

CORPORATION FOR PUBLIC BROADCASTING

OFFICE OF THE INSPECTOR GENERAL

**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

September 19, 2023



Report in Brief

*Audit of Selected Corporation for Public Broadcasting Production Grants
Awarded to NewsHour Productions, LLC,
for the Period July 1, 2019 through June 30, 2022*

What We Found

Except for the matters discussed below, 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.

We found NewsHour:

- incurred questioned costs totaling \$375,438, CPB's portion is \$227,041;
- lacked adequate documentation to support the rate cards used to report production center costs, limiting the scope of our review of the actual production center costs. The lack of support documentation resulted in an internal control deficiency and material weakness of over \$10,912,530 in reported production center manpower, facilities and equipment costs; CPB's portion is \$5,163,013;
- did not comply with CPB grant terms for annually reporting ancillary revenues; and
- did not comply with PBS distribution agreements for the CPB National Program Service (NPS) grant funds Mandatory Terms and Conditions to provide CPB with final financial reports.

In response to the draft report, NewsHour management disagreed with a portion of the finding on questioned costs, regarding lack of documentation to support its production center costs and stated our assessment of these costs did not result in a material weakness in its financial reporting controls. In addition, they did not agree with our recommendation to get advanced approval of its rate card for future grants and offered alternative solutions to provide assurance on its actual production center costs. They did not specifically address all the questioned costs. NewsHour management agreed with our findings on ancillary revenue and final financial reporting to CPB and said they would take corrective action to ensure its future compliance. CPB management will make the final determination on our findings and recommendations.

What We Recommend

We recommend that CPB require NewsHour to:

- recover \$227,041 in questioned CPB costs identified in final financial reports from NewsHour;
- enforce existing grant requirements that grantees must keep books, records, and general ledger accounts related to the grant sufficient to enable CPB to verify all direct costs, overhead, and other administrative allocations (e.g., production rate cards for various manpower job positions, facilities, and equipment) used by the grantee to report its actual costs to CPB that are traceable to the grantees official accounting records;
- add a requirement to CPB's production grant proposal requirements that the use of rate cards must be approved in advance by CPB, 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 supports its actual costs; and
- require NewsHour to identify its corrective actions to ensure future compliance with CPB grant requirements for incurring allowable costs, maintaining adequate records to support actual costs, reporting ancillary revenues, and providing CPB with final financial reports for NPS funded programs.

Why We Performed This Audit

We performed this audit based on our annual audit plan.

Our objectives were to determine whether NewsHour: a) financial reports fairly presented expenditures and revenues; b) costs were incurred in accordance with grant requirements; and c) complied with grant requirements for the period July 1, 2019 through June 30, 2022.

This report contains the conclusions of the OIG. CPB will make the final decision on our findings and recommendations.

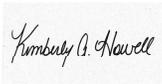


Corporation
for Public
Broadcasting

Office of the Inspector General

Date: September 19, 2023

To: Jackie J. Livesay, Deputy General Counsel and Vice President, Compliance
Kathryn Washington, Senior Vice President, Television Content
Kathy Merritt, Senior Vice President Radio, Journalism and CSG Services
Debra Sanchez, Senior Vice President, Education and Children's Content
Operations

From: Kimberly A. Howell, Inspector General  Digitally signed by
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Subject: 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

Enclosed please find our final report which contains our findings and recommendations. CPB officials must make a final management decision on the findings and recommendations in accordance with established audit resolution procedures.

Accordingly, we request that you provide us with a draft written response to our findings and recommendations within 90 days of the final report. We will review your proposed actions and provide our feedback before you issue a final management decision to the grantee, which is due within 180 days of the final report. For corrective actions planned but not completed by the response date, please provide specific milestone dates so that we can track the implementation of corrective actions needed to close the audit recommendations.

We will post this report to the Office of the Inspector General's website and Oversight.gov and distribute it to appropriate Congressional committees as required by the Inspector General Act of 1978, as amended. Please refer any public inquiries about this report to our website or our office.

Enclosure

cc: Laura Ross, Chair, CPB Board of Directors
Elizabeth Sembler, Chair, Audit and Finance Committee, CPB Board of Directors
U.S. Senate Committee on Homeland Security and Governmental Affairs
U.S. House of Representatives Committee on Oversight and Government Reform
U.S. Senate Committee on Commerce, Science and Transportation
U.S. House of Representatives Energy and Commerce Committee
U.S. Senate Committee on Appropriations
U.S. Senate Labor-HHS-Education Appropriations Subcommittee
U.S. House of Representatives Committee on Appropriations
U.S. House of Representatives Labor-HHS-Education Appropriations Subcommittee

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EXECUTIVE SUMMARY

We have completed an audit of selected grants awarded by the Corporation for Public Broadcasting (CPB) to NewsHour Productions, LLC (NewsHour) for the period July 1, 2019 through June 30, 2022. Our objectives were to determine whether: a) financial reports fairly present grant revenues and expenditures; b) costs were incurred in accordance with grant requirements; and c) grantee complied with grant requirements.

Based on our audit, except for the matters discussed below, the financial reports presented in Exhibits A through E fairly present the results of NewsHour's activities in conformity with CPB grant requirements for the period July 1, 2019 through June 30, 2022.

We found NewsHour:

- incurred questioned costs totaling \$375,438; CPB's portion is \$227,041;
- lacked adequate documentation to support the rate cards used to report production center costs, limiting the scope of our review of the actual production center costs. The lack of support documentation resulted in an internal control deficiency and material weakness of over \$10,912,530 in reported production center manpower, facilities, and equipment costs; CPB's portion is \$5,163,013;
- did not comply with CPB grant terms for annually reporting ancillary revenues; and
- did not comply with PBS distribution agreements for the CPB National Program Service (NPS) grant funds Mandatory Terms and Conditions to provide CPB with final financial reports.

We recommend that CPB:

- recover \$227,041 in questioned CPB costs identified in final financial reports from NewsHour;
- enforce existing grant requirements that grantees must keep books, records, and general ledger accounts related to the grant sufficient to enable CPB to verify all direct costs, overhead, and other administrative allocations (e.g., production rate cards for various manpower job positions, facilities, and equipment) used by the grantee to report its actual costs to CPB that are traceable to the grantee's official accounting records;
- add a requirement to CPB's production grant proposal requirements that the use of rate cards must be approved in advance by CPB, 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; and
- require NewsHour to identify its corrective actions to ensure future compliance with CPB grant requirements for incurring allowable costs, maintaining adequate records to support actual costs, reporting ancillary revenues, and providing CPB with final financial reports for NPS funded programs.

In response to the draft report, NewsHour management respectfully disagreed with our questioned costs for production center charges and stated that our assessment of these costs do not constitute a material weakness in its financial reporting controls. It asserted that these costs

are its actual costs that get charged out to the users of the production center. Further, they said that WETA is prepared to provide a reconciliation of its production center costs to meet CPB's requirements for actual costs incurred and were confident that its budgeting and reporting of expenses accurately reflect the real costs and are supported by the production center general ledger. NewsHour management did not agree with our recommendations to get approval of its rate card as part of future grant agreements and offered an alternative method of providing assurance that its production center expenses would not surpass amounts charged out. They also stated that the production center is currently under reconstruction and that management would be evaluating its rate card to make any needed changes to its methodology.

NewsHour management agreed with our findings on the questioned costs for fringe benefits and indirect costs. They agreed that fringe benefit costs needed to be trued up to its actual costs, its federal indirect cost rates applied to grants should be reviewed for the correct time period for each grant, and said they have put corrective processes in place going forward. They did not specifically address the questioned costs for the Student Reporting Lab grant in their response to the draft report. NewsHour management also agreed with our findings on ancillary revenue reporting and providing CPB with copies of NPS funded grant final financial reports and said they would be taking corrective action to ensure its future compliance. NewsHour's written response is summarized after each finding and the complete response is presented in Exhibit J.

Based on NewsHour's response to the draft report, we consider recommendations one through four unresolved pending CPB's final management decision resolving our audit findings, and recommendations five through eight resolved but open pending CPB's receipt of required reports and acceptance of NewsHour's corrective actions.

This report presents the conclusions of the Office of the Inspector General (OIG) and the findings reported do not necessarily represent CPB's final position on these issues. While we have made recommendations that we believe would be appropriate to resolve these findings, CPB officials will make final determinations on our findings and recommendations in accordance with established CPB audit resolution procedures.

We performed this audit based on the OIG's annual plan. We conducted our examination in accordance with *Government Auditing Standards* for financial audit engagements. Our scope and methodology are discussed in Exhibit I.

BACKGROUND

NewsHour is a wholly owned subsidiary of The Greater Washington Educational Telecommunications Association, Inc. (WETA), a public TV and radio station which receive CPB Community Service Grants. WETA acquired NewsHour in May 2014 for the primary business of producing the Public Broadcasting Service (PBS) NewsHour daily news program and other related activities. NewsHour is a single member limited liability company with WETA as the sole member. For financial statement and tax purposes, NewsHour's financial information is consolidated with WETA's. WETA provides general, administrative, and facilities support, as well as production services to NewsHour.

CPB is authorized by the Communications Act of 1934, as amended, 47 U.S.C. § 396, to award grants to public telecommunications entities, national, regional, and other systems of public telecommunications entities, and independent producers and production entities. Specifically, CPB awards grants to fund projects for broadcast and other uses by public telecommunications and educational systems.

CPB has supported and funded several NewsHour initiatives both before it was acquired by WETA and now under WETA ownership. During the audit period, CPB funded multiple¹ grant award to NewsHour; we selected four grants to audit. The CPB funding audited (\$21,071,620 of the \$68,304,949 in total project costs reported) is shown in the tables below. The final financial reports are presented in Exhibits A through E.

CPB Direct Grant Funds Awarded for NewsHour Productions

CPB Grant Number	Project	Total CPB Funding	Total Budget as Amended ²	Final Financial Report ³
Direct CPB Grants				
34928-EDU	PBS NewsHour Student Reporting Lab	\$ 1,283,664	\$ 1,285,572	\$ 1,285,572
34971-RAD	PBS NewsHour Election 2020	\$ 3,038,570	\$ 6,127,200	\$ 6,077,140
35074-RAD	PBS NewsHour Digital Production Grant	\$ 749,386	\$ 750,000	\$ 750,000
	CPB Direct Grants	\$ 5,071,620	\$ 8,162,772	\$ 8,112,712

CPB NPS Funds Awarded to PBS for NewsHour Productions

NPS Grant to PBS		Total CPB Funding	Total PBS NPS Commitment [*]	Final Financial Report ⁴
34990-TVP	NPS Basic Grant to PBS, NewsHour funded, Season 35	\$ 8,000,000	\$ 12,965,699	\$ 30,706,298
34990-TVP	NPS Basic Grant to PBS, NewsHour funded, Season 36	\$ 8,000,000	\$ 12,660,807	\$ 29,485,939
	CPB Grants to PBS for NewsHour	\$16,000,000	\$ 25,626,506	\$ 60,192,237

*PBS reported total PBS NPS commitment which includes the annual \$8 million in CPB funding.

One of the four production grants reviewed as part of our audit was funded with NPS grant funds. CPB awarded a three-year (FYs 2020, 2021 and 2022) NPS grant 34990-TVP to PBS for television programming in accordance with CPB's statutory requirement to fund national television programming. PBS administers the NPS grant and distributed \$26 million in annual grant funds to various production entities; NewsHour received \$8 million annually to produce its nightly news program for FYs 2020, 2021 and 2022. The production and distribution agreements for the NPS grant funded NewsHour production projects we audited were made between PBS and NewsHour.

¹ CPB had 15 active grant awards to NewsHour during our audit period totaling over \$33 million.

² Total budget before CPB de-obligations.

³ The Election grant total project budget was funded with CPB and PBS funding.

⁴ The NPS grant funded NewsHour productions were funded from multiple sources.

