

CORPORATION FOR PUBLIC BROADCASTING
OFFICE OF INSPECTOR GENERAL

**AUDIT OF CPB GRANT NO. 14515 AWARDED
TO PUBLIC MEDIA PLATFORM, INC., WASHINGTON, D.C.,
FOR THE PERIOD NOVEMBER 1, 2012 – DECEMBER 31, 2013**

REPORT NO. APM1501-1509

SEPTEMBER 30, 2015

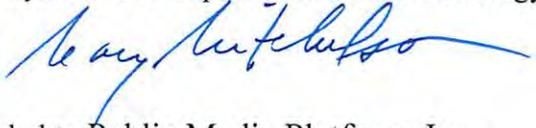


Corporation
for Public
Broadcasting

Office of Inspector General

Date: September 30, 2015

To: Jackie J. Livesay, Vice President, Compliance
Ted Krichels, Senior Vice President, System Development and Media Strategy

From: Mary Mitchelson, Inspector General 

Subject: Audit of CPB Grant No.14515 Awarded to Public Media Platform, Inc.,
Washington, D.C., for the Period November 1, 2012 – December 31, 2013,
Report No. APM1501-1509

We have completed an audit of the Corporation for Public Broadcasting (CPB) Grant No.14515 (CPB grant) awarded to Public Media Platform, Inc. (PMP) for the period November 1, 2012 – December 31, 2013. The objectives of our audit were to determine whether PMP: a) submitted financial reports that fairly present grant revenues and expenditures; b) incurred costs in accordance with grant requirements; and c) complied with grant requirements. This audit is of PMP's interim financial report number 6 submitted to CPB.

PMP was created by five Founding Members (FMs)—National Public Radio (NPR), the Public Broadcasting Service (PBS), Public Radio International (PRI), American Public Media (APM), and Public Radio Exchange (PRX). Under the CPB grant, PMP, with the five FMs, is to develop and operate a system to publish and distribute digital media content.

Our audit found:

- material noncompliance issues in documenting salary and contractor costs, resulting in questioned costs totaling \$2,631,244 (CPB's share is \$2,229,194) (Exhibit C) and funds put to better use of \$135,542 (100 percent funded by CPB) for undocumented costs that PMP had incurred but not yet claimed from CPB.
 - None of the five FMs maintained project accounting records such as timesheets or similar labor distribution records to support \$835,156 in leadership labor expenses, and three FMs failed to maintain such documentation to support \$1,529,339 in software development services. As a result, we have questioned \$2,364,495 of the labor expenses claimed by the FMs. CPB's share of these questioned costs totaled \$1,962,445.
 - NPR did not bill PMP in accordance with its Agreement for Technical Services (Technical Services Agreement) with PMP, because NPR billed on a flat fee basis rather than for actual costs and also charged higher indirect costs than allowed by the grant agreement. We questioned \$110,251 of the amount NPR billed under

this agreement and identified an additional \$135,542 that we classified as funds put to better use, because PMP had not yet claimed these undocumented costs from CPB. These amounts were fully funded by CPB. Because NPR has completed its work under the Technical Services Agreement, the \$135,542 can be deobligated by CPB.

- PMP over claimed \$97,153¹ in fringe benefits and indirect costs, including \$70,352 claimed using the budgeted rates instead of the FMs' actual rates to calculate the fringe benefits and overhead costs. PMP also inadvertently claimed indirect costs of \$26,801 on contractor services and travel expenses. CPB's share of the questioned costs totaled \$86,492.²
 - PMP services could not be separately identified from other contractor software development work performed for PBS. As a result, we questioned \$129,697 for lack of documentation for the cost of software development by PBS. This amount was fully funded by CPB.
- PMP did not maintain its accounting records in accordance with generally accepted accounting principles (GAAP), because it did not use an accrual basis of accounting or report accrued revenues and expenses to CPB. The lack of accrual reporting resulted in a material internal control weakness over financial reporting.

We made eight specific recommendations to CPB management summarized as follows:

- determine the reasonableness of, or disallow and recover the \$2,364,495 of labor expenses claimed without adequate project accounting records (recommendation 1);
- ensure future grant agreements specify that employee direct labor expenses are based on actual project level timekeeping records and that leadership costs are claimed based on the organization's indirect cost methodology documented in accordance with CPB's indirect cost policy (recommendation 2);
- recover \$326,440 in questioned costs (recommendations 3 and 5); and
- deobligate \$135,542 from the CPB grant for unallowable NPR costs under the Technical Services Agreement that PMP has not yet claimed from CPB (recommendation 4).

We also recommend CPB management require PMP to:

- record financial transactions timely and report financial information to CPB within the time frames specified in the grant agreement on an accrual basis, in accordance with GAAP (recommendation 7); and
- ensure financial reports submitted to CPB can be reconciled to PMP general ledgers (recommendation 8).

In response to our draft report, PMP did not agree with our findings and recommendations 1 through 6 but agreed with recommendations 7 and 8. We summarized PMP's response and our evaluation of it after each finding. PMP's response included attachments that are too

¹ \$70,352 of this amount is included in the questioned \$2,364,495 FMs labor expenses.

² \$59,691 of this amount is included in CPB's share of the questioned \$1,962,445 FMs labor expense.

voluminous to attach to this report. We will make them available upon request. PMP’s response without attachments is shown in Exhibit E.

Based on PMP’s response, we consider recommendations 1 through 8 unresolved pending receipt of CPB’s final management decision resolving our findings and recommendations.

This report presents the conclusions of the Office of Inspector General (OIG) and its findings do not necessarily represent CPB’s final position on these issues. Accordingly, the report contains recommendations OIG believes would be appropriate to resolve these findings. CPB officials will make final determinations on the reported findings in accordance with established CPB audit resolution procedures.

We performed this audit based on the OIG Fiscal Year 2015 Annual Plan and in accordance with *Government Auditing Standards* for financial audits. Our scope and methodology is discussed in Exhibit D.

BACKGROUND

In today’s media environment competition for audiences is not limited to other broadcasters. Users can easily access content from Twitter, Google, the New York Times, CNN, the BBC, and many other sources. These organizations use large application programming interfaces (APIs) to distribute their content in multiple digital environments.

In 2010 CPB awarded a \$784,000 grant to NPR, PBS, PRI, APM, and PRX—collectively the FMs—to plan for a collaborative API called PMP. These five organizations subsequently formed an independent non-profit corporation and requested a second grant to implement the PMP.

