



Date March 14, 2024

VIA ELECTRONIC MAIL (raggarwal@weta.org)

Ms. Ruby Aggarwal  
Executive Vice President and Chief Finance and Administrative Officer  
Greater Washington Educational Telecommunications Association, Inc. (WETA)  
3939 Campbell Avenue  
Arlington, VA 22206

Dear Ms. Aggarwal,

RE: Audit of Selected Corporation for Public Broadcasting Production Grants Awarded to NewsHour Productions, LLC, for the Period July 1, 2019, through June 30, 2022, Report No. APJ2211-2314

The audit referenced above concluded that NewsHour Productions, LLC (“NewsHour”) financial reports submitted to the Corporation for Public Broadcasting (“CPB”) fairly present the costs of NewsHour activities in conformity with the CPB grant agreement requirements with the following exceptions.

Namely, that NewsHour:

- I. Incurred questioned costs of which CPB’s portion is \$227,041; and lacked adequate documentation to support the rate cards used to report production center costs for production center manpower, facilities, and equipment costs of which CPB’s portion is \$5,163,013.
- II. Did not provide CPB with annual ancillary revenue reports as required by the grant agreements.
- III. Did not provide CPB with final financial reports as required by the PBS distribution agreements for the CPB National Program Service (“NPS”) grant funds.

The specific findings and CPB’s determinations for NewsHour follow.

***I. Recommendation 1 – Questioned Costs***

The audit found that NewsHour incurred questioned costs of which CPB’s portion is \$227,041 as follows:

- a) applied a fringe benefit rate in excess of actual costs on direct payroll;
- b) lacked sufficient documentation to support production center (manpower plus facilities and equipment) actual costs; the audit also concluded that there is a material weakness in NewsHour’s internal

controls over production center costs of which \$5,163,013 is CPB's portion;

- c) reported unallowable production expenditures;
- d) applied an incorrect federal indirect cost rate to direct costs; and
- e) \$419 should be returned to CPB for indirect costs associated with de-obligated funds.

**a) *Excess Fringe Benefit Costs***

CPB Terms and Conditions for NewsHour's production grants stipulate that NewsHour may not apply the grant funds for any purpose other than actual costs incurred in performance of the Grant Project in accordance with its budget. The audit found that NewsHour calculated fringe benefits at a rate of 25% for each grant, which exceeded actual costs. CPB's portion of these costs is \$124,645. The audit recommends that CPB recover these questioned costs and ensure that NewsHour's corrective actions comply with the grant requirements and CPB agrees.

Although NewsHour management agreed that its fringe costs were not trued up to actual costs and explained that it has introduced a reconciliation process to accurately account for actual fringe rate expenses, it did not provide that documentation to the auditors or CPB.

**Action:** Within 45 days of the date of this correspondence, NewsHour must return the excess fringe benefit costs of \$124,645 to CPB and provide CPB with the reconciliation it will use going forward to ensure NewsHour's reporting will be consistent with the grant requirements.

**b) *Lack of Sufficient Documentation for In-house Production Charges***

CPB Terms and Conditions for NewsHour's production grants stipulate that NewsHour and its subcontractors, if any, must keep books, records, and accounts relating to the Grant and the Grant Project sufficient to enable CPB to verify all direct costs, overhead, and administrative allocations associated with the Grant Project. The audit found that NewsHour did not keep sufficient financial records to enable verification of all direct costs and rate card allocations for the reported production center costs (manpower plus facilities and equipment). The audit also questioned \$114,040 in production charges of which CPB's portion is \$87,420. Further, it concluded that the lack of such records is a material internal control weakness, as it limited the audit scope of production center expenses of which \$5,163,013 is CPB's portion. Consequently, this could result in misstatements of actual costs in NewsHour's grant financial reports and improper allocations to grants. Specifically, the audit found that NewsHour:

- could not provide the detailed underlying financial records of the actual costs to operate the production center (manpower, facilities, and equipment);
- reported production center charges for manpower, facilities, and equipment expenses charged to CPB funded grant projects that were based on the use of a rate card instead of actual expenses; and
- did not provide adequate documentation of its current methodology used to develop its rate cards for manpower, facilities, and equipment.

