



Corporation
for Public
Broadcasting

February 7, 2018

VIA ELECTRONIC MAIL AND HARDCOPY TO FOLLOW

Mr. Kevin Morrison
Chief Operating Officer
The Fred Rogers Company
2100 Wharton Street, Suite 700
Pittsburgh, PA 16203

Dear Mr. Morrison:

RE: Audit of PBS and CPB Grants awarded to The Fred Rogers Company for the productions of *Peg + Cat* and *Daniel Tiger's Neighborhood* for the period July 1, 2012 through September 30, 2015, APT 1604-1704

The audit referenced above reviewed two grants with \$14,204,840 in funding from the Corporation for Public Broadcasting (CPB) and Ready to Learn (RTL) and we have determined that The Fred Rogers Company must return \$456,936 to CPB. At their request, on November 3, 2017, we met with representatives on The Fred Rogers Company to discuss CPB's determinations on the recommendations in the audit. Taking the information provided at that meeting into consideration, our final determinations follow.

Recommendation 1: The Office of the Inspector General (OIG) recommends that CPB recover \$363,812 of our grant funds for *Peg + Cat*, because the costs were covered by funding from the National Science Foundation (NSF).

CPB Determination: The Fred Rogers Company covered certain production cost with the NSF funds as reported on its Office of Budget and Management (OMB) A-133 audit report. These same costs were reported as expenses on the financial reports The Fred Rogers Company submitted to CPB. Accordingly, The Fred Rogers Company was reimbursed twice for the same costs, and the total production funding The Fred Rogers Company received for the *Peg + Cat* season 1 exceeded the direct production costs recorded on its books. Therefore, we agree with the OIG's findings and require that The Fred Rogers Company return the excess to CPB.

Action: The Fred Rogers Company must return \$363,812 to CPB within 60 days of the date of this correspondence. Please make the check payable to CPB and forward it to Nick Stromann, Vice President, Controller, Corporation for Public Broadcasting, 401 Ninth Street N.W., Washington, D.C. 20004-2129.

Recommendation 2: The OIG recommends that CPB amend its current terms and conditions for production agreements, requiring that grantees report total production project funding on their financial reports and reconcile their final financial reports to future ancillary revenue reports.

- CPB Determination: This recommendation pertains to CPB policy and does not directly impact The Fred Rogers Company. Therefore, CPB will address this matter separately with the OIG.

Recommendation 3: The OIG recommends that CPB recover from The Fred Rogers Company for *Daniel Tiger's Neighborhood*: \$203,498 in direct costs incurred prior to the grant term, \$68,392 for unsupported indirect costs, and \$40,149 in indirect costs incurred prior to the grant term.

CPB Determination: Large production projects like a season of *Daniel Tiger's Neighborhood* take place over a number of years. Our objective in identifying the grant term was not intended to exclude certain production costs but to capture the costs related to the production. In fact, The Fred Rogers Company agreed to the project start date and we believed it was accurate. If at any time it had notified us that an earlier date was appropriate, we would have amended the agreement to include the actual start date and covered the costs incurred during this period. Because there is no question that these costs were incurred to support the program, we believe it is equitable to recognize these expenses. Therefore, we will not require that FRC return the \$203,498.

Since work on this project completed more than a year ago, in March 2016, and considering the reasons for recognizing the pre-term costs explained herein, we will not pursue a formal amendment to the grant.

With regard to the \$68,392, the OIG found that the overpayment resulted from The Fred Rogers Company incorrectly calculating its indirect cost rates for 2013-2015. The Fred Rogers Company explained that it was not fully aware of the requirements. As these requirements are clearly explained in our Guidelines for Indirect Costs and are incorporated into the grant agreement, we agree with the OIG's finding and require that The Fred Rogers Company return this amount to CPB.

The Fred Rogers Company applied a rate of 25% on the pre-term costs, resulting in \$40,149 in indirect costs. Since we are recognizing the pre-term costs, we will also recognize indirect costs associated with those expenses at the rate of 9.6%, which the OIG's audit found was supported by The Fred Rogers Company's records. Therefore, we require that The Fred Rogers Company return \$24,732 in unsupported pre-term indirect costs.

Action: The Fred Rogers Company must return \$93,124 (\$68,392 + \$24,732) to CPB within 60 days of the date of this correspondence. Please make the check payable to CPB and forward it to Nick Stromann at the address above.