On November 1, 2012, CPB awarded Grant Number 14515 totaling \$8,086,420 to PMP (grantee) for the five FMs to jointly develop and operate a multi-purpose digital media publishing, distribution, and operating system known as the Public Media Platform (platform). The platform is a shared platform for the ingestion, storage, and distribution of digital media content based on a collaborative API. The development, construction, and initial operation of the platform’s API were budgeted to cost \$10,059,880. Details regarding the grant budget are shown below:

Expense Summary	Budgeted Amounts	CPB Grant	In-Kind	
			PMP	FMs
Build Phase/Admin	\$660,367	\$660,367	\$0	\$0
Build Phase/Core PMP	\$1,814,182	\$1,355,744	\$0	\$458,438
Build Phase/Service & Application Layers	\$4,111,844	\$4,083,888	\$0	\$27,957
Operations Phase (3 Yrs.)	\$3,473,487	\$1,986,421	\$1,487,066	\$0
Totals	\$10,059,880	\$8,086,420	\$1,487,066	\$486,394

The platform is comprised of a core database and a content input/output system that together will enable public media entities to easily upload their content into one central system, search, and access their own and others' content, and publish it across multiple digital platforms (e.g., web, mobile devices, and social media sites). The platform is intended to reduce the need for participating stations, producing entities, and distributors to build their own infrastructure, hire programmers, and create solutions for various platforms. The core platform consists of a data repository with a two-way API that allows data to be deposited in the platform and retrieved for use by qualified parties based on rights specified by the content owner.

The platform is based on an existing API, commonly referred to as the Foundational API, previously developed by NPR to ingest, store, and distribute stories and related assets. The API for the platform is an enhanced version of NPR's Story API. Section 11 of the CPB grant agreement required PMP to enter into an agreement for Technical Services with NPR. This Technical Services Agreement memorialized the terms and conditions for compensating NPR for the development and enhancement of its Foundational API into the platform's API.

PMP is managed and operated by the Executive Director and governed by the PMP Board which is represented by the original five FMs along with additional at-large members. Section 9 of the CPB grant agreement with PMP requires PMP to enter into a Participation Agreement (FM Participation Agreement) with all FMs by which each member agrees to participate in the project and subsequent operation of the PMP. The FM Participation Agreement also established each FM's responsibilities to complete the work needed to make the platform functional.

The CPB grant project has two phases; the build out phase and the operations phase. The build out phase includes administration, leadership, software creation and testing, and station relations. The build out phase was to create the platform core, which consists of a database and system for getting digital media content into and out of the database. The build out phase also includes development of a service and application layer by each founding member. The service and application layer enables each FM to integrate its content management systems into the platform and to create the software tools that allow stations and other content producers and distributors to easily upload content onto the platform.

During the three-year operations phase, that followed the build out phase, PMP is required to conduct activities necessary to maintain and enhance platform functionality and increase revenues and usage. These activities include implementing the fundraising strategies in the PMP Sustainability Plan and making every effort to ensure continued viability of the PMP.

At the time of our fieldwork PMP had completed the build out phase and begun the operations phase; however, the last financial report that PMP had submitted to CPB included only PMP expenditures made as of December 2013. To date PMP has received \$5.2 million in grant payments for the build out phase of this project as shown in Exhibit A. PMP's interim financial report number 6 reported income and expenses as of December 31, 2013 that are presented in Exhibits B and B-1. Subsequently, on July 26, 2015, PMP submitted financial report number 7, which included expenditures through July 31, 2014. We did not audit the expenditures claimed in financial report number 7.

RESULTS OF REVIEW

We have audited the accompanying PMP interim financial report number 6 of revenues and expenses (Exhibits B and B-1) for CPB Grant Number 14515 through December 31, 2013 submitted to CPB. This report is the responsibility of PMP management. Our responsibility is to express an opinion on this financial report based on our audit.

We conducted our audit 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. PMP prepared the accompanying interim financial report to comply with the grant financial reporting requirements.

As discussed in the Findings and Recommendations section of this report, our audit found:

- material noncompliance issues in documenting the salary and contractor costs to develop the platform resulting in questioned costs totaling \$2,631,244 and \$135,542 in funds put to better use; and
- PMP did not maintain its accounting records in accordance with GAAP because it did not use an accrual basis of accounting or report accrued revenues and expenses to CPB, resulting in a material internal control weakness over financial reporting.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the interim financial report of revenues and expenses referred to above does not present fairly the results of PMP activities in conformity with accounting principles generally accepted in the United States and the CPB grant agreement for the period November 1, 2012 through December 31, 2013.

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

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. However, as described in our finding on Inadequate Financial Recordkeeping and Reporting, we identified deficiencies in internal control over financial reporting that we consider a material weakness. Other unidentified material weaknesses or significant deficiencies may exist.

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. We consider our finding on Inadequate Financial Recordkeeping and Reporting to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PMP's financial reports are free from material misstatements, we performed tests of its compliance with certain provision 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 material noncompliance with grant requirements to document expenditures resulting in questioned costs of \$2,631,244 and \$135,542 in funds put to better use discussed further in the Findings and Recommendations section of the report.

FINDINGS AND RECOMMENDATIONS

I. Founding Members Unsupported Labor Expenses

Our audit found that the FMs did not maintain timesheets or similar labor distribution records to support the labor expenses claimed for their leaders' and employees' work on the PMP project. While it appears that PMP completed development of the digital content system, the first phase of the grant, the FMs did not maintain the project accounting records needed to independently verify leadership and employee labor expenses, as required by CPB's grant agreement with PMP. We consider this a material compliance weakness. As a result, we have questioned \$2,364,495 of the labor, fringe benefits, and indirect expenses claimed by the FMs. CPB's share of these expenses is \$1,962,445. See Exhibit C for an itemized analysis of costs claimed and questioned by this finding.

The CPB grant awarded to PMP budgeted \$3.9 million to the FMs for leadership services and direct labor to create the software tools (service and application layer) needed to make the platform operational. As of December 31, 2013, FMs claimed labor and related expenses totaling \$3,018,529 for services performed by their employees. Of this amount, FMs claimed \$835,156³ for leadership and the remaining \$2,183,373 for services such as analytics, software development and design, technical support, and quality assurance (QA) services performed by each FM's employees.

Leadership Expenses

PMP reported leadership expenses of \$835,156 to CPB as a management fee or assessment. The FMs did not document their levels of effort to provide leadership to this project. Leadership costs were also included in the FMs indirect cost rates. Having both direct leadership charges and leadership costs included in indirect cost rates results in an indeterminable double billing for leadership costs. We would have to reconstruct the indirect cost rate of each FM to identify the excess indirect leadership billing, which we have not done.

The FM Participation Agreement, Section 6a (ii), provided that members will be reimbursed for leadership services (to include project managers, senior level directors, vice presidents, and chief operating officers) to support the PMP staff and coordinate with the other FMs. According to PMP personnel, this support included interviewing candidates for the executive director's position, formulating the PMP by-laws and the FM Participation Agreement, and participating in meetings to review and coordinate the management of the project.

PMP personnel explained that the amounts claimed for leadership by the FMs were not supported by project accounting records such as time records identifying the personnel providing services or the number of hours devoted to these efforts. PMP personnel also told us the amount budgeted in the grant agreement for each member was based on an estimate of the number of hours that they and each FM believed would be needed to provide leadership. Additionally, PMP personnel explained that leadership expenses claimed were treated as a management fee or assessment. Our review generally confirmed PMP's description of how members handled leadership expenses, except that we did find one FM had maintained records of employees' salaries used to claim leadership expenses. However, the amounts claimed by this FM were not supported by any project level time records, but instead were based on an allocation methodology that was not verifiable to the FM's accounting records.