The OIG has not previously audited NewsHour grants but did conduct an audit of WETA production grants⁵ which had similar audit findings on the use of rate cards. CPB upheld our audit findings during audit resolution. We discuss the prior audit findings further in our finding on the Lack of Actual Cost Support for In-house Production Charges.

RESULTS OF AUDIT

We have audited the accompanying NewsHour's final financial reports for the four grants audited, Exhibits A through E. The financial reports are the responsibility of NewsHour's management. NewsHour prepared the final financial reports to comply with the grant financial reporting requirements. Our responsibility is to express an opinion on these reports based on our audit.

Our audit was conducted in accordance with *Government Auditing Standards* for financial audits and auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial reports are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial reports to determine compliance with the grant agreement requirements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial reports. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, except for the matters discussed below, the financial reports presented in Exhibits A through E fairly present the results of NewsHour's activities in conformity with CPB grant agreement requirements for the period July 1, 2019 through June 30, 2022.

As discussed in the Findings and Recommendations section of this report, as a result of our audit we found that NewsHour:

- incurred questioned costs totaling \$375,438; CPB's portion is \$227,041;
- lacked adequate documentation to support the rate cards used to report production center costs that limited the scope of our review of the actual production center costs. The lack of this support documentation resulted in an internal control deficiency and material weakness over \$10,912,530 in reported production center manpower, facilities, and equipment costs; CPB's portion is \$5,163,013;
- did not comply with CPB grant terms for annually reporting ancillary revenues; and
- did not comply with PBS distribution agreements for the CPB NPS Mandatory Terms and Conditions to provide CPB with final financial reports.

In accordance with *Government Auditing Standards*, we considered NewsHour's internal control over financial reporting and its compliance with provisions of law and grant agreement requirements. The purpose of the following explanations is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not

⁵ CPB OIG Audit Report No. APT502-704, dated March 30, 2007.

to provide an opinion of the effectiveness of internal control over financial reporting or on compliance. Accordingly, this information is not suitable for any other purpose.

Internal Control over Financial Reporting

In planning and performing our audit of the final financial reports submitted to CPB, we considered NewsHour's internal control over financial reporting to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial reports provided to CPB, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of NewsHour's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control that we consider to be a material weakness. Our audit identified a material weakness in internal control over reporting actual costs for production center services and noncompliance with CPB grant requirements. NewsHour lacked adequate documentation to support the rate cards used to report production center costs that limited the scope of our review of the actual production center costs. The lack of this documentation resulted in an internal control deficiency and material weakness over \$10,912,530 in reported production center manpower, facilities, and equipment costs; CPB's portion is \$5,163,013. We discuss this material weakness further in our findings and questioned costs section of the report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NewsHour's financial reports are free from material misstatements, we performed tests of its compliance with certain provisions of law and grant agreement requirements, noncompliance with which could have a direct and material effect on the determination of financial report amounts. 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 noncompliance with CPB requirements resulting in questioned costs of \$375,438, (\$227,041 CPB portion) and other noncompliance with grant reporting requirements, discussed further in the Findings and Recommendations section of the report.

FINDINGS AND RECOMMENDATIONS

I. QUESTIONED COSTS

Based on our testing, we identified questioned costs totaling \$375,438; CPB’s portion of the questioned costs was \$227,041, as presented in the chart below. Specifically, we found that Newshour:

- applied a fringe benefit rate in excess of actual costs on direct payroll;
- lacked sufficient documentation to support production center (manpower plus facilities and equipment) actual costs;
- reported unallowable production expenditures; and
- applied an incorrect federal indirect cost rate to direct costs.

Additionally, we found that CPB did not de-obligate indirect costs on de-obligated budget overages.

Further, we found a material weakness in internal controls over \$10,912,530 in reported production center costs; CPB’s portion is \$5,163,013. The questioned costs and material weaknesses are further discussed in the finding presentations.

As background, all four production agreements, whether initiated by CPB or PBS, required NewsHour to report costs on these productions on a cost-reimbursement basis. This requires that all direct costs should be billed as actual incurred costs by NewsHour and indirect costs and other allocations should be allocated based on their contribution to the production in a fair and equitable manner. Further, all costs reported are required to be supported with documentation of the underlying actual costs recorded in the grantee’s financial records.

Questioned NewsHour Production Grant Costs

Questioned Cost Category by Grant	34928 EDU	34971 RAD	35074 RAD	34990 TVP FY 2020	34990 TVP FY 2021	CPB Questioned Costs	Total Project Questioned Costs
Excess Fringe Benefit Costs	\$10,590	\$12,341	\$5,704	\$46,028	\$49,982	\$124,645	\$244,620
Lack of Sufficient Documentation - Production Center Costs		\$63,722		\$9,913	\$13,785	\$87,420	\$114,040
Unallowed Production Expenses	\$12,310					\$12,310	\$12,310
Incorrect Indirect Rate Charges		\$1,802	\$445			\$2,247	\$4,049
Indirect charges on De-obligated funds	\$315		\$104			\$419	\$419
Total Questioned Costs	\$23,215	\$77,865	\$6,253	\$55,941	\$63,767	\$227,041	\$375,438

We have questioned five categories of costs that CPB either paid directly to NewsHour under production agreements or that were indirectly funded in the NPS grant funds provided in PBS production and distribution agreements with NewsHour. As shown in the table above, the

\$55,941 and \$63,767 totaling \$119,708 (Grant 34990-TVP) in questioned costs were paid to NewsHour by PBS and included CPB NPS funding.

Excess Fringe Benefit Costs

NewsHour financial reports included costs for staff allocations to each grant with calculated fringe benefits costs based on a rate of 25 percent. We found this rate was in excess of actual fringe benefit costs. We questioned these excess costs totaling \$244,620 and calculated CPB’s portion of these costs to be \$124,645 as shown by each grant in Exhibit F and summarized by fiscal year and excess rate applied in the table below.

Questioned Fringe Benefit Rate and Costs

Fiscal Year	Actual Fringe Rate	Excess Fringe Rate	CPB Portion Questioned Costs	Total Questioned Costs
CPB Direct Grants				
FY 2020	23.54%	1.5%	\$7,597	\$12,019
FY 2021	23.57%	1.4%	\$12,308	\$18,236
FY 2022	23.37%	1.6%	\$4,620	\$4,620
Questioned Fringe Benefit Costs			\$24,525	\$34,875
Indirect on Fringe Benefit Costs			\$4,110	\$5,860
Total CPB Direct Grants			\$28,635	\$40,735
CPB NPS PBS Grant				
FY 2020	23.54%	1.5%	\$46,028	\$97,878
FY 2021	23.57%	1.4%	\$49,982	\$106,007
Total CPB NPS funded PBS NewsHour			\$96,010	\$203,885
Combined CPB Questioned Fringe Benefit Costs			\$124,645	\$244,620

The CPB Terms and Conditions incorporated into each direct CPB grant contain the following budget and financial reporting requirements:

Authorized Uses of CPB Funds. No Grantee may apply amounts received under a Grant to any purpose other than actual costs incurred in performance of the Grant Project in accordance with its Budget ... Grantee agrees to repay to CPB, immediately upon CPB’s written request, any portion of the Grant which CPB determines has been expended in a manner that is inconsistent with either these Terms and Conditions or the individual Grant Agreement.

Records. A Grantee and its subcontractors, if any, must keep books, records, and accounts relating to the Grant and the Grant Project sufficient to: ...

- i) enable CPB to verify all direct costs, overhead, and administrative allocations associated with the Grant Project; ...

CPB Terms and Conditions for Television, Radio and Other Media Production Grants, 4. Budget and Financial Reporting, F. Authorized Uses and G. Records. i. (2018).

CPB's NPS Agreement with PBS included the following requirements:

14. Conditions Attached to CPB Funds.

(a) As a condition of the distribution of funds by CPB to PBS hereunder, ...

(d) PBS shall provide CPB Funds to Producers (as defined in Paragraph 19, below) on a cost-reimbursement basis. In the event that any Funded Project is completed for a total cost less than the amount of CPB Funds contemplated under PBS' agreement to produce or acquire such Funded Project, PBS must reduce the amount of CPB Funds provided under such agreement to an amount no greater than the Funded Project's actual total cost ...

CPB Grant 34990-TVP, NPS Basic Grant agreement, (FYs 2020, 2021, 2022) Section 14.

In addition, PBS's production and distribution agreements with NewsHour include specific terms to comply with CPB requirements:

20. CPB Mandatory Terms and Conditions

As this Program is funded in part by the Corporation for Public Broadcasting ("CPB"), Producer agrees to comply with the Corporation for Public Broadcasting (CPB) mandatory terms and conditions attached hereto and incorporated into this Agreement as Exhibit F ...

Payment of the Program Payment is contingent upon Producer's agreement to, and compliance with, the following CPB Mandatory Terms and Conditions.

Standard Terms and Conditions, Section 4 PBS Program Payment: Program Budget

4.3 Producer acknowledges and agrees that all funds provided by PBS to Producer are provided on a cost reimbursement basis...

Exhibit F CPB Mandatory Terms and Conditions

13. Producer acknowledges and agrees that all funds provided by PBS or CPB to Producer are provided on a cost-reimbursement basis only ...

PBS Production and Distribution Agreements with NewsHour, June 30, 2019, FY 2020 Season 35 and June 30, 2020, FY 2021 Season 36, Section 20, Attachment 2 Standard Terms and Conditions and Exhibit F.

NewsHour uses a salary allocation methodology to charge direct labor expenses to grant projects. At the conclusion of each month, management allocates individual staff salaries and fringe benefits to selected grants based on a percentage of the actual time worked on a project, but within budgetary limitations.

These percentage allocations are sent to the WETA Payroll Manager to be recorded prior to the financial close of each month along with an imputed rate for fringe benefits (i.e., payroll taxes, health insurance, other employee benefits). Newshour applied a fringe benefit rate that was in excess of the actual benefit rate as determined by actual fringe benefit costs in its general ledger. The fringe rate allocated to all NewsHour direct salary costs for the audit periods, FY 2020, 2021 and 2022 was 25 percent; the actual rates were 23.54 percent, 23.57 percent, and 23.37 percent, respectively.

NewsHour management stated the 25 percent rate was developed based on its standard methodology to include the cost of actual benefits provided to employees but did not provide documentation to support the 25 percent rate. However, NewsHour management provided the OIG with general ledger costs for its fringe benefits and actual salary costs to calculate the actual fringe rate during our audit period. The actual rate averaged 1.5 percent less than the allocated fringe rate. NewsHour management stated that a prior financial manager responsible for the calculations had retired and current management could not completely reconstruct the 25 percent rate.

The OIG assessed the staff allocations recorded in each grant's general ledger for the audited projects funded with CPB grants to determine the amount of excess fringe benefit costs charged to CPB grants. As a result, we questioned \$244,620 in excess fringe benefit costs included in the staff allocations charged to CPB grants. We calculated CPB's portion as \$124,645. NewsHour was noncompliant with authorized uses of CPB funds for unsupported costs and subject to repayment.

Lack of Actual Cost Support for In-house Production Charges

We found that NewsHour did not keep financial records sufficient to enable CPB to verify all direct costs and rate card allocations for the reported production center costs (manpower plus facilities and equipment) associated with funded projects. We consider this lack of sufficient rate card records a material internal control weakness, limiting the scope of our examination of production center reported expenses i.e., \$10,912,530 of \$66,269,377 (16.5 percent) for the two grants (34971-RAD and 34990-TVP FY 2020 and FY 2021), and was noncompliant with grant requirements. Specifically, we identified the following issues related to the lack of adequate documentation to support the actual costs for WETA's in-house production center services because 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 various rate cards for manpower, facilities, and equipment.

Further, in a prior audit of WETA production grants, we reported a similar audit finding where WETA had inadequate documentation to support its use of a rate card for manpower charged to grant projects.

