



Corporation
for Public
Broadcasting

February 7, 2018

VIA ELECTRONIC MAIL AND HARDCOPY TO FOLLOW

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

Dear Mr. Morrison:

RE: Audit of PBS and CPB Grants awarded to the Fred Rogers Company for the productions of *Odd Squad* for the period July 1, 2012 through September 30, 2015, APT 1702-1705

The audit referenced above rightly found that The Fred Rogers Company failed to comply with a Corporation for Public Broadcasting (CPB) grant terms requiring that it include in any sub-contracts a provision allowing CPB and its representatives audit access to sub-contractors' records to verify project costs. At their request, on November 3, 2017 we met with representatives of The Fred Rogers Company to discuss CPB's determinations on the recommendations contained in this audit. We have taken the information provided at that meeting into consideration.

While the OIG disclaimed an opinion on the \$18.2 million in *Odd Squad* season 1 reported costs, we will recognize these costs. The OIG did not audit season 2, which is open. Therefore, if The Fred Rogers Company corrects the issue by securing audit access for CPB, we will take the same approach to recognizing projects costs that we applied to season 1. Our determinations are further explained below.

Our basis for recognizing The Fred Rogers Company's reported costs for season 1 follows. When we evaluated this project for funding, we required that The Fred Rogers Company provide us with a detailed breakdown of sub-contractor Sinking Ship's production costs. These costs were reviewed internally by our staff, which has decades of experience evaluating production costs and found them to be reasonable. In addition, as executive producer, The Fred Rogers Company is responsible for ensuring that the production is completed at a reasonable cost. Additionally, Sinking Ship was subject to a Canadian audit, because it has assumed the risk of receiving tax credits from the Canadian government to offset production expenses, meaning that it had to maintain detailed and accurate records to validate those costs. The Fred Rogers Company provided us with documentation issued by the Canada Revenue Agency, dated September 28, 2016, which identified the amount of tax credits awarded for the project and confirmed that the credits were assessed as a result of the audit. Finally, because the grant agreement defines CPB's participation in ancillary revenues by the terms set forth in the *Odd Squad* Season 1 agreement between PBS and The Fred Rogers Company, The Fred Rogers Company is contractually allowed to recoup PBS-approved budget overages prior to sharing Net Revenue. Therefore, we must recognize the PBS-approved overages that bring total project costs to \$18.2 million.

The Fred Rogers Company produced 40 episodes and digital content as required by the grant agreement and the program is a success, winning 5 Emmys in 2017 and recognition for having measurable, positive impacts on children's math skills through research conducted by Ready to Learn. Although The Fred Rogers Company's failure to secure access for CPB to audit its sub-contractor's books is unfortunate, we are satisfied as to the validity of the costs incurred on this project.

The OIG's specific recommendations and our determinations follow.

Recommendation 1: The OIG recommends that CPB require The Fred Rogers Company obtain from Sinking Ship for *Odd Squad* seasons 1 and 2:

- A. a reconciliation of the final cost reports submitted to CPB to Sinking Ship's general ledger; and
- B. a written certification of the accuracy of the final cost reports.

CPB Determination: Because Sinking Ship's services were provided under a fixed price agreement, and in recognition of PBS's approval of the season 1 overages, as explained above, we do not see the value of requiring The Fred Rogers Company to reconcile either its season 1 or 2 final financial reports to Sinking Ship's general ledger. Neither will we require a written certification of the accuracy of the season 1 final cost report, because the season 1 grant was closed more than two years ago, and because CPB's recognition of the costs is based on the fixed price nature of the agreement, and PBS's approval of the budget overages.

For season 2, since this grant project is still open, we will require The Fred Rogers Company to submit its final financial report showing the fixed price for Sinking Ship's services, rather than Sinking Ship's actual costs as previously reported. The final financial report must also identify which costs can be reconciled to The Fred Rogers Company's general ledger, any additional costs incurred by Sinking Ship that are not on The Fred Rogers Company's general ledger, and all sources of project revenue. As such, we will not require The Fred Rogers Company to provide CPB with a reconciliation of season 2's costs with Sinking Ship's general ledger. We will, however, require The Fred Rogers Company to submit a written certification of the accuracy of the final cost reports, which is a standard CPB grant term. Instead of the certification provided in Attachment E of CPB's grant agreement with The Fred Rogers Company, the certification must state that the season 2 final financial reports are accurate and include an assurance that it has secured the required audit access to its sub-contractor's books, so that the season 2 costs that are not on The Fred Rogers Company's books can be audited by CPB.

If The Fred Rogers Company does not secure audit access for CPB for season 2, we will pursue an amendment to the season 2 grant agreement to revise the grant terms limiting the deficit and ancillary revenues to the budgeted costs recorded on The Fred Rogers Company's books. We will still require The Fred Rogers Company to provide us with a final financial report as described in the paragraph above, and a certification of the report's accuracy, signed by its chief financial officer.

Action: We require that The Fred Rogers Company provide CPB with the season 2 final financial report as described above, as well as a certification that the final financial report is accurate and an assurance to CPB that it has secured audit access for CPB and its representatives, signed by its chief financial officer. Otherwise we will seek to amend the season 2 agreement to revise the grant terms to calculate any deficit and ancillary revenues based only on the project costs on The Fred Rogers Company's general ledger. Please submit the documents electronically to Sarah Bean, Director, Educational Media at: sbean@cpb.org.

Recommendation 2: The OIG recommends that CPB require that The Fred Rogers Company's *Odd Squad* season 2 final financial reports disclose:

- A. the basis for reporting project costs (i.e. based on actual costs incurred on a percentage of completion basis for the fixed price contract); and
- B. the amount of Sinking Ship's reported costs that were not recorded in The Fred Rogers Company's accounting records.

CPB Determination: As described in recommendation 1, regardless of whether The Fred Rogers Company agrees to provide the requisite audit access, we will require it to submit a final financial report to us for season 2 reflecting the fixed price nature of the agreement. This report will not identify Sinking Ship's actual costs, but the fixed price payments for Sinking Ship's services and sources of production revenue. Sinking Ship's costs are not relevant; only the fixed price agreement with The Fred Rogers Company.

Action: The required actions are addressed in recommendation 1, and no further action is required.

Recommendation 3: For the *Odd Squad* season 2 grant CPB awarded The Fred Rogers Company, the OIG recommends that CPB ensure The Fred Rogers Company comply with RTL and other grant terms regarding financial reporting, recordkeeping, and access to subcontractor financial records requirements.

CPB Determination: This grant does not include any RTL funds. Therefore, there is no need to ensure that The Fred Rogers Company complies with the RTL grant terms.

As explained in recommendation 1, if The Fred Rogers Company does not provide us with audit access for season 2, we will recognize only the expenses that are on The Fred Rogers Company's books.

Action: No further action is required because this matter is addressed in recommendations 1 and 2.

Recommendation 4: The OIG recommends that CPB periodically monitor PBS's oversight of large RTL subrecipients to verify compliance with federal grant requirements.

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

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

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

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

Action: No further action is required.

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

Kind regards,



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

CC: VIA ELECTRONIC MAIL

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