The CPB grant agreement, Section 5, stated that CPB shall provide a total of up to \$6,100,000 to reimburse the grantee for its actual fees and expenses associated with the development and construction of the PMP. The CPB grant agreement also provided that PMP shall enter into written agreements with any entity that receives CPB funds under this agreement. Paragraph 17 of the CPB grant agreement provided CPB with audit rights and requires those entities receiving CPB funds under the grant to maintain their general ledger and other records in sufficient detail to account for project level activities and to provide an audit trail enabling CPB to verify the investment of CPB funds in approved expenses. This same reference also required that following the receipt of CPB funds, a contractor, consultant, or public broadcasting entity shall

³ The total amount budgeted for Leadership Services is \$998,438

keep such books, records, and/or accounts of the use of CPB funds, in accordance with GAAP to facilitate an effective audit. Similar language is in the FM Participation Agreement, Section 6b (iii) and (iv).

Without project timesheets or other similar project level accounting records, we were unable to verify the hours worked and salaries claimed for leadership services. This verification was made more difficult because we noted that project manager type positions were claimed as a leadership expense as well as a software development expense. In sum, we questioned \$835,156⁴ claimed for leadership services, because the records available for leadership expenses did not document costs incurred under the project or facilitate an effective audit of leadership services costs claimed for this project.

Employee Software Development Expenses

The five FMs also claimed \$2,183,373 for various software development services performed by their employees. Two FMs provided time logs or timesheets showing the hours their employees worked on the PMP project. We accepted the \$654,034 claimed by these two FMs.

The remaining three FMs did not maintain timesheets or other project accounting records to support amounts claimed. Instead they allocated payroll expenses, totaling \$1,529,339 (\$2,183,373 - \$654,034), in software development to the PMP grant based on estimates by the employees and their supervisors of the hours devoted to PMP work. For example, one FM told us that its employees' payroll expenses were based on weekly team meetings and other conversations between the employees and their supervisors during which they determined how much of the employees' time was expended on PMP work. This FM provided the following information to support labor expenses claimed:

Employee	Annual Salary	% Worked on PMP Project	Number of Months	Amount Claimed
A	\$124,800	70%	12	\$87,360
B	\$70,000	5%	4	\$1,166
C	\$119,999	25%	4	\$9,989

Discussions with PMP personnel and the other FM representatives confirmed that other FMs also allocated labor charges to the grant based on estimates by their employees and their supervisors. One FM explained it has a time tracking system that could have maintained records of its employees' efforts for each pay period. However, because it believed the PMP agreement did not specify or require that type of timekeeping, it used allocations and did not maintain timekeeping records.

PMP personnel and several FM representatives explained that the software and hardware platform was developed using Agile Development.⁵ They explained that when using this

⁴ The CPB share of these leadership expenses is \$452,094 and PMP's share is \$383,062.

⁵ According to *An Introduction to Agile Software Development* by Serena Software Inc., agile methodologies embrace iterations. Small teams work together with stakeholders to define quick prototypes, proof of concepts, or

methodology, software developers often worked on many different projects in the same day and they did not maintain detailed daily records of what they worked on. Our research of the Agile Development methodology found nothing that precluded developers from tracking their time by project for cost accounting purposes. We could not independently verify the reasonableness of the \$1,529,339⁶ claimed for software development without documented project level accounting records.

To summarize, PMP claimed \$835,156 for leadership and \$1,529,339 for software development that was not supported by adequate timesheets or other project accounting records needed to facilitate our audit. As a result, we have questioned the \$2,364,495 claimed for these expenses. CPB's share of the questioned costs totaled \$1,962,445.

Recommendations

We recommend that CPB:

- 1) determine the reasonableness of, or disallow and recover CPB's share of the questioned costs totaling \$1,962,445 (\$452,094 for leadership plus \$1,510,351 for software development) of labor, fringe benefits, and overhead expenses claimed without adequate project accounting records; and
- 2) ensure future grants specify that employee direct labor expenses are based on actual project level timekeeping records and that leadership costs are claimed based on the organization's indirect cost methodology documented in accordance with CPB's indirect cost policy.

PMP Response

In response to recommendation 1, PMP disagreed with the recommendation and provided the following explanations regarding leadership and FM employee expenses.

Leadership Expenses

In its response, PMP said that its claim for leadership costs, totaling \$835,156, was entirely reasonable and that the CPB grant agreement required that these costs be paid as a fee rather than as an hourly expense. PMP stated:

The Budget approved by CPB as Attachment B to the Grant describes Leadership expenses as a 'Flat Allocation.' The Participation Agreements repeatedly describe Leadership payments as an 'allocated' disbursement. For example, Section 7 of the Participation Agreements specifies that 'disbursements to the Founding Members for Founding Member Services are to be made in seven (7) installments (each, a "Payment") ...' The Grant *requires* PMP to pay undisputed invoices as 'installments,' based purely

other visual means to describe the problem to be solved. The team defines the requirements for the iteration, develops the code, and defines and runs integrated test scripts, and the users verify the results.

⁶ The CPB share of these services is \$1,510,351 and PMP's share is \$18,988.

on an allocated portion of the Budget. In evaluating an invoice, PMP may consider ‘any accompanying documentation.’ Timesheets are *not* required.

(Emphasis in original.)

PMP stated that during the course of the audit, the FMs provided detailed, contemporaneously-generated documentation that more than adequately substantiated PMP’s leadership efforts. PMP contended that the documentation on which it based its payments to the FMs confirmed that the costs were “actual.” Moreover, although the draft report proposed a definition of “actual costs” as “actual salaries supported by payroll and timekeeping records of the actual number of hours worked” that definition does not appear in the CPB grant agreement or in the Inspector General Act.

PMP asserted that OIG acknowledged the grant is vague with respect to the type of documentation required, and that PMP’s performance must be measured by a standard of adequacy that is reasonable in the circumstances. PMP stated that the leadership provided by the FMs was from high level officials that perform executive functions, which do “not require timesheets in the ordinary course of business, and nothing in the grant imposes such an extraordinary requirement.” Given that the “budget itself assigns tasks and allocates expenses to each FM” and the documentation PMP presented of FM leadership involvement and PMP supervision, PMP asserted that it had “ample basis for concluding that Leadership actually provided the valuable services the Grant required.”

FM Employee Expenses

Regarding the FMs’ employee expenses, PMP also responded that its “approach to payment of these costs was reasonable and its claims for reimbursement were supported by ‘adequate’ documentation.” It contended that the division of the work into two phases, core PMP and service and application layer, reflected not only different tasks but also different forms of compensation. Per PMP, the budget distinguished between FM services that would be provided through a salaried position (month) from those that would be contracted services (flat fee). Further, as it argued with regard to leadership fees, PMP asserted that Section 7 of the FM Participation Agreements required PMP to pay the FMs in seven fixed-price installments, and “[n]othing in the Grant or Participation Agreements required the FMs to generate timesheets, or PMP to withhold Payment unless it received timesheets for the services invoiced.”