As a result, we questioned \$114,040 of the production costs from the workorders we tested; CPB’s portion is \$87,420, as shown in the following table and discussed further below.

Questioned Production Center Costs

Grant	Manpower	Facilities and Equipment	Indirect Claimed	Total Questioned Costs	CPB Questioned Costs
34971-RAD	\$48,049	\$6,456	\$9,217	\$63,722	\$63,722
34990-TVP NPS Season 35 FY 2020	\$13,878	\$7,203		\$21,081	\$9,913
34990-TVP NPS Season 36 FY 2021	\$14,871	\$14,366		\$29,237	\$13,785
Total Questioned Production Center Charges	\$76,798	\$28,025	\$9,217	\$114,040	\$87,420

Because NewsHour processes a significant number of production center work order transactions that are material to the financial reports of the grants we examined, we determined that this internal control deficiency represents a material weakness and could result in misstatements of actual costs in the NewsHour grant financial reports and improper allocations to grants. We reviewed the project general ledgers and determined that the production center costs (including the costs questioned in the table above) reported on the CPB funded projects audited totaled \$10,912,530, CPB’s portion is \$5,163,013. See Exhibit G.

NewsHour/WETA management stated that all production center costs (studio production, remote, field engineering, post-production and duplication) are charged to the productions through work orders using its rate card to recover its production center expenses. During our fieldwork, NewsHour/WETA management was not able to provide us with its detailed methodology or the specific costs used to support each fiscal year’s rate cards, i.e., manpower rates by job classification, facilities, and equipment rates. For accounting purposes, these work orders set up a receivable from NewsHour, a payable to WETA’s production center, and charged production expenses to general ledger accounts as shown in Exhibit G. Manpower, facilities, and equipment expense categories, although identified separately on individual work orders, were not separately recorded in the general ledger to facilitate verification of the rates to actual costs incurred.

CPB grants fund actual costs incurred and require that grantees maintain financial records to support such costs. The CPB Terms and Conditions incorporated into each direct CPB grant contain the following budget and financial reporting requirements:

Authorized Uses of CPB Funds. No Grantee may apply amounts received under a Grant to any purpose other than actual costs incurred in performance of the Grant Project in accordance with its Budget ... Grantee agrees to repay to CPB, immediately upon CPB’s written request, any portion of the Grant which CPB determines has been expended in a manner that is inconsistent with either these Terms and Conditions or the individual Grant Agreement.

Records. A Grantee and its subcontractors, if any, must keep books, records, and accounts relating to the Grant and the Grant Project sufficient to: ...

i) enable CPB to verify all direct costs, overhead, and administrative allocations associated with the Grant Project; ...

CPB Terms and Conditions for Television, Radio and Other Media Production Grants, 4. Budget and Financial Reporting, F. Authorized Uses and G. Records. i. (2018).

CPB's NPS Agreement with PBS includes conditions addressing CPB funds under section 14 noted in the criteria in the prior finding above and also includes the following section:

21. PBS Records, and Audits and Deliverables. PBS shall keep all records and allow access to such records as required hereunder ...

f. Records, Audits, and Warranties of PBS Producers. PBS shall require Producers to: ...

(ii) Financial Records: maintain, for no less than three (3) years following receipt of funds to which they pertain and in accordance with generally accepted accounting principles consistently applied, financial records reflecting (A) the amount and disposition of the production, acquisition, and/or promotion funds received from PBS; (B) the total costs of any Funded Project; (C) the amount and nature of any portion of such total costs supplied by other sources; and (D) such other records as will facilitate an effective audit of Producer's disposition of the above-referenced funds, so that CPB may assure itself that the CPB funds were properly used for Funded Projects. The Producer shall keep books, records and accounts sufficient to:

- (A) enable CPB to verify all direct costs, overhead, and administrative allocations associated with the Funded Projects;
- (B) allow CPB, by examination of the general ledger and other records, to account for the Funded Project(s) level of activities in sufficient detail to enable an audit to verify the investment of CPB funds in the approved expenses of the Funded Project(s);
- (C) disclose fully the amount and used of the proceeds of CPB Funds, ...
- (D) substantiate labor costs with timesheets or other relatively contemporaneous record-keeping documents, consistent within the budget of the Funded Project, ...

(IV) permit an effective audit.

CPB Grant 34990 TVP, NPS Basic Grant Agreement (FYs 2020, 2021, 2022) Section 21. In addition, PBS's production and distribution agreements with NewsHour included specific terms to comply with CPB requirements as noted above under section 20 CPB Mandatory Terms and Conditions, Standard Terms and Conditions section 4, and as further defined in Exhibit F which states:

Exhibit F - CPB Mandatory Terms and Conditions

2. ... Producer further agrees to maintain its general ledger and other records in detail sufficient to account for project level activities and which will provide an audit trail enabling PBS and/or CPB to verify the investment of CPB funds and to confirm that such funds were applied in a manner consistent with the terms and conditions hereof and the Agreement. Producer also agrees to substantiate labor costs with timesheets or other relatively contemporaneous record-keeping documents, consistent with the representation of those costs within the Project Budget of the Program, ...

13. Producer acknowledges and agrees that all funds provided by PBS or CPB to Producer are provided on a cost-reimbursement basis only ...

PBS Production and Distribution Agreements with NewsHour, June 30, 2019, FY 2020 Season 35 and June 30, 2020, FY 2021 Season 36, Section 20, Attachment 2 Standard Terms and Conditions and Exhibit F.

NewsHour management explained to us that NewsHour nightly production as well as other special coverage productions are produced through WETA's production center. WETA also provided these services to NewsHour prior to WETA's acquisition of NewsHour. NewsHour considers the WETA production center charges, billed using the work orders based on the rate cards, as its actual production costs.

As background, NewsHour requests WETA production services using WETA's production scheduling system "Schedu-All." For example, NewsHour production managers enter budgeted needs for production support e.g., production rooms, control room support, edit rooms, operators, production staffing and equipment needed to produce the program into the Schedu-All software system to generate work order billings. The work orders are reconciled and forwarded, along with production center payroll time reports, to the WETA payroll department for input into each project's general ledger through journal entries. The work order is recorded as an account receivable due to the WETA production center and an account payable on the requesting department's books. The work orders are also provided to the requesting department for weekly reconciliations.

NewsHour/WETA management provided us with the journal entries and work orders to support the rate card costs recorded in the general ledgers and reported in final financial reports. We tested selected work order transactions and found that the work orders supported the costs recorded in the general ledger and that the rates agreed with the appropriate fiscal year rate cards.

During our audit fieldwork of manpower charges NewsHour provided us with actual employee pay statements for our selected sample of work order manpower charges, but we could not reconcile the rate card applied to the hours worked to the total actual costs. The pay statement represented only a portion of the rate card for the labor categories we tested. However, as previously discussed, NewsHour and WETA did not provide us with the complete cost documentation used to establish each rate card by labor category to calculate the manpower charges, and no actual cost support for its facilities and equipment charges to its productions.

NewsHour/WETA management said NewsHour is procuring services from WETA as if WETA were an outside vendor, therefore they consider the work order charges were the actual billed costs. NewsHour assumed that because CPB and PBS approved the budgets, the rates were approved. NewsHour/WETA management believe that the use of a rate card represents a responsible and good faith calculation of their actual expenses but did not provide the documentation for us to perform an effective audit to verify this assertion.

NewsHour management provided us with additional background on their use of WETA production services and described a prior cost-benefit analysis it performed to determine if it was cost effective to continue to use WETA production services versus outsourcing those services after WETA acquired NewsHour. NewsHour determined that it was more cost effective to continue to use WETA services. The analysis used to make this decision was not provided to us.

Finally, NewsHour management stated that the rate card has always been used and that the prior Chief Financial Officer updated the rate card in 2018 based on an evaluation of the WETA production cost center expenses.⁶ Although current management was aware of this production center 2018 cost evaluation, due to turnover at WETA, they were not able to find the details and provide us with this documentation until after we issued our Preliminary Observations on May 10, 2023.

NewsHour financial officials subsequently provided us with a summary excel workbook showing the cost analysis of the FY 2018 rate re-evaluation in June of 2023. This evaluation included some of the cost components for each rate, but again, did not provide any documentation that reconciled its rate card to actual costs in WETA's financial records in 2018. We reviewed WETA's 2018 analysis of manpower, facilities, and equipment rates to understand the methodology it applied to establish its FY 2018 rate card. Our analysis of the 2018 methodology is discussed further below.

2018 Production Center Facilities and Equipment Rate Evaluation

WETA's 2018 production center rate card cost analysis included detailed equipment and facilities costs based on engineering estimates to purchase various equipment hardware and additional costs for installation and ongoing support along with annualized depreciation assumptions to calculate an annual cost. The analysis defined the annual cost as the target amount of cost recovery for each item and assumed a 100 percent recovery of necessary costs to acquire and service each item. The annual budgeted costs for each rate category were allocated based on a usage method, either daily or hourly, to calculate each rate. In addition, the calculated rate based on WETA's estimated future costs were compared to outside vendor market costs and another large public media station's internal production rate card. However, this methodology did not include any analysis of WETA's actual incurred 2018 costs for facilities and equipment in accordance with CPB's and PBS grant terms.

Our review of WETA's analysis found that the estimated new rates were generally lower than the established FY 2018 rate card amounts, a few items were priced higher. The FY 2018 rate

⁶ Current management stated this 2018 analysis of the production center evaluated the costs over ten years if WETA were to build a new production center and the analysis also compared these re-evaluated rates to outside vendors.

card was the basis for the future years FY 2019-2021⁷ rate card with annual escalations. From our review of WETA’s cost analysis, we did not find that the new facilities and equipment rates were reflected in the FY 2018-2021 rate cards for most items that are then charged out through work orders to the various productions and grant projects. We discussed this with current WETA financial officials who thought the FY 2018 rate card rates for facilities and equipment might have been a combination of the newly calculated rate and a market rate, but they could not confirm this and agreed the variance was not clearly documented in the Excel workbook with the rate evaluation cost analysis that they provided to us.

Further, for example, we noted a major cost item for a studio production room that was evaluated to develop a new FY 2018 rate card and subsequent years’ rate cards appeared to be based on market rates as shown in the table below and not based on the new budgeted cost or actual costs in financial records. We noted that WETA’s methodology came up with a new rate of \$517 per day for this studio production room, however the actual rate established on its FY 2018 rate card and applied to production work orders was \$813 per day. The market rates identified in the analysis ranged from \$1,800 to \$2,520 per daily rate; WETA increased its FY 2019 rate card for the studio from \$813 to \$1,900 for its new daily buyout rate. This rate had annual cost escalations of three percent in the following years, however, we noted in a FY 2023 current budget that this studio rate card had been reduced to a \$1,400 daily buyout rate. Per WETA management, this was due to an increase in its usage factor for the added two days for production of NewsHour Weekend Edition.

Comparison of Re-evaluated FY 2018 Rate to Actual Established Rate Card

Studio A	2018 Re-evaluated Rate Card	2018 Actual Established Rate Card	Re-evaluated Rate to Actual Established Rate Card Variance	Usage/Day	Potential Rate Card over New Rate (over)/under recovery
FY 2018	\$517	\$ 813	(\$296)	260	(\$76,913)
FY 2019	\$517	\$1,900	(\$1,383)	260	(\$359,533)
FY 2020	\$517	\$1,950	(\$1,433)	260	(\$372,533)
FY 2021	\$517	\$2,000	(\$1,483)	260	(\$385,533)
Total					(\$1,194,513)

Based on our limited review of WETA’s rate card to its 2018 production center cost analysis, this studio cost item, which is budgeted for all nightly NewsHour productions, could result in over recovery of actual costs (\$1.2 million from FY 2018 through 2021). Because WETA could not provide the historical costs to support the rate cards for facilities and equipment items, we could not audit the basis for actual allowable costs or determine any true over or under recovery of costs by each cost item. Further, CPB grant terms and conditions allow for actual costs not market rates or budgeted rates.