Recommendation 4: The OIG recommends that CPB ensure that The Fred Rogers Company's final financial report reflects the correct indirect rates before making its final payment on the grant.

CPB Determination: CPB agrees with the OIG's recommendation and requires that The Fred Rogers Company submit an updated final financial report for *Daniel Tiger's Neighborhood* season 2.

Action: The Fred Rogers Company must submit its revised final financial report to CPB that reflects the OIG approved indirect cost rates for 2014 (9.6%), and 2015 (10.5%) within 60 days of the date of this correspondence. Please submit the documents electronically to Sarah Bean, Director, Educational Media at: sbean@cpb.org.

Recommendation 5: The OIG recommends that CPB require The Fred Rogers Company to provide it with documentation supporting the indirect cost rate on any open CPB grants which will be used in determining ancillary revenue.

CPB Determination: CPB has two open grants with The Fred Rogers Company, one for *Peg + Cat* season 2 and the other for *Odd Squad* season 2. For *Peg + Cat*, we agree that the total costs including indirect are relevant for calculating deficit recoupment and ancillary revenues. Therefore, we require that The Fred Rogers Company provide us with a revised final financial report using the indirect cost rate methodology approved by the OIG, a certification of those costs and an ancillary revenue report.

We do not accept The Fred Rogers Company's argument that it should be entitled to apply an expired fixed federal rate. The grant, which incorporates our CPB Guidelines for Indirect Costs clearly provides that the grant is made on a cost reimbursement basis which states as follows: "[r]egardless of the methodology and calculation used, CPB grants are made on a cost reimbursement basis for costs that have been budgeted and actually incurred. All costs, including indirect cost calculations, must be supported with auditable documentation. The inclusion of an amount in a grant agreement for indirect costs does not mean that a grantee is entitled to charge that amount to the grant." Per the terms of the *Peg + Cat* Season 2 agreement, The Fred Rogers Company did not apply CPB funds to indirect costs. However, CPB allowed indirect costs to be included in the budget so that The Fred Rogers Company may recoup its actual, auditable indirect costs. The OIG's audit was unable to substantiate the 20.2% indirect cost rate listed in the *Peg + Cat* Season 2 budget. In requiring The Fred Rogers Company to submit an updated final financial report using the actual indirect costs calculated with the OIG approved methodology, The Fred Rogers Company may recoup its costs before sharing revenue with other partners.

The *Odd Squad* season 2 grant does not include indirect costs in the budget, eliminating the need for any supporting documentation.

Action: The Fred Rogers Company must submit its revised final financial report for *Peg + Cat* season 2, to CPB with the OIG approved indirect cost rates, a certification of those costs and an ancillary revenue report within 60 days of the date of this correspondence. Please submit the documents electronically to Sarah Bean at her email address above.

Recommendations 6 and 7: The OIG recommends that CPB require that The Fred Rogers Company recalculate its *Peg + Cat* Recoupment and Participation Report in accordance with Exhibit C of the grant agreement to correct the producer's deficit by:

- A. using actual project funding to-date and actual costs as reported on the final financial report (The Fred Rogers Company and 9 Story) instead of the budgeted numbers; and
- B. applying the exchange rate for Canadian costs that it used to report its final project costs.

Further, the OIG recommends that The Fred Rogers Company provide \$145,789 to CPB in ancillary revenues resulting from over recovery of reported project expenses and the adjustments above.

CPB Determination: We agree in part with the OIG's recommendations 6 and 7, as discussed below, and require that The Fred Rogers Company submit a revised Recoupment & Participation Report that addresses the following issues:

Producer Deficit or Surplus: We agree with the OIG that The Fred Rogers Company should use actual project funding and actual project costs pursuant to the grant terms to calculate its recoupment and revenue participation. The Fred Rogers Company has already submitted to CPB an updated Recoupment & Participation Report through September 30, 2015 that addresses

recommendation 6 (A). Regarding recommendation 6 (B) and the consistent use of a Canadian/U.S. exchange rate, CPB agrees that the production deficit on the Recoupment & Participation Report should be consistent with the costs on The Fred Rogers Company's final financial report. Therefore, we require that The Fred Rogers Company revise the Report to reflect the same.