OIG Review and Comment

Based on PMP’s response we consider recommendation 1 unresolved pending CPB final management decision resolving our findings and recommendations. Recommendation 2 addresses revising CPB grant agreement terms and remains unresolved pending CPB’s final management decision.

Leadership Expenses

In our draft report, we acknowledged that the FMs provided some amount of leadership services. In fact, we reviewed the majority of the documents PMP attached to its response during our audit, and these documents established that PMP and the FMs held numerous meetings and consultations. PMP has established that the FMs provided some amount of leadership; however, PMP has not substantiated the value of those services. Instead, PMP asserted that the grant agreement would permit the FMs to claim the almost \$1 million budgeted for leadership costs (of which \$540,000 are CPB funds and the balance are in-kind contributions from the FMs) without project accounting documentation to substantiate the value of the services they provided. We disagree.

We base our position on the language of the CPB grant agreement. While the budget attached to the CPB grant agreement designated leadership services as a “Flat Allocation”, the agreement itself, Section 5, permitted PMP to claim only “actual fees and expenses.” Further, while the CPB grant agreement, Paragraph 28, provided that all attachments to the grant are a material part of the agreement, Paragraphs 16 and 17, also required PMP and the FMs to maintain general ledgers and other records in sufficient detail to provide an audit trail. Given the limitation in the grant agreement itself to only “actual fees and expenses” and its direction to maintain an audit trail, we find that the agreement required that PMP provide documentation to substantiate the value of the leadership that the FMs committed to this project with documents such as timesheets or other project level accounting records so that we can verify the investment of CPB funds expended.

We also note that a fixed price contract, which is analogous to how PMP would interpret the leadership provision of the CPB grant agreement and budget, is commonly awarded only through competition or after conducting a cost and pricing analysis to determine an appropriate cost for the contract. PMP stated that the leadership amounts included in the grant budget were estimates of what each FM and PMP believed they would need to successfully complete the project, but PMP presented no analysis of the reasonableness of those estimates. Given that \$540,000 of CPB funds are at stake (CPB’s share of the budgeted amount), the lack of competition or analysis of reasonableness is an additional reason to read the grant as requiring more documentation to substantiate the claim for leadership services.

We do not dispute PMP’s statement that the FM officials who provided leadership services to PMP do not normally maintain time records. In most situations, the cost of their services would be charged to a particular grant through an overhead allocation, so a record of their direct time committed to the grant would not be necessary. In this grant, however, the leadership costs were not to be recouped through overhead but rather as a direct expense. Accordingly, PMP should have documentation of the time these officials committed to the project, just as it must for other employees whose services were direct charges to the grant. In fact, to the extent that the cost of these officials is included in the FMs’ overhead charges as well as in the FMs’ leadership fees, PMP has made duplicate claims.

Nor are we persuaded by PMP’s reliance on Section 7 of the FM Participation Agreements that directed payments as “allocated” disbursements over seven installments. We disagree that the

grant required PMP to pay these installments based solely on the allocated portion of the budget. These provisions addressed only the timing and method of payment, not the documentation necessary to establish entitlement to the costs claimed.

We do recognize that PMP produced a product under the grant and that the FMs did commit some degree of leadership services. We have not, however, been able to substantiate leadership services in the amount PMP has claimed. Thus, we recommended that CPB determine the reasonableness of PMP's claim for leadership services or disallow the amounts claimed. We have not changed our recommendation based upon PMP's response.

FM Employee Expenses

The non-leadership expenses that PMP claimed for the software development services performed by employees of the FMs is described in the budget as being performed by "salaried positions." The CPB grant agreement budget set a percentage limit on salary costs per position, i.e., 25, 40, 50 or 100 percent of an employee's monthly salary for a specified number of months. That is, PMP could claim actual salary costs incurred by the FMs on this activity only up to the percentage amounts specified in the budget by position.

While two FMs had timekeeping records that we used to verify the amounts PMP claimed, three did not. Instead, these three FMs maintained timesheets showing only the total number of hours employees worked each pay period (i.e., 80 hours a pay period). The three FMs allocated a portion of those hours to the CPB grant based on either supervisors' recollections or meetings the supervisors and employees conducted periodically. Without project accounting records to support the salary costs, we did not have an audit trail to verify their reasonableness. Thus, as with the leadership fees discussed above, we cannot verify the investment of CPB funds in approved expenses, and we have not changed our recommendation for CPB to determine the reasonableness or disallow the \$1,510,351 claimed for these employee costs of three FMs.

II. Technical Services Agreement Not Billed at Cost

Our audit found that NPR did not bill PMP in accordance with its Technical Services Agreement, because NPR billed PMP on a flat fee basis rather than its actual costs. In fact, NPR billed for the work of its employees at almost twice its actual labor rates⁷ and also charged a higher indirect cost rate than allowed by the CPB grant agreement for its employees. Further, NPR added indirect costs to its contractors' labor expenses, although the CPB grant agreement did not provide for these costs. In total, NPR overbilled PMP \$245,793 under this agreement, which was fully funded by CPB. We questioned \$110,251 of this amount and classified the remaining \$135,542 as funds put to better use, because PMP had not yet claimed \$135,542 of these unallowable expenses from CPB.

Through our fieldwork NPR had billed PMP \$671,250 under the Technical Services Agreement, and PMP had claimed \$250,789 through December 31, 2013. We questioned \$110,251 of the amount claimed: \$87,578 for excess employee and contractor labor costs and \$22,673 for

⁷ We calculated NPR's labor rates using an employee's actual hourly pay rate plus the fringe and overhead rates allowed by the CPB grant agreement.

indirect costs billed at higher rates than allowed by the CPB grant agreement and for indirect costs added by NPR to its contractors' labor expenses. The \$135,542 we classified as funds put to better use had not yet been claimed by PMP. Because NPR has completed its work under the Technical Services Agreement, the funds for these unallowable costs should be deobligated.

Flat Fee Versus Actual Labor Costs

Discussions with PMP personnel indicated that the CPB grant budget showed the technical services being provided by contract to allow NPR the flexibility to use its employees, contractors, or a combination of both to complete this work. The budget established estimated rates for NPR's use of contractors. However, NPR used its own employees as well as contractor personnel to build out the interface.

Section 5 of the CPB grant agreement and section 4 of the FM Participation Agreement both provided that the total CPB commitment shall be used to reimburse the grantee for its actual fees and expenses associated with the development and construction of the PMP. In the same vein, Attachment F of the CPB grant agreement and Section 8 of the FM Participation Agreement that was signed by all FMs stated that:

The NPR Services Agreement [Technical Services Agreement]. . . will provide that the Corporation will reimburse the NPR, on a monthly basis, for all costs and expenses (including G&A and overhead) incurred by NPR in developing the Foundational NPR API into the PMP API. . . .

