, and awards made to the third contractor had initial competition but subsequent contracts were not properly competed. MBN's noncompliance with Circular A-110 occurred, in part, because of its interpretation of the Circular's requirements. In addition, at the time of the awards, MBN did not have formal policies and procedures. MBN later developed a draft *Corporate Policies and Procedures Manual*, which requires competition in compliance with OMB Circular A-110. OIG believes that these policies and procedures address many of the procurement competition deficiencies noted. OIG recommended that MBN implement the draft *Corporate Policies and Procedures Manual* and develop a process to periodically monitor compliance with procurement requirements. Additionally, OIG made general observations about MBN's overall procurement process, which resulted in several informal suggestions.

MBN reviewed a draft of this report and agreed with the findings and recommendations. To comply with report recommendations, MBN has initiated or proposed solutions that will strengthen accountability and internal controls.

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BACKGROUND

The International Broadcasting Act of 1994 established the International Broadcasting Bureau and created BBG with oversight authority over all nonmilitary U.S. government international broadcasting.¹ The Emergency Wartime Supplemental Appropriations Act, 2003, provided funds to BBG “for activities related to the Middle East Television Network broadcasting to the Middle East and radio broadcasting to Iraq.”²

On April 25, 2003, the Middle East Television Network, Inc. (MTN), was incorporated as a nonprofit entity in the District of Columbia. The primary strategy of MTN was to promote fair and balanced news and current affairs, freedom, and democracy to the Middle East. In addition to reporting on regional and international events, the channel broadcasts discussion programs; current affairs magazines; and features on subjects such as health and personal fitness, entertainment, sports, fashion, and science and technology.

BBG provided \$10.7 million to MTN through a grant agreement on July 22, 2003, which included a requirement to comply with federal procurement regulations, including OMB Circular A-110. The grant funded MTN’s operating expenses related to providing Arabic broadcasting to the Middle East (TV Alhurra). Because of congressional interest in broadcasting to the Middle East, MTN’s initial focus was on beginning operations quickly. TV Alhurra began broadcasting on February 14, 2004, approximately seven months after grant award.³ On April 28, 2005, MTN changed its name to Middle East Broadcasting Networks, Inc.

BBG is the sole provider of funding to MBN. According to the grant agreement between BBG and MBN, the Board of Directors of MBN “shall consist of the members of the BBG . . . and of no other members.”

¹ Pub. L. No. 103-236.

² Pub. L. No. 108-11.

³ It normally takes approximately 18 months from initial concept and design to begin broadcast operations.

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OBJECTIVES, SCOPE, AND METHODOLOGY

At the request of BBG's then Executive Director, OIG reviewed awards totaling \$9.3 million that MBN made to BrandCentral, Ltd., Quantum Communications, and Capital Communications Group, Inc. For the three contractors, BBG requested that OIG review the adequacy of contracting competition in accordance with the requirements of Circular A-110. MBN is responsible for complying with these requirements.

This review was limited to the awards made to the three contractors noted. OIG reviewed the grant agreement between BBG and MBN and identified key requirements from Circular A-110 related to competition. OIG obtained and reviewed the contracts awarded to these contractors and the related procurement activities to determine compliance with the Circular. In addition, OIG reviewed MBN's draft *Corporate Policies and Procedures Manual*. OIG also reviewed related inspection reports and certified public accountant reports.

In reviewing compliance, OIG's objective was also to identify any indication of favoritism, fraud, or other procurement improprieties related to these awards. Finally, in conducting the review OIG was cognizant to general observations about MBN's overall procurement process.

Fieldwork began in November 2005 and continued through March 2006, with additional information obtained during October and November 2006. OIG's Office of Audits, Property and Procurement Division conducted the review in accordance with government attestation standards. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion. Accordingly, OIG does not express such an opinion.

On March 9, 2007, MBN provided written comments on the draft report, which have been incorporated into the final report where appropriate. MBN's comments are included in their entirety as Appendix A.