⁷ We audited FY 2020 and FY 2021 rate card charges to grants.

2018 Production Center Manpower Rate Evaluation

The 2018 evaluation of manpower was broken out into two main labor categories, technicians and directors.⁸ Technicians' rates were based on hourly usage and directors on a day rate usage. The analysis included only one annual salary for the technician category, a fringe benefits percentage, and then was calculated based on a utilization factor (billable hours/days) to re-evaluate its current rate. We noted this rate calculation aligned closely with the actual rate card, but we did not receive any actual 2018 cost data to confirm the salary or benefit information in this analysis or the reasonableness of the billable hours.

Based on our testing of FY 2020 and FY 2021 work orders and manpower rates to actual pay statements, we estimate that the FY 2020 and FY 2021 rate card could support approximately 92-95 percent⁹ of actual costs for technicians which represent the majority of labor costs.¹⁰ This conclusion was based on auditor assumptions that included:

- estimating benefits based on our review of NewsHour fringe benefit costs, and
- assumptions of billable hours after discussion with WETA payroll manager regarding union contracts and paid leave.

Our review of the actual directors' costs and auditor assumptions approximated the day rate charges. WETA management informed us that the evaluation included fringe benefits costs for WETA which would be higher than NewsHour fringe benefits cost, but we did not receive the financial records to support a WETA fringe benefit rate for 2018 or subsequent periods.

We could not assess the full impact of manpower costs based on the production center charges in the financial records because the work order charges do not break out manpower from facilities and equipment in the general ledger. Based on reviews of budgets and discussion with NewsHour production and operations management, we estimated that manpower was approximately 49 percent of costs, and facilities and equipment 51 percent (of the production center costs on the NPS NewsHour daily production in FY 2020 and FY 2021).¹¹ We could not assess the breakout for the CPB election grant because the budget was changed due to pandemic cancellations and manpower and facilities were budgeted together for some line items and again not separately reported on in the project's general ledger. Refer to Exhibit G for the total production charges we audited.

Finally, NewsHour management said the 2018 rates have been updated with annual escalations based on budget increases, salary increases, etc. but the detail documentation used to make those updates was not provided to us, especially related to facilities and equipment. After reviewing

⁸ These positions are covered under union contracts.

⁹ Based on our judgmental audit analysis.

¹⁰ Based on reviews of some budgets and work orders, we estimated approximately 71 percent of labor on the NPS daily NewsHour studio production was for technicians' hourly time and additional post production and other cost labor categories were mostly technicians.

¹¹ Based on the FY 2023 budget NewsHour provided us for the NPS grant, manpower was approximately 59 percent and facilities, and equipment was approximately 41 percent of total NPS production center budget. FY 2023 rates were adjusted for the new usage base with the production of NewsHour Weekend Edition.

the 2018 rate card evaluation, we noted that the future years rates were generally escalated between three to six percent over the prior year with a few exceptions.

Production Center Cost Recovery

Alternatively, in lieu of actual cost information for manpower as well as facilities and equipment, NewsHour/WETA management provided us with a high-level Profit and Loss statement to illustrate that the WETA production center operates on a cost recovery basis. Management stated that over the past five fiscal years (2018-2022) the production center was basically operating at breakeven. We requested financial records to support the Profit and Loss statement but did not receive any additional financial records to verify their assertion that the production center operates on a breakeven basis.

We discussed the components in the FY 2018 rate card re-evaluation calculations with WETA financial officials and compared the cost categories to the Profit and Loss cost categories. We noted that the WETA production center annual costs provided in the un-audited Profit and Loss statements for FYs 2018-FY 2021¹² on average were \$8.2 million in operating and non-operating costs and were broken out as follows:

- Personnel – 71 percent – \$5.8 million
- Contractors and outside services – 6 percent – \$500k
- Occupancy and maintenance – 12 percent – \$1 million
- Depreciation – 11 percent – \$932k

Although these costs could be part of the cost-recovery rate if supported with audited financial records similar to a general and administrative rate, we did not see how these expenditure line items were specifically tied to the rate card evaluation and the actual established FY 2018 rate card or the basis for future years' rate cards. Based on the work order recovery charges in the general ledgers, we noted NewsHour productions accounted for approximately 70 percent of the cost recovery charges assessed for the production center usage or over \$6 million annually on average. Therefore, the lack of sufficient documentation to reconcile the work order charges to each NewsHour grant to the actual production center costs represents a material weakness in internal controls over NewsHour financial reporting.

NewsHour/WETA management is aware of the need to better document its rate card methodology based on actual cost support for each rate applied to production services and said it would address this more thoroughly when its new facilities are completed. However, they continue to assert that the production center costs are actual incurred costs and recovery is reasonably charged to each production.

The CPB funded NewsHour grants we audited required incurred actual costs in each grant agreement. Similar to incurring general and administrative indirect costs, CPB's grant terms require that administrative allocations, e.g., rate cards, be supported by an allocation methodology traceable to actual costs to operate their production center. It is essential that grant

¹² We used an average of these four years because of the change in FY 2022 for the NewsHour weekend production that increased the personnel costs and showed a major reduction in depreciation.

recipients maintain detailed financial records and documentation to support the rates being charged to CPB grants. Grantees should review this documentation regularly to ensure that it accurately reflects the actual costs of services being provided to the grant project and any discrepancies should be addressed promptly.

Finally, WETA was aware of the need to document the basis for its rate card because of the prior OIG audit of its production activities in 2007, Audit Report No. APT502-704. A similar finding on undocumented rate card usage was in that report and CPB upheld the questioned costs associated with the undocumented rates and recovered the funds.

We consider that the lack of documentation to support the production center rate card charges a significant scope limitation of our review of production center charges to the grants and a material weakness that could result in material misstatements of actual costs. CPB’s requirements were clear that administrative allocation, e.g., rate cards, had to be supported with an allocation methodology traceable to the organization’s accounting records. As a result of the direct testing we performed, we question \$114,040 in production charges; CPB’s portion is \$87,420.

Unallowed Production Expenditures

NewsHour Student Reporting Lab¹³ (SRL) incurred and reported \$12,310 in costs on its certified final financial report submitted to CPB that were not allowable per the grant agreement terms and the approved amended budget. We questioned costs incurred for: staff gatherings and team-building events, staff retreats, staff gifts, sympathy flowers, unbudgeted conferences, and other miscellaneous expenses. These costs were reported under budget categories and reported to CPB under specific budget line items. See the questioned cost table below and Exhibit H.

As background, the NewsHour SRL is operated as a self-funded operating unit of NewsHour. CPB, other federal government agencies, and private foundations have provided financial support for SRL. Grant 34928-EDU is 100 percent funded by CPB for specific project budget items and deliverables.

Questioned Costs CPB Grant 34928-EDU-SRL

Budget Category	Staff Strategic Planning Retreat	Employee Gifts	Staff Gathering/Team Building Sympathy flowers	Conference and Misc.	Total Questioned Costs
SRL Travel to stations	\$6,235		\$1,466	\$2,082	\$9,783
Station Outreach and Promotion		\$486			\$486
Digital Media			\$297		\$297
Total Questioned Budget Lines	\$6,235	\$486	\$1,763	\$2,082	\$10,566
G & A (16.5%)	\$1,029	\$80	\$291	\$344	\$1,744
Total Questioned Costs	\$7,264	\$566	\$2,054	\$2,426	\$12,310

¹³ CPB funded grant 34928-EDU PBS NewsHour Student Reporting Labs: Innovation, Civic Engagement, Relevance.

We questioned the \$12,310 in reported costs because these costs were not budgeted or approved as project allowable costs.

The CPB Terms and Conditions incorporated into each direct CPB grant contain the following budget and financial reporting requirements:

Authorized Uses of CPB Funds. No Grantee may apply amounts received under a Grant to any purpose other than actual costs incurred in performance of the Grant Project in accordance with its Budget ... Grantee agrees to repay to CPB, immediately upon CPB's written request, any portion of the Grant which CPB determines has been expended in a manner that is inconsistent with either these Terms and Conditions or the individual Grant Agreement.

CPB Terms and Conditions for Television, Radio and Other Media Production Grants, 4. Budget and Financial Reporting, F. Authorized Uses of CPB Funds. (2018)

NewsHour SRL incurred costs during the grant period for SRL approved expenses, however some of these costs were not allowable per the CPB approved amended budget for the CPB funded SRL grant. Due to the global pandemic, which occurred during the grant period and resulted in limited travel and cancellations of conventions, the grant project, work scope, and budget were amended several times to reflect the changing environment. For example, the Conference and Convention budget line item was zeroed out and the original budgeted funds were reallocated to Station Outreach for fellowship stipends. Amendment three, dated February 12, 2021, stated:

2. Attachment B, Budget. Attachment B to the Grant Agreement is hereby deleted in its entirety and replaced with the attached revision to Attachment B to incorporate the following: ...

c. conference travel expenses are moved to additional support for stations in providing Gwen Ifill Fellowships to help strengthen relationships across the system and provide more work opportunities for participating students.

NewsHour SRL management agreed that some of the costs related to team building, staff gifts, and sympathy flowers, although legitimate SRL expenses, those specific expenses should not have been charged against the restricted CPB grant but charged against less restrictive funding sources. SRL management did not agree that the SRL retreat costs should be questioned and stated: "These expenses are all travel, per diem, and miscellaneous costs associated with the SRL Strategic Planning Retreat. This event was reported to CPB in conversations with the project officer and through narrative interim reporting. It serves the grant extension aim around strategic planning and assumes travel expenses that were not applied to station-related travel due to station needs." While we found the NewsHour SRL's interim narrative report dated October 31, 2021 described the SRL staff retreat and strategic planning activities, we did not find that the related costs for the offsite retreat were included in the budget or approved.

We discussed these questioned costs with the current CPB project officer and education department management who understood that the reported costs were for approved budget lines related to station travel, not for a staff retreat. We did not find any CPB approvals for budget line

changes to reflect staff retreat costs. Further, CPB management agreed that the team building, gifts, and sympathy gifts were unallowed project costs.

Additionally, we found costs that were originally reported as “Travel to Conferences” on the interim financial report for the period ending September 30, 2021 were incurred after the conference budget was zeroed out in amendment three.¹⁴ We found records from the prior CPB project officer from March 2021 and December 2021 requesting Newshour SRL find other funding sources for these conference related expenses because the budget had been zeroed out. Our review of the grant project’s detailed general ledger financial records crosswalk to the final financial report found \$2,082 of these conference costs were reallocated to the Travel to Stations Misc. budget line. NewsHour SRL’s final financial report variance explanation for the Travel to Stations Misc. budget line stated, “Overspent based on non-air, non-hotel travel needs (other transportation, business meals, meeting space rentals, etc.)”

We did not find any supplemental information or CPB budget approvals for the questioned costs related to the staff retreat, staff gatherings and gifts, team building expenses, sympathy flowers, and conference fees in CPB’s grant management system or from discussion with CPB management.

As a result, we questioned \$12,310 in costs that NewsHour reported to CPB that were not in accordance with the approved amended grant budget and therefore were noncompliant with grant requirements and subject to repayment.

Incorrect Indirect Rate Applied

NewsHour claimed indirect costs on two CPB grants that were not in accordance with CPB’s indirect cost guidelines, resulting in CPB questioned costs totaling \$2,247. We found the following:

Grant 34971 RAD - NewsHour designated an indirect cost method in the agreement on Attachment D - Selection of Indirect Cost Accounting Method which included its certification that it would apply an indirect rate in conformity with CPB’s Method 2 (Fixed Federal Rate) when the grant was executed and reflected in the Budget in Attachment B of the grant agreement. We found that NewsHour applied a prior year’s 16.91 percent Federal Indirect Cost Rate (FICR) on direct costs incurred throughout the grant period even though the entire budget had been amended and the rate in effect at the time of the executed amendment was 16.50 percent. This resulted in questioned costs of \$3,604; CPB’s portion is \$1,802. We noted in another grant we audited, 34928-EDU, NewsHour had adjusted the FICR when the budget was amended to the correct FICR rate.