The Technical Services Agreement contained essentially the same reimbursement requirements, for the work of developing the foundational API into the PMP API as the CPB grant agreement and the FM Participation Agreement. Specifically, the Technical Services Agreement statement of work provided that:

NPR shall invoice the Corporation no more frequently than monthly for work performed during each month (including any applicable costs and overhead) for the Provider Services described herein. . . . Each invoice shall be for the fraction of the *Project Cap* (as defined below) that NPR reasonably estimates corresponds to the then-complete fraction of the Provider Services to be rendered hereunder; provided that the total amount invoiced by NPR hereunder does not exceed the Project Cap . . . In no event shall the amount billed by NPR to the Corporation exceed . . . \$671,250 (the "**Project Cap**").

(Emphasis in original.)

NPR did not bill its labor expenses at cost plus overhead as required by all three agreements. Instead, NPR construed the Technical Services Agreement to be a fee for service contract. It used hourly rates of \$120 per hour for the majority of the services provided and \$225 per hour for its technical leaders, as set out in the CPB grant agreement budget. However, the Technical Services Agreement did not specify any rates or contain a budget; it permitted only actual fees

and expenses. Because all three agreements associated with this project required the grantee to be reimbursed for actual fees and expenses, we have allowed only the actual cost for the number of hours worked plus NPR's fringe benefits and overhead expenses, as specified in the CPB grant agreement. We determined that NPR overcharged PMP \$87,578 by billing for its services using rates in the budget rather than actual labor rates plus fringe and overhead.

During our audit representatives of NPR explained that OIG read the language in the Technical Services Agreement:

. . . to say that NPR was to be reimbursed *only* for its applicable costs and overhead. We do not believe that the language says that NPR would invoice PMP, Inc. *only* for applicable costs and overhead. Rather the language says that the invoices submitted by NPR would *include* applicable costs and overhead. Reading "applicable costs and overhead" as a subset of the authorized compensation rather than as a limit on such compensation better reflects the actual language used.

NPRs also explained that the sentence OIG cited as limiting compensation to "applicable costs and overhead" is immediately followed by a sentence that correlates the invoiced amount to the progress of the development work, not to the costs incurred in completing that work:

"Each invoice shall be for the fraction of the Project Cap (as defined below [\$671,250.00]) that NPR reasonably estimates corresponds to the then-completed fraction of the Provider Services to be rendered hereunder; provided that the total amount invoiced by NPR hereunder does not exceed the Project Cap."

This language is consistent with the approach of compensating NPR on a flat hourly basis—to ensure completion of the Core PMP API within the Project Cap—rather than simply reimbursing NPR for its actual expenses.

NPR further explained that both it and PMP understood that the work would be performed on a flat hourly rate, the same basis on which IBM or Accenture would have performed similar software development. Additionally, NPR contended that the FM Participation Agreement budget, Attachment B, does not indicate that the API enhancement was a cost reimbursable effort similar to the other services it provided. Instead, the CPB grant budget for this work states that it is for contracted services, with budgeted rates of \$120 and \$225 per hour.

We disagree with NPR's argument that the API work under the Technical Services Agreement should be billed as contracted services compensating NPR on a flat hourly basis (\$120 and \$225 per hour). First, it is unreasonable for NPR to bill its employees to PMP as if NPR employees were contractors at flat hourly rates that are almost double NPR's actual labor rates. As an FM of PMP, NPR should not expect to profit from PMP's development.

Second, as we demonstrated above, the CPB grant agreement and the FM Participation Agreement clearly stated that NPR should be reimbursed for its costs and expenses (including

fringe benefits and overhead). While the reimbursement clause in the Technical Services Agreement is not as clear, we believe it also requires reimbursing NPR only for applicable costs and overhead. We interpret the clause NPR uses to justify billing at flat hourly rates, i.e., “each invoice shall be a fraction of the *Project Cap not to exceed \$671,250 (the Project Cap)*”, to be a reference to how NPR will invoice each month not what labor rates can be billed. Based on this clause NPR can receive up to the \$671,250 only if NPR’s allowable actual expenses reach that amount.

Third, the CPB grant agreement and then the FM Participation Agreements are the controlling agreements (in that order) when conflicts occur between agreements. More specifically, the Technical Services Agreement section 7.7 states that,

In the event of a conflict between this Agreement and the Grant Agreement, the Grant Agreement will govern. In the event of a conflict between this Agreement and the Participation Agreement between the Corporation and NPR, the Participation Agreement will govern.

We acknowledge that the PMP core build work and other software development work were shown differently in the budget. For example, both the CPB grant agreement and the FM Participation Agreements showed NPR’s core work as “contracted services”, while the core work of another FM was “salaried position.” As noted previously, we were told by PMP that this language was to allow NPR the flexibility to use either its employees or contractor personnel.

Similarly, the CPB grant agreement budget for other software development work was based on salaries and estimated hours or contractor services. The budget shows that the agreement provided for work done by contractors to be reimbursed at contract rates, while work performed by FM employees was to be billed based upon the employees’ salaries. The amounts provided in the budget for contracted services and salaried positions are both budget estimates of what the services would cost. The CPB grant agreement allowed PMP to claim the cost of salaried positions up to the amount budgeted based on actual costs, i.e., actual salaries supported by payroll and timekeeping records of the actual number of hours worked. Contract services are to be reimbursed based on what the contractor charged NPR, which is the amount NPR should have billed PMP. For these reasons, NPR should have billed PMP according to the grant provisions (cost plus fringe benefits and overhead), and the PMP can claim only what the grant provisions allowed as a grant expense.

Fringe Benefits and Overhead

The CPB grant agreement budget also limited the amount of fringe benefits and overhead expenses that NPR could charge PMP for its employees’ labor. The amount of indirect expenses NPR could add to its labor expenses was limited to 25 percent for fringe benefits and 22.5 percent for overhead expenses. Further, the CPB grant agreement did not provide for charging overhead expenses for third party contractor services. As a result, we questioned \$22,673 (\$8,251 and \$14,422) of the indirect expenses NPR added to its in-house and contractor labor costs.

The detailed information provided by NPR for the in-house labor hours it used under the Technical Services Agreement showed that PMP was charged 46.69 percent for indirect expenses (29.37 for overhead and 17.32 for space) instead of the 22.5 percent allowed by the grant agreement. We questioned the difference between 46.69 percent and 22.5 percent, or \$8,251, of overhead expenses charged by NPR for its employees' labor expenses.

In addition to its own employees, NPR used contractor employees to provide services totaling \$310,569 of the \$671,250 charged by NPR to enhance the PMP API. The \$250,789 PMP claimed from CPB to date included \$54,436 for contractor services. The \$54,436 included \$14,422 that NPR added to the contractor's labor expense by using the same space and overhead indirect rates that were used for its own labor expenses, i.e., 46.69 percent. We questioned the \$14,422 because the CPB grant agreement did not allow indirect costs for contract expenses, and because these expenses were not a contractual expense incurred by NPR.

Funds Put to Better Use

The \$110,251 (\$87,578 and \$22,673) questioned above is the amount NPR overcharged PMP in costs reported to CPB through December 31, 2013. NPR has since billed PMP additional charges that are unallowable for the same reasons. We classified these costs as funds put to better use.