To clarify the treatment of the \$915,749 in NSF funds discussed in recommendation 1, the Recoupment & Participation Report that The Fred Rogers Company has provided to CPB must be revised. These funds must be included in the Report under "Sources of Funding" rather than applied to the "Additional Producer Recoupment".

Interest Expense: CPB also agrees with the OIG that The Fred Rogers Company should not include interest on its producer's deficit as a source of funding, which The Fred Rogers Company has acknowledged was a mistake. However, the terms of the grant agreement allow The Fred Rogers Company to recoup interest charges on the amount of the Production Deficit. Therefore, in its updated Recoupment & Participation Report, we require The Fred Rogers Company to provide supporting documentation that details the interest calculation.

In response to the OIG's recommendation 7 that The Fred Rogers Company provide \$145,789 to CPB in ancillary revenues resulting from the adjustments in A and B above, The Fred Rogers Company submitted to CPB a check for \$56,964 along with its revised Recoupment & Participation Report through September 30, 2015. The check represents The Fred Rogers Company's partial agreement with the OIG's recommendation. Because we are requiring that The Fred Rogers Company adjust its "Producer Deficit or Surplus" and "Interest Expense" above on its Recoupment & Participation Report, we will not require it to submit a check for additional ancillary revenues, unless the calculations result in an amount due CPB.

Action: The Fred Rogers Company must submit its revised Recoupment & Participation Report to CPB as stated above, applying the Canadian exchange rate as recommended, showing how the interest expense was calculated, and applying \$915,749 in NSF funding to project costs within 60 days of the date of this correspondence. Please submit the documents electronically to Sarah Bean at her email address above.

Recommendation 8: The OIG recommends that CPB periodically monitor PBS's oversight of its large RTL sub-recipients to verify compliance with federal grant requirements.

CPB Determination: Ordinarily we address recommendations that pertain to CPB separately with the OIG. However, because RTL is a high priority program for CPB and public media, we want to clarify our monitoring and oversight of RTL funds.

CPB continuously monitors the financial and performance activities of all organizations that receive RTL funds, including PBS, as explained in our Sub-recipient Monitoring Policy. The policy was adopted to ensure that recipients of RTL funds comply with the applicable regulations including those of the U.S. Department of Education, EDGAR, OMB 2 CRF Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, and applicable laws and regulations we identify. The policy details our monitoring process including the creation, distribution and review of annual sub-recipient self-assessment surveys, conducting risk assessments, desk reviews, and site visits when determined appropriate. Furthermore, each month we review the project financial reports as well as narrative reports to determine whether the organization met the required milestones.

Through this policy, PBS is subject to yearly self-assessment surveys, risk assessments, desk reviews and, when CPB determines the risk warrants, site visits. For example, the most recent regularly scheduled desk review of PBS' RTL grant occurred in March 2017. We tested more than \$2,500,000 of PBS's reports, supporting documents (receipts, invoices, logs, credit card statements, timesheets, etc.),

transactions, cost ledgers, and other items. PBS materials were sent to CPB for review in lieu of a site visit.

While we do not rely on a grantee's OMB Circular A-133 as proof of their compliance, further evidence of PBS and the Fred Rogers Company's compliance with the federal grant requirements are their audit results. Both organizations were audited by independent firms pursuant to this circular for multiple years and each audit was issued without any significant findings.

Considering CPB's on-going monitoring and the A-133 audit results, CPB is confident that our approach and business practices are appropriate, and that we have satisfied our responsibilities to ensure that grantees comply with the applicable federal requirements.

Action: No further action is required.

As discussed above, we consider these determinations final and The Fred Rogers Company will be required to comply with the actions set forth above. CPB reserves the right to take any other action deemed appropriate until these issues are resolved to CPB's satisfaction.

Kind regards,



Jackie J. Livesay
Assistant General Counsel & Vice President, Compliance

CC: VIA ELECTRONIC MAIL

Mary Mitchelson, Inspector General, CPB
William J. Richardson, Deputy Inspector General, CPB
Michael Levy, Executive Vice President & Chief Operating Office, CPB
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William P. Tayman, Jr., Chief Financial Officer & Treasurer, CPB
Debra Sanchez, Senior Vice President, Education & Children's Content, CPB
Michael Fragale, Vice President, Educational Programming & Services, CPB
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