The audit recommended that CPB revise its production grants to require advance CPB approval of rate cards with documentation of the methodology applied, and that the cards must be approved in advance by CPB. It further stated that the rate card methodology must be documented and shared with CPB as part of its budget documentation, and the various rates for manpower services, facilities, and equipment must be traceable to the grantee's official accounting records to support its actual costs. Since the audit report was issued, NewsHour management advised CPB that it will no longer use rate cards, therefore we consider this matter closed.

NewsHour management disagreed with the assessment that its lack of documentation of its production center costs was a material weakness. It also disagreed with the recommendation that CPB approve its rate card as part of future grant agreements and offered as an alternative its assurance that the production center expenses would not surpass the amounts charged.

A similar rate card issue was raised in an audit of WETA completed in 2007.<sup>1</sup> In the 2007 audit, WETA used undocumented rate cards instead of actual salary expenses, general and administrative indirect costs. In response, WETA acknowledged the error and indicated that it would base rate cards and prepare financial reports to reflect actual costs going forward.

CPB is troubled by this repeated finding as the grant requirements are clear. Although unable to produce a reconciliation between rate card charges to actual costs in their general ledger for the periods audited, WETA management indicated that it has created a 2023 rate card that is reconcilable to their FY2023 general ledger. However, WETA management indicated it could not create a similar rate card for the period covered by this audit, and therefore unable to meet the statutory requirements of the Communications Act regarding the ability to audit costs funded by a CPB grant. Therefore, CPB requires that NewsHour return the \$87,420 in unsupported costs and identify its corrective actions to ensure future compliance with CPB grant requirements.

CPB is also assessing a \$253,780 penalty, 5% of \$5,075,593 (\$5,163,013 less \$87,420 of disallowed costs), on the undocumented production costs, consistent with penalties assessed to other grantees on similar audit findings. However, this amount will be adjusted or waived if WETA hires an independent third-party forensic accountant or auditor and completes an examination of WETA's audited financial records for the periods of this audit (July 1, 2019 through June 30, 2022) to determine the actual production center costs incurred for which \$10,912,530 was charged to the CPB grants based on an auditable rate card.

If WETA chooses this option in lieu of paying the 5% penalty, such audit must be completed by June 30, 2024. The results will determine the actual production costs for the grant period which are eligible for reimbursement. Based on the audit findings, the penalty assessment will be adjusted to 5% of the potential documented overpayment.

**Action:** NewsHour must return \$87,420 in unsupported production charges and identify its corrective actions to ensure future compliance with CPB grant requirements within 45 days of the date of this correspondence. Further, WETA must either remit the \$253,780 penalty or notify CPB that they have selected the option to complete audit of the \$10,912,530 by June 30, 2024 after which a final determination will be made regarding return of potential overpayment of production center charges and assessment of any penalty.

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<sup>1</sup> Audit Report No. APT502-704 dated March 30, 2007.

**c) *Unallowable Production Expenditures***

The audit found that NewsHour Student Reporting Lab's (SRL) financial reports included \$12,310 in costs (Grant 34928-EDU-SRL) that were not allowable per the grant agreement. The questioned costs involved staff gatherings, team-building events, staff retreats, staff gifts, sympathy flowers, unbudgeted conferences, and other miscellaneous expenses.

NewsHour management did not specifically address all the questioned costs. It agreed that some of the costs related to team building, staff gifts, and sympathy flowers, although legitimate SRL expenses, should not have been charged against the restricted CPB grant but charged against less restrictive funding sources. As for the SRL retreat costs, NewsHour argued that they were permitted costs. However, the current CPB project officer and education department management explained that the approved budget line items related to station travel, not staff retreats. Therefore, CPB will not recognize the staff retreat costs of \$9,884 and NewsHour must return these funds to CPB.

In addition, the audit found that \$2,426<sup>2</sup> in costs for travel to conferences were incurred after this budget item was removed by amendment three to the grant agreement and the audit recommended that CPB require the funds be returned. CPB agrees.

**Action:** Within 45 days of the date of this correspondence, NewsHour must return \$12,310 for disallowed costs to CPB and identify its corrective actions to ensure future compliance with CPB grant requirements.