As of December 31, 2013, NPR had essentially completed⁸ its work under the Technical Services Agreement. However, due to PMP's recordkeeping practices of recording FM activities on a cash basis, PMP had reported to CPB only \$250,789 in Technical Services Agreement costs. Our audit of NPR records found that it had invoiced PMP for the balance of its costs of \$420,461, which PMP subsequently entered in its general ledger in January and July of 2014, based on the contractor rate rather than NPR's actual costs. Included in this total was \$135,542 in expenses billed at the budgeted rates in excess of NPR's actual costs. For reporting purposes, we labeled these expenses as funds put to better use. PMP should not claim them from CPB, and they can be deobligated by CPB.

Recommendations

We recommend that CPB:

- 3) recover \$110,251 that is the amount NPR overbilled and PMP claimed for services under the Technical Services Agreement, and
- 4) deobligate \$135,542 for unallowable NPR billings under the Technical Services Agreement that are in excess of actual costs.

PMP Response

In response, PMP asserted that it is entitled to the hourly rate set out in the budget, rather than actual salary costs of NPR, because "CPB and PMP agreed to that hourly rate for the discrete

⁸ NPR records indicate that NPR expended a total of 5,178 hours of effort under the Technical Services Agreement. NPR completed 5,152 hours of this work as of December 31, 2013 and an additional 26 hours in January 2014.

purpose of building the Core.” In support, PMP relied upon the budget, the CPB grant agreement, the FM Participation Agreements, the Technical Services Agreement, and contemporaneous emails. PMP further asserted that, because of the expertise NPR brought to the project and the fact that NPR agreed to license its intellectual property interests at no additional consideration, NPR was the best option to perform this work, and the fees PMP paid NPR were a “bargain rate.” “It was to PMP’s considerable benefit that it engaged NPR for the work and achieved savings by using NPR as a vendor who was proficient in building the desired platform and was intimately familiar with the producers and customer-base that would use it.”

PMP stated that the budget clearly specified hourly fees for NPR’s core work, with NPR to receive salaried costs only for work conducted after the core construction phase. According to PMP, the phrase “contracted services” in the budget under “type” for this core work does not mean, as the draft report concluded, that NPR was to receive the hourly fees only if it contracted out the services. Instead, PMP asserted that the hourly rates specified in the budget apply to either contractor personnel or NPR employees no matter the amount NPR actually paid for the services.

In fact, PMP would view NPR as a contractor to PMP for the core work, and the CPB grant agreement requires “full reimbursement of fees and expenses set forth in the Budget associated with the CPB Construction Commitment.” PMP argued that the limitation to “actual fees and expenses” in the CPB grant agreement does not apply to these core work costs from NPR, which should be distinguished from the fees of the other FMs. Also, because NPR billed PMP at the budgeted hourly rates for this work, these are PMP’s “actual costs.” Further, the provisions for “actual fees and expenses” from the FM Participation Agreements “pertains to PMP’s obligation to make a prescribed Payment, not to salaried costs.”

PMP further claimed that the fact that PMP and NPR entered into a separate Technical Services Agreement highlights NPR’s role akin to a software vendor for a stated scope of work. That agreement required monthly payments based upon the progress of work, not salaried costs. Thus, it supports the fundamental understanding of the parties that NPR would invoice PMP at the hourly rates in the budget. Further because CPB released the second disbursement to PMP, CPB tacitly approved of the Technical Services Agreement. PMP also pointed to contemporaneous emails that established that CPB was aware that NPR and PMP agreed to the hourly rates for the core work.

Additionally, PMP argued that our draft report relied on a chart and used text that mischaracterized NPR’s contracted rate by mixing and matching another FM’s salaried position with NPR’s contracted rates. Per PMP, this chart is not a true excerpt but one created to support the draft report’s conclusion that NPR’s work on the core was for outside contractor hours, not for NPR employees at the negotiated hourly rates.

OIG Review and Comment

Based on PMP’s response, we have not changed recommendations 3 and 4. We consider them unresolved and to be addressed in CPB’s final management decision. As we stated in our finding, the CPB grant agreement permitted PMP to charge for only “actual costs and expenses,”

and nothing in the budget, the FM Participation Agreements, or the Technical Services Agreement overrides that limitation.

Contrary to PMP's position otherwise, NPR should not be equated to a software vendor. NPR is a non-profit public media organization that is a FM and board member of PMP, not a contractor at arms' length from PMP. Both NPR's nature and its role in PMP argue against any interpretation that would permit NPR to collect almost double its actual salary costs and more than it paid its contractors for the core work no matter how outstanding its contribution to the project was.

The payments clauses relied upon by PMP do not make its case. As with the leadership costs above, the payment provisions of the agreements merely specified the method of payment, not entitlement to the payments claimed. The Technical Services Agreement, Statement of Work, paragraph 1.1, stated that technical services under the agreement would be performed by NPR or by such third parties as may be selected by NPR. The CPB grant agreement budget showed the work would be performed by contractor services. The corroborative emails relied upon by PMP in its response were evaluating the NPR's contractor rates and other contractor rates for reasonableness. None of these documents justifies paying NPR at those rates when its actual incurred expenses were much less.

During the audit, PMP personnel explained that work under the Technical Services Agreement was described as "contracted services" in the budget to allow NPR the flexibility to use either contractors or its staff, and NPR used both. However, NPR charged PMP the contractor rates in the budget even though NPR's contractors actually charged it lower rates and NPR paid its employees at much lower rates. In both situations, CPB is obligated to reimburse PMP for only the actual contractor costs incurred by NPR and the actual salaries paid to its employees, plus applicable indirect expenses on employee costs.

The budget did not establish the final amount due PMP. Webster's dictionary defines a budget as an itemized summary of probable expenditures and income for a given period. The CPB grant agreement reflected that understanding. Paragraph 4 of the CPB grant agreement provided that, "[t]he budget for this project is attached hereto as Attachment B (the "Budget"). The total amount of the budget is \$10,059,880.00, of which up to \$8,086,341 shall be reimbursed to the Grantee by CPB ("Total CPB Commitment")." Because PMP could be reimbursed some amount less than \$8,086,341, PMP is not entitled to the full amount of the budget, and the full amount budgeted is not earned merely by completing the work.

That NPR should receive only the costs it incurred, or actual expenses, is confirmed by paragraph 5 of the CPB grant agreement, "[t]otal CPB Commitment shall be used to reimburse the Grantee for its actual fees and expenses" This principle also is demonstrated by certain items in PMP's reimbursement requests to CPB. When another FM decided to use its employees instead of contractors as initially budgeted, the FM revised its budget to reflect the change. Accordingly, we do not agree with PMP that the grant required full reimbursement of fees and expenses *charged* to PMP. Rather PMP should be reimbursed for the actual expenses or amounts incurred by NPR to complete work. These are PMP's "actual costs," and in both the case of NPR's contractors and its employees, those amounts are less than NPR claimed.