Grant 35074 RAD - NewsHour designated an indirect cost method on Attachment D - Selection of Indirect Cost Accounting Method which included its certification that it would apply an indirect rate in conformity CPB’s Method 3 (Grantee-Calculated CPB Rate) when

¹⁴ In our review of questioned costs with CPB management they agreed to allow some conference costs that had been incurred prior to the budget amendment. These costs were originally reported under Travel to Stations Misc. for the conference fees.

the grant was executed and reflected in the Budget in Attachment B of the grant agreement. However, NewsHour applied CPB’s Method 2 (Federal Fixed Rate) using the prior year’s 16.91 FICR on direct costs incurred throughout the grant period when the approved rate at the time the grant was executed was 16.50 percent. This resulted in CPB questioned costs of \$445.

Both grants used the following approved FICR Rates shown below that were in effect at the time the budget was developed but related to approved rates for prior fiscal years and rate terms. We also show for impact purposes that the FY21-22 rate was 2.10 percent lower than the prior year’s FICR. Had this similar situation occurred between the fiscal years it would have resulted in material questioned indirect costs.

Summary of FICR Rates

Rate Fiscal Year	FICR Approved Rate	FICR Rate Term	FICR Signed/Executed	Federal Cognizant Agency
FICR FY18-19	16.91%	7/1/2018-6/30/2019	4/13/2018	Department of Interior
FICR FY19-20	16.50%	7/1/2019-6/30/2020	6/30/2020	Department of Interior
FICR FY20-21	16.50%	7/1/2020-6/30/2021	6/30/2020	Department of Interior
FICR FY21-22	14.40%	7/1/2021-6/30/2022	8/31/2021	Department of Interior

CPB production grant agreements include the following requirements.

TERMS AND CONDITIONS

This Grant Agreement is made pursuant to (i) CPB’s Terms and Conditions for Television, Radio and Other Media Production Grants (February 2018) (the “Terms and Conditions”), and (ii) the CPB Guidelines for Indirect Costs (FY2014); copies of which are available at <http://www.cpb.org/grants/managing-your-grant>, and are incorporated herein by reference.

Grant Agreements CPB 34971-RAD and CPB 35074-RAD, 1. Terms and Conditions.

The CPB Terms and Conditions incorporated into each direct CPB grant contain the following budget and financial reporting requirements:

Authorized Uses of CPB Funds. No Grantee may apply amounts received under a Grant to any purpose other than actual costs incurred in performance of the Grant Project in accordance with its Budget.... Grantee agrees to repay to CPB, immediately upon CPB’s written request, any portion of the Grant which CPB determines has been expended in a manner that is inconsistent with either these Terms and Conditions or the individual Grant Agreement ...

CPB Terms and Conditions for Television, Radio and Other Media Production Grants, 4. Budget and Financial Reporting, F. Authorized Uses of CPB Funds. (2018).

CPB's Indirect Cost Policy guidance includes three methods for allowable indirect cost calculations. NewsHour used CPB Method 2 (Fixed Federal Rate). CPB's Method 2 guidelines allow for indirect costs based on the current approved active FICR rate in accordance with the federal Office of Management and Budget (OMB) Circular A-122¹⁵ applied by the agency.

Indirect Cost Rates

CPB will accept any of the following three methods for calculating indirect cost rates. CPB may require that the actual rate included in the Agreement may be less than the calculated amount based on equitable or reasonable considerations including funding limitations.

Method 2. Use the organization's most recent provisional or final Federal Indirect Cost Rate, in accordance with OMB Circular A-122, at the time the Agreement with CPB is negotiated and maintains that rate for the duration of the grant agreement. Regardless of the cognizant agency, the FICR must be the current active rate (whether provisional or final) applied by that agency as of the time the Agreement is executed. Documentation of the approved FICR will be required.

The FICR in effect at the time that the Agreement is signed applies for the full term of the Agreement ...

CPB Guidelines for Indirect Costs, 2014.

NewsHour grant 34971-RAD used the active approved FICR rate that was in effect at the time the original grant agreement was executed on 9/30/2019, however the budget was replaced in its entirety in amendment one and executed on 3/12/2021 and the new approved FICR rate (dated 6/30/2020) in effect at that time was 16.50 percent. The budget and final financial report did not reflect the correct fiscal year's FICR. CPB was not made aware of the revised FICR rate at the time of the budget amendment in 2021.

NewsHour Grant 35074-RAD used a prior FICR¹⁶ rate at the time the grant agreement was executed on 7/2/2020. The grant budget and final financial report applied the FY19 rate of 16.91 percent to the grant direct expenses. The active approved FY21 FICR at the time of grant execution was 16.5 percent. Because the budget was negotiated before the FY21 FICR was officially approved, NewsHour applied the higher 16.91 rate instead of the lower 16.5 rate that was effective as of 6/30/2020, prior to the CPB execution date of 7/2/2020.

As a result of using the incorrect FICR, we questioned \$2,247 in indirect costs charged to CPB grants which are subject to repayment.

¹⁵ CPB's Guideline for Indirect Costs dated 2014 references superseded OMB Circulars. These have been replaced by OMB's Uniform Guidance for Federal Awards 2 CFR 200 relocated to 2 CFR, Part 230.

¹⁶ The grant agreement stated NewsHour was using CPB Method 3 but in effect it was applying Method 2 in the budget and final reports and did not provide any support for a CPB Method.

Indirect Costs on De-obligated Budget Overages

CPB de-obligated grant funds on two production grants awarded to NewsHour, however, CPB did not de-obligate indirect costs charged to the direct costs when it de-obligated the grant funds. As a result, CPB made grant overpayments of \$419 as shown below.

Questioned Indirect Costs on De-obligated CPB Funds

CPB Grant	De-obligated Direct Costs	Questioned Indirect Costs
34928-EDU	\$1,908	\$315
35074 RAD	\$614	\$104
Total	\$2,522	\$419

We questioned the \$419 in grant payments that were the result of unallowable indirect costs.

The CPB Terms and Conditions incorporated into each direct CPB grant contain the following budget and financial reporting requirements:

Authorized Uses of CPB Funds. No Grantee may apply amounts received under a Grant to any purpose other than actual costs incurred in performance of the Grant Project in accordance with its Budget ... Grantee agrees to repay to CPB, immediately upon CPB’s written request, any portion of the Grant which CPB determines has been expended in a manner that is inconsistent with either these Terms and Conditions or the individual Grant Agreement ...

CPB Terms and Conditions for Television, Radio and Other Media Production Grants, 4. Budget and Financial Reporting, F. Authorized Uses of CPB Funds. (2018).

CPB de-obligated grant funds for budget line items that exceeded reallocations threshold for the two grants noted above pursuant to its terms and conditions for production grants. CPB used a de-obligation tool to calculate this amount. However, this tool does not include a formula for addressing indirect costs on de-obligated budget line items. CPB management said not all grants have indirect costs and therefore the tool focused on the direct budget line items exceeding the reallocation thresholds.

CPB management agreed that the indirect costs charged on the de-obligated expenses that exceeded the budget threshold should have also been de-obligated and CPB would request a repayment of these grant funds. We questioned \$419 of indirect costs on de-obligated funds that CPB overpaid to NewsHour that should be repaid.

* * * * *

In summary, NewsHour was noncompliant with CPB requirements for reporting and claiming allowable costs resulting in \$375,438 in questioned costs; CPB portion is \$227,041. In addition, NewsHour lacked adequate documentation support for actual costs for production center charges

of \$10,912,530, CPB's portion is \$5,163,013, that we consider a material weakness in internal controls over financial reporting.

Recommendations:

We recommend CPB:

- 1) recover \$227,041 in questioned costs from NewsHour, (\$107,333 paid directly from CPB and \$119,708 paid from PBS with CPB NPS grant funds);
- 2) enforce existing grant requirements that grantees must keep books, records, and general ledger accounts related to the grant sufficient to enable CPB to verify all direct costs, overhead, and other administrative allocations (e.g., production rate cards for various manpower job positions, facilities, and equipment) used by the grantee to report its actual costs to CPB that are traceable to the grantees official accounting records;
- 3) require NewsHour to identify the corrective actions to ensure its future compliance with CPB grant requirements; and
- 4) add a requirement to CPB's production grant proposal requirements that the use of rate cards must be approved in advance by CPB, 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 supports its actual costs.

NewsHour Management Response:

In response to the draft report, NewsHour management agreed that its fringe rate costs were not trued up to it actual costs and said it has now introduced a reconciliation process to accurately account for actual NewsHour fringe rate expenses and will diligently monitor it going forward. They also agreed that an incorrect indirect rate had been applied and would ensure future attention to applying the FICR for the correct time period for each grant.

NewsHour management stated it disagreed with our assessment which found the lack of documentation of its production center costs was a material weakness in its financial reporting controls. They also stated that the rate card was originally designed for external clients for using the production facility and used this methodology for tracking facilities and staff usage They reiterated their assertion regarding the production center cost summary they had provided to us, and discussed in the body of the report, that the production center costs are actual costs that are then charged out to users of these production services and those charged out costs did not exceed the production center costs. For that reason, NewsHour management stated it believes there is no material weakness in its internal controls over its financial reporting. Further, they said that WETA is prepared to provide a reconciliation of its production center costs to meet CPB's requirements for actual costs incurred and were confident that its budgeting and reporting of expenses accurately reflect the real costs and are supported by the production center general ledger.

NewsHour management did not agree with our recommendation that CPB and PBS approve its rate card as part of future grant agreements and offered as an alternative that it would provide a statement providing the necessary assurance that its production center expenses would not

surpass the amounts charged out. They also stated that the production center is currently under reconstruction and that management would be evaluating its rate card to make any needed changes to its methodology.

OIG Review and Comment:

Based on NewsHour's management response to the draft report, we have not revised our audit findings and recommendations for questioned costs and material weakness of internal controls over its financial reporting of production center costs.

As discussed in the body of the report, we reviewed the WETA production center cost summary reports but were not provided with general ledger records to verify they represented actual costs incurred. The costs that are charged to the CPB grants recorded in NewsHour's general ledgers for the WETA production center costs are based on a rate card and WETA could not provide us with the reconciliation of its actual production center costs for each rate card amount for the production center services provided for manpower, facilities, and equipment. NewsHour management previously discussed with us and restated in its response that the rate card was originally established for external users of the production center.

In addition, as we previously discussed in our evaluation on the 2018 rate card methodology of facilities and equipment, the established rate cards were based on budgeted and market rate assumptions, not actual incurred 2018 costs. These rate cards were then annually adjusted and applied to CPB grant funded projects without adequate documentation to substantiate the rate increases.

While NewsHour management disagreed with our finding that it had a material weakness in its internal controls over its financial reporting of production center costs, they did not provide us with additional information to change our finding. As stated above, the lack of documentation to reconcile the work order rate card charges to each NewsHour grant to the actual production center costs incurred represents a material weakness in internal controls over NewsHour financial reporting. The production center costs are material to the financial statements, coupled with the lack of controls in place to prevent or detect and correct potential misstatements on a timely basis, represent a material weakness in its internal controls over its financial reporting of its production center costs.

Further, NewsHour management stated that it could prepare a yearly reconciliation of its production center costs to fulfill CPB's requirements to report actual incurred costs, but if NewsHour retains the rate card method to directly charge the CPB grants, the rate card would also need to be reconciled annually to the production center actual costs. Again, as stated above, it is essential that grant recipients maintain detailed financial records and documentation to support the rates being charged to CPB grants. NewsHour management stated that it would be evaluating its rate card and making any needed changes to its methodology, it should ensure that its methodology is documented and transparent to demonstrate the validity of the rates charged to grants are actual incurred costs.