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RESULTS

OIG found that MBN did not comply with competition requirements included in Circular A-110. For instance, MBN did not compete most of the awards to BrandCentral, Ltd., Quantum Communications, and Capital Communications Group, Inc., and it did not fully document decisions related to the procurement awards. The lack of compliance occurred, in part, because of MBN's interpretation of the requirement for procurement competition. In addition, at the time of the awards, MBN did not have formal procurement policies and procedures that provided guidance to employees on how to comply with Circular A-110. As a result, MBN had no assurance that it received the best prices for the services it procured through the awards to these three contractors. After the awards, MBN drafted a policy manual that included requirements for competition.

The grant agreement between BBG and MBN requires the grantee to make “every reasonable effort to achieve the purpose of the grant” in accordance with federal procurement requirements, including those of Circular A-110. Circular A-110, subpart C, requires:

- all procurement transactions to be conducted in a manner to provide, to the maximum extent practical, open and free competition (Part 43),
- written procurement procedures that include a requirement that solicitations for goods and services include clear technical requirements, evaluation factors, and performance expectations (Part 44),
- documentation of cost or price analysis (Part 45), and
- documentation for the basis of contractor selection, justification for lack of competition when competitive bids are not obtained, and the basis for award cost or price (Part 46).

OIG found that MBN did not consistently compete or fully document the awards it made to the three contractors. For example, awards made to BrandCentral, Ltd., and to Quantum Communications lacked adequate justification for the sole-source selections. Although MBN competed one award to Capital Communications, other awards to the same contractor were not properly competed. The details for each contractor are discussed below.

BrandCentral, Ltd. MBN's Board of Directors approved two contracts to BrandCentral, Ltd., on July 20, 2004. These contracts, totaling \$1.6 million, were awarded without competition on July 21, 2004. The purpose of these contracts was to transform Alhurra's website into a full-service branded website and develop Alhurra Iraq channel graphics.

In a letter dated July 13, 2005, to the Chairman of the House Committee on International Relations, MBN's Chairman stated that MBN decided to negotiate solely with BrandCentral "based on [BrandCentral's] unique combination of corporate experience, capability to interact sensitively within the target culture on crucial communications issues, key personnel capabilities, technology expertise, location within the hub of the Middle East advertising world, security capabilities, and a reasonable price." However, MBN's contract files did not contain documentation required by Circular A-110 concerning why the contractor was selected, why there was no competition, and how the basis for the award cost or price was determined.

Quantum Communications. Between February and September 2004, MBN awarded six contracts to Quantum Communications to provide office space in Beirut, Lebanon, for MBN staff and supervision of the content production. These contracts, totaling more than \$50,000, were awarded without competition.

In the July 13 letter, MBN's Chairman indicated that MBN chose Quantum Communications "as the sole source of these services because the company possessed many unique production and cultural capabilities." However, MBN's contract files did not contain documentation required by Circular A-110 concerning why the contractor was selected, why there was no competition, and how the basis for the award cost or price was determined.

In October 2004, MBN issued another noncompetitive contract to Quantum Communications for \$4.4 million. The contracting files indicated that Quantum Communication was the only known company in the region that could do this work for MBN. Although MBN documented its basis for the selection of the contractor and justification for no competition, it did not document how the basis for the award cost or price was determined.

Capital Communications Group, Inc. On October 31, 2003, MBN awarded a noncompetitive six-month contract to Capital Communications Group, Inc., totaling approximately \$100,000. The purpose of this sole-source contract was to provide orientation services for new MBN employees.

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On April 1, 2004, MBN awarded a contract to Capital Communications Group, Inc., totaling almost \$200,000, for interpretation and language support services. The award was based on a review of proposals from three bidders. The bid from Capital Communications was not the lowest. While MBN did have a price comparison worksheet for the three bids, there was no documentation on how the contractor was selected, as required by Circular A-110. In addition, OIG found that MBN's solicitation request did not adequately provide the technical requirements, evaluation factors, and performance requirements required by the Circular.