We do not agree that in our draft report we relied upon a chart that mischaracterized NPR's entitlement to the contractor rate. The line items shown for NPR and another FM were for work only on the core. We included both to show that amounts budgeted for the salaried positions of another FM's work on the core were calculated using percentages of the monthly pay and hours of efforts, setting limits on the salary costs to be incurred for these services. Similarly, NPR could use either its employees or contractors, and PMP should have reimbursed NPR only for the actual costs NPR incurred.

Nor did we add any columns to the budget to bolster our findings. The draft report included the budget initially submitted by PMP that was in the CPB grant files. It contained fringe and overhead columns, as well as other information such as CPB share that showed that core and service and application layer work were budgeted to be accomplished by either contractor services or salaried positions and that indirect costs were to be applied only to salaried positions. For clarity, we eliminated the chart from this final report. Instead we will rely on the discussion in this paragraph and in the finding to clarify our intent.

Our position regarding recommendations 3 and 4 remains unchanged. We used the actual costs that NPR incurred to calculate the \$245,793 that we questioned (\$110,251) or identified as funds put to better use (\$135,542).⁹

III. Additional Fringe Benefits and Indirect Costs Over Claimed

PMP over claimed \$70,352¹⁰ for fringe benefits and overhead expenses, because it claimed the budgeted rates when some of the FMs' actual fringe and overhead rates were lower than the budgeted rates. We also found that PMP inadvertently claimed the incorrect budgeted overhead rates for PRI, PRX and APM, as well as fringe benefits and overhead for one contract, and fringe benefits on travel expenses; both of these were not permitted by the agreement, resulting in another \$26,801 being erroneously claimed. In total, we questioned \$97,153¹¹ of the \$1,050,569 PMP claimed for fringe benefits and indirect costs through December 31, 2013. CPB's share of the questioned costs is \$86,492. See Exhibit C.

Our review of the FMs' actual fringe benefits and overhead rates disclosed that some of their actual rates were lower than the rates budgeted in the CPB grant agreement. We adjusted several of the rates provided by the FMs, so that all rates were consistently calculated. As depicted in the chart below, these adjustments resulted in the reduction of two rates and an increase in three other rates. The rates submitted by two FMs did not change.

⁹ Because PMP has now submitted financial report number 7 to CPB, claiming the full Technical Services Agreement budget of \$671,250, CPB should consider the full \$245,793 to be questioned costs during audit resolution.

¹⁰ A total of \$66,440 of this amount was also included in finding I. *Founding Members Unsupported Labor Expenses*.

¹¹ This total does not include the indirect costs questioned in finding II. *Technical Services Agreement Not Billed at Cost*.

Comparison of Actual to Budgeted Indirect Rates

Founding Member	Actual Rate Reported by FM (%)	Member Rate Adjusted per Audit (%)	Rate Claimed (%)	% Questioned (Claimed vs. Audit)
NPR Fringe Rate*	21.1	21.1	25.0	3.9
NPR Overhead Rate*	29.0	29.0	22.5	0
PBS Fringe Rate	33.2	33.4	25.0	0
PBS Overhead Rate	20.1	20.1	22.5	2.4
PRI Fringe Rate	31.9	31.9	25.0	0
PRI Overhead Rate	20.1	24.38	22.5**	2.5
PRX Fringe Rate	17.0	20.53	25.0	4.47
PRX Overhead Rate	20.0	25.32	22.5**	2.5
APM Fringe Rate	42.9	21.26	25.0	3.74
APM Overhead Rate	Fringe & overhead rate combined by member	33.0	22.5**	2.5

*Based on FY 2011 financial statement. All Other rates were based on FY 2013 financials

**Grant agreement allowed overhead of 20 percent for these FMs and 22.5 percent for the other. FMs' rates increased by OIG. FMs' rates decreased by OIG.

For example, APM calculated a 42.9 percent combined overhead/fringe rate by dividing its indirect costs by its direct operations costs. To compute individual fringe benefits and overhead rates for this FM, we divided total fringe benefits by total personnel costs that resulted in the 21.26 percent fringe rate. We calculated the 33 percent APM overhead rate by dividing indirect costs by direct costs.

The CPB grant agreement, paragraph 5, provided that CPB funds shall be used to reimburse the grantee for its actual fees and expenses.¹² As a result when a FM's actual indirect rate was lower than the rate claimed, we questioned the differential.

Using the actual rates submitted by the FMs or the rates adjusted by our audit as shown in the chart above resulted in \$70,352 in questioned costs for over reported fringe benefits and overhead costs. The chart below shows the details concerning the amounts questioned for each FM.

¹² CPB's current indirect cost policy would similarly limit PMP's claim to actual indirect costs. See CPB Guidelines for Indirect Costs, Purpose.

Founding Member	Labor Expenses Claimed Using Budgeted Fringe and Indirect Rates	Labor Expenses Allowable Using Actual Fringe and Indirect Rates	Fringe Benefits and Indirect Questioned
NPR	\$1,098,947	\$1,086,840	\$12,107
PBS	612,342	612,342	0
PRI	344,817	337,760	7,037
PRX	587,005	554,462	32,543
APM	375,418	356,753	18,665
Totals	\$3,018,529	\$2,948,157	\$70,352¹³

CPB's share of the \$70,352 in questioned fringe and indirect costs was \$59,691.

Our review also disclosed that one member added indirect expenses of \$26,608 to the amount claimed for a contract (\$12,521 for fringe benefits and \$14,087 for overhead) and another FM added \$193 for fringe benefits to a travel expense, for a total of \$26,801. While these seemed to be inadvertent errors by the FMs, we questioned both amounts because the grant agreement did not provide for these indirect expenses.

Recommendation

- 5) We recommend that CPB recover CPB's share of questioned indirect expenses totaling \$86,492 net of any fringe benefit and indirect cost recoveries in Recommendation 1. The \$86,492 to be recovered consists of \$59,691, which is CPB's share of indirect expenses PMP over claimed by using budgeted rates instead of actual rates for labor, and \$26,801 of indirect expenses claimed for a contract and a travel expense.

PMP Response

PMP disagreed with recommendation 5 and provided the following explanations regarding fringe benefits and indirect costs.

PMP explained that because OIG spoke directly to FMs about their overhead and fringe rates, PMP was not always privy to those conversations and does not have copies of all documentation the FMs provided. Without such documentation, PMP stated that it cannot take a position with respect to some findings, such as the calculation of \$26,801 in travel expenses.

PMP did report that APM disagrees with the \$18,665 in fringe benefits and overhead questioned for its labor expenses. APM believes this amount should not be questioned because the 21.26 percent fringe rate attributed to APM is incorrect as it excludes vacation expense. APM's adjusted fringe benefit percentage, including vacation expense, is 27.9 percent, which is greater than the 25 percent claimed. Thus OIG should not question the \$18,665 amount.

¹³ Of this amount, \$66,440 is also questioned in the finding entitled *Founding Member Unsupported Labor Expenses*. The CPB share of the \$66,440 is \$55,779 and the PMP share is \$10,661.

PMP also reported that PRI disagrees with the fringe benefits rate OIG calculated for it in the draft report. Per PRI, its fringe benefit rate is 31.9 percent, which is greater than the 25 percent contained in the draft report.