Finally, NewsHour management's response did not specifically address the questioned SRL grant project costs in its response, however they had agreed with some of our findings regarding questioned costs during our fieldwork.

As a result, we consider recommendations one through four unresolved and open pending CPB's final management decision resolving our audit findings and recommendations.

II. ANCILLARY REVENUE REPORTING NONCOMPLIANCE

We found that NewsHour did not comply with CPB grant requirements to annually report ancillary revenues. For the three CPB direct grants selected, annual submission of ancillary revenue reports are required. NewsHour did not submit any ancillary revenue reports as the three grants required and therefore was not compliant with CPB grant terms.¹⁷

All of NewsHour's CPB grant agreements include compliance with CPB Terms and Conditions. The Terms and Conditions provide the following requirement on annual ancillary revenue reporting:

Provisions for Revenue Sharing After the Lock Up Period. After the Lock Up Period, the Grantee may exploit the Grant Project and its Elements, so long as such exploitation does not interfere with CPB's exclusive rights under these Terms and Conditions and the Grant Agreement. In the event the Grantee does exploit the Grant Project and its Elements, CPB is entitled to receive a share of all Net Proceeds generated in connection with a Grant Project and its Elements, according to the provisions of the Grant Agreement and subject to the following:

- i. CPB Share. Each Grantee must pay CPB that portion of Net Proceeds received that is specified in the Grant Agreement. Each Grantee must remit CPB's share of Net Proceeds on or before each November 15 for all Net Proceeds received in the twelve month period ending on the preceding September 30.
- ii. Reporting Obligations; Records. Each Grantee must report to CPB by November 15 of each year all Net Proceeds received in the twelve-month period ending on the preceding September 30 (if there have been no Net Proceeds during the prior year, each Grantee shall so report). In addition to the other records a Grantee is required to maintain and retain, each Grantee must maintain and retain records of all Net Proceeds for three (3) years after the conclusion of the time period within which CPB may share in Net Proceeds.

CPB Terms and Conditions for Television, Radio and Other Media Production Grants, 6. Revenue Participation, B. Provisions for Revenue Sharing After the Lock Up Period. (2018).

¹⁷ NewsHour does report ancillary revenues directly to PBS pursuant to its NPS distribution agreement. PBS has the reporting responsibility if ancillary revenues are received from producers. NewsHour and PBS were compliant with ancillary revenues reporting requirement for the NPS grant.

Two of NewsHour’s CPB grant agreements include the following under section 8 Ancillary Revenues and Reporting Obligations:

8.1 Revenue Participation, CPB Share. In the event the Grantee generated Ancillary Revenue through the exercise of its Ancillary Rights, CPB is entitled to receive a share of all Net Proceeds generated in connection with the exercise of such rights (“CPB Share”). The CPB Share ... The CPB Share ... shall be reported annually (in written form, as outlined in Section 8.5 below), even if there were no Gross Proceeds during the prior year.

8.5 Reporting Obligations. In accordance with Section 6(B)(ii) of the Terms and Conditions, and as a condition of this Agreement, Grantee shall submit an annual ancillary revenue report, in the form of Attachment F (“**Ancillary Revenue Reporting From**”), on or before November 15th of each year, for the previous CPB fiscal year (October 1st to September 30th). During the CPB Share Term, Grantee shall be required to submit the annual Ancillary Revenue Reporting Form, even if there were no Gross Proceeds during the prior year.

CPB Grant Agreements, 35074-RAD and 34971-RAD Section 8 Ancillary Revenue.

CPB Grant 34928-EDU has slightly different requirements under Article 6 of the agreement and states:

6.3 Term of CPB Share. ... During the Ancillary Revenue Period, Grantee shall annually report to CPB all Ancillary Revenues actually accrued regardless of whether Grantee has received any Ancillary Revenue, as well as report on the Retained CPB Share, ...

CPB Grant 34928-EDU Article 6 Ancillary Revenues, 6.3 Term of Share.

We note that Grant 34928-EDU incorporated the CPB Terms and Conditions as defined above with the same required reporting obligations as the other grants.

NewsHour officials stated that there was no annual reporting to CPB on ancillary revenues because there were no ancillary revenues to report. NewsHour officials were not aware of the reporting obligation even if no ancillary revenues were received. NewsHour officials also stated they were not notified by CPB for noncompliance with ancillary revenue reporting requirements which led them to believe NewsHour complied. We discussed ancillary reporting requirements with CPB management which stated that if the agreements require reporting ancillary revenues, then the grantee must comply even if zero amounts were received. Further, CPB management said CPB does not have to request this reporting as it is stated in the grant agreements.

NewsHour did not comply with CPB Grant requirements for annual reporting of ancillary revenues. The NewsHour financial officials said they now better understand the requirement for annual ancillary revenue reporting and these reports will be provided to CPB even when no revenues have been received.

Recommendations:

We recommend that CPB require NewsHour to:

- 5) submit the required ancillary revenue reports to CPB; and
- 6) identify its corrective actions to ensure future compliance with ancillary revenues reporting requirements.

NewsHour Management Response:

In response to our draft report, NewsHour management agreed with our finding that it had not reported ancillary revenues on all CPB grants, even when it had not received any revenues to report. They stated this was an omission and was unintentional and would make sure the reports will be submitted in the future.

OIG Review and Comment:

Based on NewsHour’s response to the draft report, we consider recommendations five and six resolved but open pending CPB receipt of the ancillary reports and acceptance of NewsHour’s corrective actions.

III. FINAL FINANCIAL REPORTING NONCOMPLIANCE

NewsHour did not directly provide CPB with a copy of its final financial report as required by both the CPB NPS agreement with PBS and the NPS PBS agreement with NewsHour. NewsHour provided the OIG with these reports during our audit fieldwork.

CPB’s NPS grant 34990-TVP with PBS included funding for national programming that PBS used to fund NewsHour Seasons 35, 36, and 37, FYs 2020, 2021 and 2022, respectively. The grant required that PBS include provisions in its agreements with producers when CPB funds were provided for the production.

Section 14: Conditions Attached to CPB Funds.

h) All funded Projects hereunder shall contain a close out provision ... PBS shall provide CPB with notification of such close-out and will include language in its agreements with each Producer requiring each Producer to provide CPB directly with a copy of each Producers final approved financial report.

CPB 34990-TVP. NPS Basic Grant Agreement, (Fiscal Years 2020, 2021, and 2022), Section 14.

The CPB NPS grant also states that final financial reports be provided to PBS, which NewsHour does provide.

PBS included provisions in its agreement with NewsHour for the seasons and FYs noted above. The respective PBS NewsHour agreements include CPB Mandatory Terms and Conditions as

noted in the questioned costs findings above and also included the following criteria related to financial reporting:

Exhibit F – CPB Mandatory Terms and Conditions

Any conflict or overlap between the provisions of these CPB Mandatory Terms and Conditions and other provisions of the Agreement shall be resolved in favor of these CPB Mandatory Terms and Conditions, which shall control.

Payment of the Program Payment is contingent upon Producer’s agreement to, and compliance with, the following CPB mandatory Terms and Conditions ...

- 3) Producer agrees to deliver to CPB and PBS interim production status reports and financial reports set forth in the Agreements, ... All such financial reports required hereunder shall provide actual cost data directly comparable to the line items of the Program Budget. If producer fails to deliver the final and complete financial report to PBS and CPB within 180 calendar days ... PBS can de-obligate final payment ...

PBS Production and Distribution Agreements with NewsHour, June 30, 2019, FY 2020 Season 35 and June 30, 2020, FY 2021 Season 36, Section 20, Mandatory CPB Terms and Conditions and Exhibit F.

NewsHour provided PBS with final financial reports for the productions funded with CPB NPS funding, however NewsHour officials were not aware of this reporting requirement and have not provided these financial reports directly to CPB. PBS delegated this requirement in its agreements with producers. NewsHour said it did not receive any requests from CPB for these reports.

NewsHour was not compliant with CPB and PBS NPS grant requirements for financial reporting.

Recommendations:

We recommend that CPB require NewsHour to:

- 7) provide the required reports directly to CPB; and
- 8) identify the corrective actions it will take to ensure future compliance with final financial reporting requirements.

NewsHour Management Response:

In response to our draft report, NewsHour management agreed that it had not previously sent the final financial reports for the NPS grant directly to CPB but that it had been compliant in sending these reports to PBS. They stated they now are aware of the requirement to also send these reports directly to CPB and will do so going forward.

OIG Review and Comment:

Based on NewsHour's management response to our draft report, we consider recommendations seven and eight resolved pending CPB's receipt of the financial reports and acceptance of NewsHour's corrective actions.

**NewsHour Grant 34928-EDU Student Reporting Lab
Final Financial Report¹⁸
July 1, 2019 through December 31, 2021**

NewsHour Grant 34928-EDU	CPB Revised Total Budget	Total Actuals	Variance	Variance %
Project Management:				
Student Reporting Labs Director	\$87,518	\$87,788	(\$270)	(0.3%)
Managing Editor, Education	71,077	70,579	498	0.7%
Station Strategist	129,387	118,071	11,316	8.7%
Producer	95,900	96,860	(960)	(1.0%)
Associate Producer	110,083	114,484	(4,401)	(4.0%)
Graphic Designer	46,500	56,352	(9,852)	(21.2%)
Digital Producer	7,970	10,606	(2,636)	(33.1%)
Communications Manager	11,258	8,973	2,285	20.3%
Education Project Manager	12,645	10,184	2,460	19.5%
Production Controller	3,500	0	3,500	100.0%
Production Assts/Interns	29,860	26,941	2,919	9.8%
Benefits (25%)	146,081	145,682	399	0.3%
Total Project Management	\$751,777	\$746,519	\$5,258	0.7%
Student Academy:				
Journalism Kits	\$15,000	\$11,275	\$3,725	24.8%
Student Stipends	15,000	21,908	(6,908)	(46.1%)
Academy Coordinator	6,800	6,339	461	6.8%
Student Correspondence Stipends	4,225	4,470	(\$245)	(5.8%)
Total Student Academy	\$41,025	\$43,992	(\$2,967)	(7.2%)
Teacher Workshop:				
Per Diem	\$1,750	\$1,774	(\$24)	(1.4%)
Journalism Kits	12,500	8,716	3,784	30.3%
Teacher Stipends	3,450	2,160	1,290	37.4%
Total Teacher Workshop	\$17,700	\$12,651	\$5,049	28.5%
SRL Travel to stations:				
Airfare	\$3,662	\$2,342	\$1,319	36.0%
Hotel	6,423	7,025	(603)	(9.4%)
Per Diem	4,210	4,816	(607)	(14.4%)
Misc.	4,458	8,119	(3,661)	(82.1%)

¹⁸ For presentation purposes we did not include itemized variance explanations that were included on the final financial report.

Exhibit A (continued)

**NewsHour Grant 34928-EDU Student Reporting Lab
Final Financial Report
July 1, 2019 through December 31, 2021**

NewsHour Grant 34928-EDU	CPB Revised Total Budget	Total Actuals	Variance	Variance %
Total Travel to stations	\$18,751	\$22,303	(\$3,551)	(18.9%)
SRL Travel to Conventions/Conferences:				
Conference fees				
Total Travel to conferences				
Station Outreach and Promotion:				
T-Shirts and Contest Prizes	\$29,296	\$32,317	(\$3,021)	(10.3%)
Gwen Ifill Station Fellows	30,170	29,039	1,131	3.7%
Station Event Stipend	25,000	29,380	(4,380)	(17.5%)
Total Station Outreach and Promotion	\$84,466	\$90,735	(\$6,269)	(7.4%)
Digital Media:				
Lab Digital Support/ Equipment	\$32,056	\$ 25,178	\$6,877	21.5%
SRL StoryMaker Development	123,079	131,462	(8,383)	(6.8%)
SRL Site Maintenance	4,936	3,908	1,028	20.8%
External Web Editor	12,200	10,114	2,086	17.1%
Total Digital Media	\$172,270	\$170,662	\$1,608	0.9%
Evaluation:				
Advisory Stipends	\$10,005	\$11,999	(\$1,993)	(19.9%)
Total Evaluation	\$10,005	\$11,999	(\$1,993)	(19.9%)
Student Support:				
Micro-Internship Fund	7,500	4,635	2,865	38.2%
Total Student Support	\$7,500	\$4,635	\$2,865	38.2%
Subtotal	\$1,103,496	\$1,103,496		0.0%
G & A (16.5%)	182,077	182,077		0.0%
TOTAL COSTS	\$1,285,572	\$1,285,572		0.0%

Note costs reported to CPB included minor rounding differences. CPB de-obligated \$1,908 in funding for total payments of \$1,283,664.