In the July 13 letter, MBN's Chairman stated that Capital Communications Group, Inc., was selected on its technical ability "because of the superb quality of its translation services and number of qualified translators, but also because of [its] capability to perform 24 hours a day, 7 days a week, and because of [its] experience translating . . . at the White House, the State Department, the Department of Defense, and other federal . . . agencies." However, MBN's contract files lacked documentation required by Circular A-110 concerning why the contractor was selected, why there was no competition, and how the basis for the award cost or price was determined.

Between October 2003 and October 2005, MBN awarded an additional 13 contracts or purchase orders to Capital Communications Group, Inc., at a cost of approximately \$2.2 million, without competition. MBN's contract files lacked documentation required by Circular A-110 concerning why the contractor was selected, why there was no competition, and how the basis for the award cost or price was determined. An MBN official said that the contract for interpretation and language support services currently handled by Capital Communications would be reviewed for future competition.

OIG believes that MBN's noncompliance with Circular A-110 occurred because of its interpretation of the Circular's requirements. In the July 13, 2005, letter, MBN explained its procurement decisions, stating that Circular A-110 "encourages, but does not require, full and open competition for MBN requirements and does not prohibit non-competitive acquisitions." Circular A-110 requires all procurement transactions to be conducted in a manner to provide, to the maximum extent practical, open and free competition. Although MBN's sole-source procurements may have been allowable for the reasons stated in the July 13 letter, MBN did not document the justifications for these procurement activities in compliance with the Circular.

Additionally, OIG believes that MBN did not comply with the Circular because, at the time of these procurement activities, MBN did not have formal policies and procedures in place. MBN's independent auditor noted in a report that "as a new

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organization that quickly began full-scale operations, MTN implemented only very basic internal control procedures in selected areas related to purchase orders and travel.”⁴

As a result of its contracting practices, MBN had no assurance that it received the best prices or services. Since the Chairman and the Board of Directors of BBG and MBN are the same individuals and BBG and MBN are the grantor and the grantee, respectively, OIG believes that both organizations should exercise more diligence in monitoring MBN’s procurement transactions to avoid any appearance of impropriety.

Other than the findings discussed in this report, no other significant issues came to OIG’s attention during this limited review related to the competition of the awards to these three contractors. Additionally, in reviewing compliance with OMB Circular A-110, nothing came to OIG’s attention to indicate favoritism, fraud, or other procurement improprieties related to these awards.

⁴ *Status of Funds and Internal Control Report with Analysis and Recommendations for Middle East Television Network*, dated May 28, 2004.

PROCUREMENT PROCESS IMPROVEMENTS

In addition to the recommendations described below, OIG made general observations about MBN's overall procurement process, which resulted in several informal suggestions. Specifically, OIG suggested strengthened controls by MBN for approval and monitoring of small purchases made through petty cash and credit cards. MBN officials were receptive to these suggestions and agreed to implement them.

In response to the independent auditor's findings noted, MBN updated its procurement policy and related procedures to require adequate competition and in October 2005 completed its draft *Corporate Policies and Procedures Manual*. During OIG's fieldwork, MBN's general counsel was reviewing the draft manual. OIG believes that MBN management should complete its review and implement these policies. Because of the issues raised in this report, OIG recommends that MBN review the manual to ensure that it contains appropriate guidance to comply with Circular A-110 and revise the manual as appropriate.

In addition to the manual, MBN has started to review 15 major procurements to determine which service contracts could be competed. Also, MBN is considering initiating an internal auditing function that would provide independent consulting to improve operations. The internal auditing function would address best practices in the areas of compliance with company policies, laws, and regulations; operational efficiency and effectiveness; managing funds and costs; and corporate-wide risk management.