**d) *Application of Incorrect Federal Indirect Cost Rate***

The grant agreements (34971 RAD – NewsHour and 35074 RAD - NewsHour) provided that NewsHour may apply the Federal Indirect Cost Rate (FICR) on costs incurred during the grant term. Instead of applying the FICR in effect when the grant was amended, NewsHour applied the prior year's rate, which resulted in an overpayment of \$2,247.

NewsHour management acknowledged the error and agreed to use the indirect rates that correspond to the grant term. We also agree with this finding and require NewsHour to return the overpayment to CPB, but we will not require additional documentation.

**Action:** NewsHour must return the \$2,247 overpayment associated with indirect costs to CPB within 45 days of the date of this correspondence.

**e) *Indirect Costs on De-obligated Budget Overages***

The audit found that CPB de-obligated grant funds on two production grants awarded to NewsHour and should have required that NewsHour return \$419 for the associated indirect costs. CPB agrees and requires NewsHour return the overpayment.

**Action:** NewsHour must return the indirect overpayment of \$419 to CPB within 45 days of the date of this correspondence.

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<sup>2</sup> Including General & Administrative costs of \$344.

**II. Recommendation 2 - Ancillary Revenues**

The grant agreements (34928-EDU; 34971-RAD; 35074-RAD) required that NewsHour report the amount of ancillary revenues for each, annually to CPB, even if there were no revenues due. The audit found that NewsHour did not submit any ancillary revenue reports to CPB.

NewsHour management stated that the omission was unintentional and agreed to provide CPB with these reports going forward. For the grants above, CPB requires that NewsHour provide ancillary revenue reports and identify its corrective actions to ensure future compliance.

**Action:** Within 45 days of the date of this correspondence, NewsHour must submit the ancillary revenue reports to CPB for the grants specified above and identify its corrective actions to ensure future compliance with ancillary revenues reporting requirements.

**III. Recommendation 3 – Final Financial Reporting Non-Compliance**

NewsHour did not provide CPB with a copy of its financial report as required by both the CPB NPS agreement with PBS and the NPS PBS agreement with NewsHour.

NewsHour management agreed with the finding and CPB requires that it provide the reports for the CPB NPS agreements for 2020, 2021, and 2022.

**Action:** Within 45 days of the date of this correspondence, NewsHour must provide CPB with the final financial reports for each season of the PBS NewsHour series funded under the CPB NPS agreement for 2020, 2021, and 2022.

A summary of the payments due are as follows:

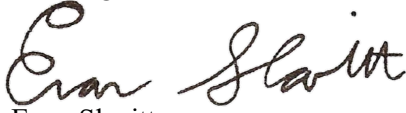
§ 1(a)	Fringe benefits	\$124,645
§ 1(b)	Documentation for in-house charges	\$87,420
§ 1(c)	Unallowable production expenditures	\$12,310
§ 1(d)	Incorrect federal indirect cost rate	\$2,247
§ 1(e)	Indirect costs on de-obligated budget overages	\$419
<b>Subtotal</b>		<b><u>\$227,041</u></b>
<b>Penalty</b>	(To be adjusted if WETA selects audit option)	<b><u>\$253,780</u></b>

Within 45 days of the date of this correspondence, please forward checks in the appropriate amount of \$227,041 and \$253,789 (or one check in the amount of \$480,830) payable to CPB, to the attention of Nick Stromann, Vice President, Controller, Corporation for Public Broadcasting, 401 Ninth Street N.W., Washington, D.C. 20004-2129. In the event WETA chooses the audit option, payment of any penalty and determination of any over payment of production costs will be assessed upon completion of the audit in which case the \$253,780 is not currently due. The required documentation must be forwarded to Erin Day, Director of Journalism at: eday@cpb.org.

Ms. Ruby Aggarwal  
Executive Vice President and Chief Finance and Administrative Officer  
Greater Washington Educational Telecommunications Association, Inc. (WETA)

If you wish CPB to consider additional information relating to this matter, please provide the same in writing within 30 days of the date of this letter. Otherwise, CPB will consider these determinations final, with the exception of the determination set forth above which shall remain open as explained, and NewsHour must comply with the actions set forth above. CPB reserves the right to take any other action it deems appropriate until these issues are resolved to CPB's satisfaction.

Kind regards,



Evan Slavitt  
General Counsel & Senior Vice President

CC: VIA ELECTRONIC MAIL

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Kimberly Howell, Inspector General, CPB  
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