NewsHour Grant 34971-RAD Election 2020
Final Financial Report¹⁹
July 1, 2019 through June 30, 2021

NewsHour Grant 34971-RAD Budget Category	Amended Budget	Actuals	Variance	%Variance (Actual to Budget)
Election Staff, Contract Services & Digital Strategy:				
Production Staff	\$409,152	\$409,419	(\$267)	100%
Digital Staff	662,262	662,273	(11)	100%
Special Projects Staff	690,959	692,492	(1,533)	100%
Contract Services	699,943	687,476	12,468	98%
Equipment	63,210	59,225	3,985	94%
Subtotal	\$2,525,527	\$2,510,885	\$14,642	99%
Campaign Trail Reports:				
Travel	\$220,356	\$212,298	\$8,059	96%
Shoot	194,162	160,654	33,508	83%
Edit	87,869	85,093	2,777	97%
Other	58,051	45,476	12,575	78%
Subtotal	\$560,439	\$503,521	\$56,918	90%
Primary & Caucus Specials:				
Technical Manpower	\$27,190	\$27,190	\$0	100%
Facilities	10,745	10,745	0	100%
Editing	5,900	5,900	0	100%
Transmission	3,643	3,643	0	100%
Fees	32,655	33,105	(450)	101%
Subtotal	\$80,132	\$80,582	(\$449)	101%
Democratic National Convention (Milwaukee, WI):				
Travel and Related Expenses	\$31,099	\$34,049	(\$2,951)	109%
Convention Production	164,262	164,262	0	100%
WETA Technical	315,020	315,020	0	100%
Logistics and Workspace	126,611	130,347	(3,736)	103%

¹⁹ For presentation purposes we did not include itemized variance explanations that were included in the final reports.

Exhibit B (continued)

**NewsHour Grant 34971-RAD Election 2020
Final Financial Report
July 1, 2019 through June 30, 2021**

NewsHour Grant 34971-RAD Budget Category	Amended Budget	Actuals	Variance	%Variance (Actual to Budget)
Miscellaneous Costs	11,376	12,502	(1,127)	110%
Subtotal	\$648,367	\$656,179	(\$7,813)	101%
Republican National Convention (Charlotte, NC):				
Travel and Related Expenses	\$71,692	\$70,708	\$983	99%
Convention Production	58,878	58,878	0	100%
WETA Technical	282,113	282,113	0	100%
Logistics and Workspace	72,966	73,368	(402)	101%
Miscellaneous Costs	5,182	4,678	505	90%
Subtotal	\$490,831	\$489,745	\$1,086	100%
Debate Specials:				
Technical Manpower	\$15,845	\$15,845	\$0	100%
Facilities	2,355	2,355	0	100%
Editing	2,854	2,854	0	100%
Transmission	1,312	1,312	0	100%
Fees	21,275	22,727	(1,453)	107%
Travel & ENG Crew	19,441	19,441	0	100%
Subtotal	\$63,081	\$64,534	(\$1,453)	102%
Election Night:				
Technical Manpower	\$87,967	\$87,967	\$0	100%
Facilities	50,569	50,105	464	99%
Editing	6,504	6,504	0	100%
Transmission	2,528	2,528	0	100%
Fees	142,631	142,215	416	100%
Travel	17,280	15,391	1,890	89%
Shoot	12,325	12,325	0	100%
Other	9,286	11,634	(2,348)	125%
Subtotal	\$329,089	\$328,667	\$422	100%

Exhibit B (continued)

**NewsHour Grant 34971-RAD Election 2020
Final Financial Report
July 1, 2019 through June 30, 2021**

NewsHour Grant 34971-RAD Budget Category	Amended Budget	Actuals	Variance	%Variance (Actual to Budget)
Inauguration Day:				
Technical Manpower	\$18,844	\$17,844	\$1,000	95%
Facilities	4,843	3,843	1,000	79%
Editing	618	618	0	100%
Transmission	429	429	0	100%
Fees	22,009	29,970	(7,961)	136%
Travel & ENG Crew	26,744	28,279	(1,534)	106%
Subtotal	\$73,488	\$80,983	(\$7,495)	110%
Election 2020 Extension:				
Production Staff	\$66,500	\$69,825	(\$3,325)	105%
Digital Staff	148,500	149,983	(1,483)	101%
Project Support Staff	52,000	50,010	1,990	96%
Contract Services	39,880	45,691	(5,811)	115%
Equipment	19,400	20,469	(1,069)	106%
Travel	24,680	28,158	(3,478)	114%
Production Shoot	42,000	50,217	(8,217)	120%
Production Edit	55,440	48,346	7,094	87%
Other	21,600	20,342	1,258	94%
Subtotal	\$470,000	\$483,040	(\$13,040)	103%
SUBTOTAL	\$5,240,954	5,198,135	\$42,818	99%
G&A (16.91%)	886,246	879,005	7,241	99%
TOTAL EXPENSES	\$6,127,200	\$6,077,140	\$50,059	99%

Note costs reported to CPB included minor rounding differences. The % Variance column was reported on the final financial report and is the actual cost as a percentage of the amended budget.

**NewsHour Grant 35074-RAD Digital
Final Financial Report²⁰
April 1, 2020 through October 31, 2021**

Budget Category	Budget	Actual	Variance	Variance %
Digital Staff				
Backend Developer	\$150,000	\$150,443	(\$443)	(0.3%)
Social Media Producer	81,000	82,024	(1,024)	(1.3%)
Evening Editor	45,000	44,952	48	0.1%
Data Analyst	21,080	26,964	(5,884)	(27.9%)
Social Video Editor	31,185	31,263	(78)	(0.2%)
Senior Editor	40,590	40,609	(19)	0.0%
Benefits (25%)	92,214	91,288	926	1%
Total Digital Staff	461,069	467,543	(6,474)	(1.4%)
Subject Matter Expert				
Live Stream Expert	15,000	15,000		0.0%
Total Expert	15,000	15,000		0.0%
Tools				
Live Stream Technology (Single Stream)	47,250	46,500	750	1.6%
Additional Feed Requirements	4,500	4,500	-	0.0%
Additional Live Producer Functionality	8,700	5,858	2,842	32.7%
A/B and Multivariate Testing	45,000	38,319	6,681	14.8%
New Video Encoders	25,000	30,094	(5,094)	(20.4%)
Paid Media Spend	15,000	13,983	1,017	6.8%
Social Media Scheduling & Analytics Software	20,000	19,722	278	1.4%
Total Tools	165,450	158,976	6,474	3.9%
Total Production	641,519	641,519		0.0%
G&A (16.91%)	108,481	108,481	-	0.0%
TOTAL	\$750,000	\$750,000	-	0.0%

CPB de-obligated \$614 in awarded funds and made total payments of \$749,386.

²⁰ For presentation purposes we did not include the itemized variance explanations that were included in the final financial report.

**NPS PBS NewsHour Season 35
Final Financial Report
July 1, 2019 through June 30, 2020**

	Total Estimated Final Costs ²¹	Budget	(Under) Over Budget ²²
Direct Expense			
Personnel Costs	\$13,272,276	\$12,893,712	\$378,564
Contract Personnel	2,993,662	2,620,935	372,727
Outside Services	488,349	456,063	32,286
Travel & Entertainment	809,567	952,420	(142,853)
Production & Acquisition	2,429,246	2,280,668	148,578
Production Center Charges ²³	5,750,696	5,817,950	(67,254)
Total Direct Expense	\$25,743,797	\$25,021,748	\$722,049
Indirect Expense	\$4,231,178	\$4,231,178	
Cost Subtotal	\$29,974,975	\$29,252,926	\$722,049
Producer's Fee	731,323	731,323	-
Total Budget	\$30,706,298	\$29,984,249	\$722,049
Revenue			
PBS Program Payment ²⁴	\$12,000,000	\$12,000,000	
CPB ²⁵	1,099,658	1,408,750	(309,092)
Other PBS ²⁶	646,699	341,250	305,449
Foundations and Government	9,609,239	9,250,000	359,239
Corporate Underwriting	2,979,340	3,500,000	(520,660)
Individuals	3,563,068	2,500,000	1,063,068
Total Operating Revenues	\$29,898,004	\$29,000,000	\$898,004
Production Surplus/Deficit	(\$808,293)	(\$984,249)	\$175,956

²¹ As reported and includes immaterial \$1 rounding differences.

²² A budget variance narrative was included in the final financial reporting package.

²³ Includes general program and other funded production.

²⁴ NewsHour NPS base distribution agreement includes the CPB \$8 million in NPS funding.

²⁵ Direct CPB funding other grants.

²⁶ Additional PBS funding and NPS commitments, breakage and special coverage, amendments.

**NPS PBS NewsHour Season 36
Final Financial Report
July 1, 2020 through June 30, 2021**

	Total Estimated Final Costs²⁷	Budget	(Under/Over Budget)²⁸
Direct Expense			
Personnel Costs	\$13,634,193	\$13,128,851	\$505,342
Contract Personnel	2,593,178	2,296,975	296,203
Outside Services	441,167	452,517	(11,350)
Travel & Entertainment	364,265	910,560	(546,295)
Production & Acquisition	2,163,959	2,297,290	(133,331)
Production Center Charges ²⁹	5,396,914	6,009,097	(612,183)
Total Direct Expense	\$24,593,675	\$25,095,290	(\$501,615)
Indirect Expense	\$4,158,791	\$4,243,613	(\$84,822)
Cost Subtotal	28,752,466	29,338,903	(586,437)
Producer's Fee	733,473	733,473	-
Total Budget	\$29,485,939	\$30,072,376	(\$586,437)
Revenue			
PBS Program Payment ³⁰	\$12,175,000	\$12,175,000	
CPB ³¹	598,787	600,000	(1,213)
Other PBS ³²	408,843		408,843
Other Foundation ³³	71,250	71,250	
Foundations and Government	8,481,610	9,500,000	(1,018,390)
Corporate Underwriting	2,789,739	3,500,000	(710,261)
Individuals	3,875,220	3,000,000	875,220
Total Operating Revenues	\$28,400,449	\$28,846,250	(\$445,801)
Production Surplus/Deficit	(\$1,085,490)	(\$1,226,126)	\$140,636

²⁷ As reported and includes immaterial \$1 rounding differences.

²⁸ A budget variance explanation was included in the final financial reporting package.

²⁹ Includes general program and other funded production.

³⁰ NewsHour NPS base PBS distribution agreement includes the CPB \$8 million in NPS funding.

³¹ Direct CPB funding other grants.

³² Additional PBS funding and NPS commitments, breakage and special coverage, amendments.

³³ Name excluded for presentation purposes.