Recommendation 1: OIG recommends that the Middle East Broadcasting Networks, Inc., implement the draft *Corporate Policies and Procedures Manual*, dated October 27, 2005.

MBN agreed with the recommendation, saying that the procurement policies and procedures portion of the manual have been finalized and will be issued by March 31, 2007. All administrative policies will be issued in final form by September 30, 2007.

On the basis of MBN's response, OIG considers the recommendation resolved. It can be closed when MBN issues the manual in final and provides OIG with a copy of the manual.

Recommendation 2: OIG recommends that the Middle East Broadcasting Networks, Inc., develop a process to periodically monitor compliance with procurement requirements. This could be accomplished as part of its internal audit function.

MBN agreed with the recommendation, saying that it will develop a process to enhance its monitoring of compliance with procurement regulations and anticipates having a process in place by September 30, 2007.

On the basis of MBN's response, OIG considers the recommendation resolved. It can be closed when MBN provides OIG with details on the process to periodically monitor compliance with procurement regulations.

APPENDIX A

MIDDLE EAST
BROADCASTING
NETWORKS, INC. **MBN**

*Brian Conniff
President*

March 9, 2007

Mr. Mark W. Dudo
Assistant Inspector General for Audits
U.S. Department of State
2201 C Street, NW (Suite 3100, SA-3)
Washington, DC 20522-0308

Dear Mr. Dudo:

Thank you for the opportunity to respond to your draft report on the OIG's review of three contracts awarded by Middle East Broadcasting Networks, Inc. ("MBN") (then doing business as Middle East Television Network, Inc. or "MTN"), in 2004.

At the time the contracts were awarded, MTN was in its initial start-up phase and had not fully developed or documented its procurement process. As stated in your draft report, MBN managers, at the time of the awards, misinterpreted OMB Circular A-110 to encourage, but not require, full and open competition. Furthermore, MBN officials did not fully appreciate that when sole-source procurements were justified, the decision must be properly documented.

Given this situation, however, we are reassured that your audit found no evidence of favoritism, fraud or other procurement improprieties relating to the contract awards.

Moreover, since these three contracts were awarded in 2004, MBN has hired qualified procurement officers, provided required training, and established corporate policies to ensure that OMB Circular A-110 requirements are met.

MBN management is committed to the principle of full and open competition and to obtaining the best price and quality of service possible. The company's procurement policies fully incorporate the provisions of OMB Circular A-110. MBN has been operating under these policies since they were issued in draft form in October 2005. The final procurement policies and procedures will be issued by the end of March 2007.

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In order to put your conclusions in proper context for your readers, we suggest that your final audit report present your two findings as consecutive sentences, rather than as discrete thoughts separated by a paragraph. For example, your finding in the third paragraph of the summary that "... nothing came to OIG's attention to indicate favoritism, fraud, or other procurement improprieties related to these awards" should follow the first sentence of the second paragraph, which discusses non-compliance with OMB Circular A-110.

MBN's response to the draft report's two recommendations follows:

Recommendation 1: OIG recommends that the Middle East Broadcasting Networks, Inc. implement the draft *Corporate Policies and Procedures Manual*, dated October 27, 2005.

MBN response: We agree with the recommendation. The procurement policies and procedures portion of the manual have been finalized and will be issued by the end of March 2007. All administrative policies will be issued in final form after outstanding edits have been incorporated, and before the end of the current fiscal year.

Recommendation 2: OIG recommends that the Middle East Broadcasting Networks, Inc. develop a process to periodically monitor compliance with procurement requirements. This could be accomplished as part of its internal audit function.

MBN response: MBN agrees to develop a process to enhance its monitoring of compliance with procurement requirements. We are exploring options to accomplish this by the end of the current fiscal year.

Thank you once again for the opportunity to respond to your draft report. MBN is committed to the safeguarding of its resources by following all applicable oversight regulations and procedures.

Sincerely,



Brian Conniff
MBN President