Exhibit F

**CPB Funded Grants to NewsHour
Questioned Fringe Benefit Costs**

CPB Grants	FY 2020	FY 2021	FY 2022	Indirect Claimed	Total Questioned Costs	CPB Portion Questioned Costs	Notes
CPB Direct Grants							
34928-EDU	\$2,888	\$3,802	\$2,400	\$1,500	\$10,590	\$10,590	
34971-RAD	\$9,131	\$11,775		\$3,535	\$24,441	\$12,341	1)
35074-RAD		\$2,659	\$2,220	\$825	\$5,704	\$5,704	
Total Questioned CPB Direct Grants	\$12,019	\$18,236	\$4,620	\$5,860	\$40,735	\$28,635	
CPB NPS PBS Grant							
34990-TVP							
Season 35	\$97,878				\$97,878	\$46,028	2)
Season 36		\$106,007			\$106,007	\$49,982	2)
Total Questioned NPS PBS Grant	\$97,878	\$106,007	\$0	\$0	\$203,885	\$96,010	
CPB Questioned Costs	\$109,897	\$124,243	\$4,620	\$5,860	\$244,620	\$124,645	

Notes: CPB portion based on:

- 1) CPB discrete general ledger account, PBS funded the balance.
- 2) NPS general operating account direct expenses, CPB funding applied to direct costs in general operating account, CPB's \$8 million NPS funding is 47 percent rounded of the general operations account amount.

Lack of Documentation Production Center Costs

Grant Project/Production					
		NewsHour Election Grant General Ledger Project Numbers 11000 - 11016	NewsHour General Program Operations General Ledger Project Number 10000	NewsHour General Program Operations General Ledger Project Number 10000	
Project	General Ledger Expense Account	34971- RAD Election 2020	34990-TVP NPS Season 35 FY 2020	34990-TVP NPS Season 36 FY 2021	Combined
Schedu-All Work orders					
Studio Production	8705	\$487,338	\$3,008,356	\$2,654,696	\$6,150,390
Remote	8710	\$264,671	\$16,968	\$139,259	\$420,898
Field Engineering	8715	\$0	\$49,231	\$1,248	\$50,479
Post Production	8720	\$88,412	\$1,737,681	\$1,850,192	\$3,676,285
Duplication	8730	\$6,766	\$305,127	\$302,585	\$614,478
Total In House WETA Production Charges		\$847,187	\$5,117,363	\$4,947,980	\$10,912,530
CPB Portion		\$423,594	\$2,406,471	\$2,332,948	\$5,163,013

CPB's portion is 50 percent based on the grant funding agreement for Grant 34971-RAD. Newshour accounts for CPB and PBS NPS funds in its general operation account 10000, the CPB portion for each year is 47 percent rounded.

Additional indirect costs (16.91 percent) were claimed on the production center charges for Grant 34971-RAD and totaled \$143,259, CPB portion is \$71,630.

Manpower and facilities and equipment production center costs are not recorded separately in the general ledger.

Exhibit H

**Questioned Costs Grant 34928-EDU Student Reporting Lab
Unallowed Production Expenditures**

July 1, 2019 through December 31, 2021	Reported to CPB*		Questioned Costs				
	CPB Revised Total Budget	Total Actuals	Staff Strategic Planning Retreat	Employee Gifts	Staff Gathering Team Building Sympathy Flowers	Conference and Misc.	Total Questioned Costs
SRL Travel to stations							
Airfare	\$3,662	\$2,342	\$317				\$317
Hotel	\$6,423	\$7,025	\$4,562				\$4,562
Per Diem	\$4,210	\$4,816	\$831				\$831
Misc.	\$4,458	\$8,119	\$525		\$1,466	\$2,082	\$4,073
Total Travel to stations	\$18,751	\$22,303	\$6,235	\$0	\$1,466	\$2,082	\$9,783
SRL Travel to Conventions and Conferences							
Conference fees	\$0	\$0					
Total Travel to Conferences	\$0	\$0					
Station Outreach and Promotion							
T-Shirts and Contest Prizes	\$29,296	\$32,317		\$486			\$486
Digital Media							
Lab Digital Support/ Equipment	\$32,056	\$25,178			\$297		\$297
Total Questioned Budget Lines	\$80,103	\$79,798	\$6,235	\$486	\$1,763	\$2,082	\$10,566
G & A (16.5%)	\$13,217	\$13,167	\$1,029	\$80	\$291	\$344	\$1,744
TOTAL COSTS	\$93,320	\$92,965	\$7,264	\$566	\$2,054	\$2,426	\$12,310

*As reported to CPB and included immaterial rounding differences.

Scope and Methodology

We conducted our audit in accordance with *Government Auditing Standards* for financial audits to determine whether NewsHour: a) submitted financial reports that fairly presented total project grant expenditures; b) incurred costs in accordance with grant requirements; and c) complied with grant requirements.

We performed our audit field work during the period July 2022 through May 2023. The scope of the audit included reviews and tests of the costs reported by NewsHour on CPB Grant Number 34928-EDU, 34971-RAD, 35074-RAD, and 34990-TVP FY 2020 and FY 2021 production seasons, during the period July 1, 2019 through June 30, 2022. These financial reports are presented in Exhibits A through E.

In conducting our audit, we reviewed CPB's grant files and discussed the award and administration of the grant with CPB officials from the Office of the General Counsel; Office of Budget and Finance; Television Content; Radio, Journalism, and CSG Services; Educational Media Services and Learning Experiences; and Operations and Strategy. We also discussed management and administration of the NPS grant with PBS officials. We interviewed various NewsHour officials, including its Chief Financial Officer, Senior Vice President of NewsHour Operations, Director of Production Operations, Production Controller, SRL Executive Director, WETA Controller, and WETA Payroll Manager about the grant agreements and management's policies and procedures. We also reconciled the financial data maintained by NewsHour in its accounting records to NewsHour's audited financial statements and general ledgers for the grants to the expenses it reported to CPB.

We tested the accuracy of grant expenditures that NewsHour claimed by performing financial reconciliations and comparisons to underlying accounting records to verify transactions recorded in the general ledger and reported to CPB on final financial reports. We also evaluated compliance with the grant agreement terms, in part, by testing 108 judgmentally selected expenditures of \$5,023,075 from the universe of \$40,922,466 in direct costs (CPB, PBS and NPS funded) (\$68,304,949 total final financial report) reported under the grants to supporting documentation maintained by NewsHour. In addition, we performed analytical procedures and expanded the universe for payroll allocations testing. We also reviewed NewsHour's indirect cost rate methodology for compliance with CPB grant terms for costs incurred on all selected grants to determine reasonableness and allowability. Our scope was limited on the production center charges reported for three grant production projects due to the lack of sufficient documentation to support rate card charges. We applied alternative procedures to test the production center costs but could not verify and provide assurance that the costs charged to grant projects using a rate card reconciled to actual costs.

We gained an understanding of the internal controls over the preparation of the grant financial reports, cash receipts, and payment authorizations. We also gained an understanding of NewsHour policies and procedures for compliance with CPB grant agreement terms for allowable costs. We used this information to assess risks and plan the nature and extent of our testing to conclude and report on our objectives. Further, to obtain reasonable assurance that

financial reports submitted to CPB were free of material misstatements, we performed tests of compliance with certain provisions of law and grant agreement requirements, when noncompliance could have a direct and material effect on the grant report amounts.



August 22, 2023

William J. Richardson III
Deputy Inspector General
Corporation for Public Broadcasting
401 Ninth Street, NW
Washington, DC 20004-2129

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

Dear Mr. Richardson,

Thank you for your correspondence of July 26, 2023, and the copy of the referenced Draft Audit Report. Per your request, this letter comprises our comments regarding the findings and recommendations in the draft.

I. QUESTIONED COSTS

Questioned Fringe Benefit Costs - applied a fringe benefit rate in excess of actual costs on direct payroll;

In response to the draft report, WETA agrees with the determination regarding fringe benefit costs. WETA management acknowledges that the station did not do a true up of actual costs incurred. WETA has now introduced a reconciliation process for the current fiscal year to accurately account for actual NewsHour LLC's fringe rate expenses and will maintain diligent monitoring moving forward.

Lack of Documentation Production Center (PC) Costs - lacked sufficient documentation to support production center (manpower plus facilities and equipment) actual costs; reported unallowable production expenditures;

The audit report states WETA provided "alternative procedures to test the production center costs but could not verify and provide assurance that the costs charged to grant projects using a rate card reconciled to actual costs." We respectfully disagree with this assessment of the costs as a material weakness in our financial reporting controls. As explained to the OIG, the rate card was originally designed to provide an external client with a rate sheet for using WETA's production facility, and it also helps track facilities and staffing needs during regular operations. WETA provided a summary that reports the total expense of the production center and the amounts charged to users of the production center. That summary demonstrates that the amounts charged did not exceed the costs of the production center. Therefore, based on this summary, WETA believes there is no material weakness in our internal controls over



financial reporting. Nonetheless, WETA is prepared to offer a yearly reconciliation of the PC to fulfill CPB's requirements for verifying the actual expenses incurred. We are confident that our budgeting and reporting of expenses accurately reflect the real costs, supported by the PC general ledger review. Hence, we kindly ask for a temporary halt to the OIG recommended requirement that CPB and PBS approve the rate card as part of future grants. Additionally, we will provide a statement to each production grant assuring that the PC expenses will not surpass the charge-out. Furthermore, the PC is presently undergoing reconstruction, and management intends to evaluate and make any needed changes to the rate card methodology.

Incorrect Indirect Rate Applied

Regrettably, the personnel responsible for indirect rates at WETA have moved on and there were inconsistencies concerning the approval timeline of the FICR and the actual execution of each grant agreement. Despite this, we believe that the erroneous application of CPB Method 3 occurred, while most of our agreements typically receive approval using CPB Method 1 or 2. Going forward, we will ensure to use the suitable FICR corresponding to the correct time period for each grant.

II. ANCILLARY REVENUE REPORTING NONCOMPLIANCE

We have previously provided this report in accordance with the NPS distribution agreement as noted in the audit. However, due to there being no net revenue share to report in the past years, we wrongly assumed it was not necessary to file any report. This was an unintentional omission from our side. In the future, NewsHour LLC will submit this financial report for every grant we receive.

III. FINAL FINANCIAL REPORTING NONCOMPLIANCE

When contracting with PBS, NewsHour LLC agreed to submit final financial reports to PBS and has complied with such agreement. Upon this review NewsHour LLC understands the requirement to independently send the final financial report to CPB. NewsHour LLC now ensures that all final financial reports are appropriately sent to both CPB and PBS for each requisite grant, particularly as it relates to NPS funding.

In conclusion, we would like to thank your auditor Debra Jacobson. We learned a lot through the process. We appreciate CPB for allowing us the opportunity to provide an explanation regarding the findings noted above. Please feel free to contact me directly if you have any further questions.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Aggarwal".

Ruby G. Aggarwal, CPA, CGMA
SVP, CFO and Treasurer
raggarwal@weta.org

Contact CPB OIG

If you have information about fraud, waste, or abuse involving CPB funds, initiatives, or operations, please call, write, or e-mail the Office of the Inspector General or file a complaint through our website. Your report may be made anonymously.

Call: Inspector General Hotline
202-879-9728 or
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Email: oigemail@cpb.org

Write: Inspector General Hotline
Office of the Inspector General
Corporation for Public Broadcasting
401 Ninth Street, NW
Washington, DC 20004-2129

Website: <https://cpboig.oversight.gov/hotline>



On October 1, 2017, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) announced the official launch of [Oversight.gov](https://oversight.gov). This new website provides a “one stop shop” to follow the ongoing oversight work of all Inspectors General that publicly post reports.

The Corporation for Public Broadcasting, like the other OIGs, will continue to post reports to its own website. But with the launch of Oversight.gov, users can now sort, search, and filter the site’s database of public reports from all of CIGIE’s member OIGs to find reports of interest. In addition, the site features a user-friendly map to find reports based on geographic location, and contact information for each OIG’s whistleblower hotline. Users can receive notifications when new reports are added to the site by following CIGIE’s new Twitter account, [@OversightGov](https://twitter.com/OversightGov).