OIG Review and Comment

Based on PMP's response we consider recommendation 5 unresolved pending CPB final management decision.

We accepted the information PRI submitted to support its calculation of a fringe benefits rate that is greater than the 25 percent allowed by the grant. Accordingly, we accepted \$14,892 of the fringe benefits expenses initially questioned and revised our report accordingly. Because PMP inadvertently claimed a 22.5 percent overhead rate for PRI and two other FMs, instead of the 20 percent limit budgeted in the grant agreement, the \$7,037 applicable to PRI and the excess overhead expenses attributable to the other two FMs for this same reason remain questioned. CPB will need to ensure that PMP's final reporting of costs (financial report number 7) for the build out phase is based on the proper indirect rates before making future payments to PMP.

We do not agree with APM's position that vacation expense should be included in its rate. The detailed payroll information that APM provided during the audit showed vacation charged as a direct expense to the CPB grant. For this reason, we excluded vacation from our calculation of its fringe benefit rate, and the \$18,665 questioned for APM remains unchanged.

IV. Unsupported Development Expenses

Our audit of amounts PBS claimed under the PMP grant for contracted services found that the PMP work could not be separately identified from other software development work the contractor performed for PBS. As a result, we questioned \$129,697 for lack of documentation of expenses incurred for the PMP project. CPB funded all of the PMP work under this contract.

As background, PBS was budgeted to provide contract services of \$795,250 to develop a portion of the software needed to build the platform. At the time of our review, PBS had claimed \$462,672 of the amount budgeted for contract services. We reviewed \$325,662 of this amount to ensure the expenses were adequately supported and expended in accordance with the grant agreement budget. The \$325,662 tested was incurred under two software contracts, \$18,216 and \$307,446 respectively. The \$18,216 was adequately supported by contractor invoices identifying that the services performed were applicable to the PMP grant.

The \$307,446 was incurred under a second contract PBS awarded to obtain more than \$2.4 million of software engineering and design work that included building a content management system referred to as Bento. PBS claimed \$307,446 it incurred under this contract against the CPB grant for the Bento features needed by the platform.

Our review of the contractor's invoices provided by PBS disclosed that only \$177,749 of the \$307,446 invoiced by the contractor segregated PMP expenses from the expenses incurred for

PBS's other Bento work. As result, we questioned the remaining \$129,697 claimed under the CPB grant because it was not supported by contractor invoices.

PBS explained that the contractor began work in 2011 to provide easy-to-use website building tools for PBS's member stations. When the CPB grant was awarded in 2012, the Bento related worked needed for PMP was handled by the same contractor development team. PBS further explained that the PMP feature development and integration work—while significant on its own—was part of the FM's overall Bento work, and the contractor balanced PBS's Bento work with the PMP Bento work. To allocate the contractor's billings to the CPB grant, PBS explained that a PBS Vice President used an overall Bento roadmap that segregated PMP work from PBS's other work, as well as development team logs and his overall understanding of the development cycles.

Section 16(a) of the CPB grant agreement stated that PMP:

. . . shall keep . . . such records as may be reasonably necessary to fully disclose the amounts expended pursuant to the budget . . . and any undertakings connected to this Agreement, and such records as facilitate an effective audit

Both Section 17 of the same grant agreement and Section 6b(iv) of the FM Participation Agreements that were signed by all FMs required comparable records. For example, the FM Participation Agreements specified that:

. . . following its receipt of CPB funds (which it shall receive through the Corporation in accordance with Section 7 below), Founding Member shall keep books, records, and/or accounts of the use of CPB funds, in accordance with generally accepted accounting principles consistently applied, as may be reasonably necessary to disclose fully the amount and disposition of such funds and other such records as will facilitate an effective audit. In the event that CPB discovers any inaccuracies in the reporting of financial information, or discovered during the course of an audit by the Office of Inspector General or otherwise, such funds shall be promptly returned to the Corporation, which shall promptly return such funds to CPB.

PBS provided no documentation supporting its allocation of the contractor's billings to PMP, and PMP did not adequately ensure that PBS adequately supported the reported contractor expenses. Therefore, we question these costs.

Recommendation

- 6) We recommend that CPB recover \$129,697 for these unsupported costs.

PMP Response

PMP disagreed with recommendation 6 and explained that it received software development work at an incredible value. PMP asserted that PBS management was involved in overseeing the contractor's work and that those managers allocated costs to PMP based on their understanding that half of the contractor's time was dedicated to PMP. PMP claimed that if PBS had used internal resources or hired domestic resources, the cost for PMP's deliverables would have been at least 50 percent more than PMP's budget for the work. PBS was able to receive such a favorable rate because the contractor was performing other work for PBS, and PBS leveraged that relationship to PMP's benefit.

OIG Review and Comment

Based on PMP's response we consider recommendation 6 unresolved pending CPB's final management decision. In our draft report we did not question the reasonableness of the costs charged by the contractor but the documentation PMP offered to substantiate the amounts charged to PMP. The estimates of PBS's managers are inadequate to support \$129,697 claimed for this work, and our position remains unchanged.

V. Inadequate Financial Recordkeeping and Reporting

Our audit of PMP's financial records found that PMP did not maintain its accounting records in accordance with GAAP using an accrual basis of accounting. It recorded CPB revenues on a cash basis, FMs' expenses on a cash basis, and its own PMP expenses on an accrual basis. Further, PMP did not record the FMs' in-kind expenses in its accounting records. Finally, it did not report accrued revenue and expenses to CPB. We consider this lack of accurate reporting a material internal control weakness over financial reporting.

PMP reported to CPB that it had completed the build out of the platform core in July 2014, but it had not yet submitted its final financial report for the build out phase of this project. Prior to our audit fieldwork, the last interim financial report submitted to CPB covered expenditures through only December 31, 2013.

The lack of timely financial reporting and accrual accounting for the project's activities did not facilitate effective financial oversight of this project during the build out phase and timely reimbursement of incurred costs in accordance with the grant agreement delivery schedule. CPB approved a grant amendment extending the completion date of the build out phase to July 31, 2014 and the reallocation of costs between budget categories (for both the build out and operations phases of the project) only on March 25, 2015.

Financial Recordkeeping

PMP recognized its own expenses such as payroll and legal fees when incurred by accruing the liabilities for these expenses in its financial records until paid. Conversely, PMP recorded FM expenses on a cash basis, i.e., the expenses were not shown as a liability or recognized in PMP's general ledger until CPB had reimbursed PMP for the expenses and PMP paid the FMs. Further,

PMP didn't recognize CPB revenues on an accrual basis; it recognized CPB revenues on a cash basis upon receipt.

As a result, PMP did not record the FMs' grant expenses in PMP's general ledger until several months after the FMs incurred the expenses. As a result, we could not readily trace expenditures reported to CPB through December 31, 2013 in payment request number 6 to the general ledger, because PMP had not recorded all of the FMs' expenses in the general ledger at the time it prepared that interim financial report. This delay had a significant impact on PMP grant accounting, because the FMs were responsible for almost 60 percent of the \$10 million planned budget.

CPB's grant agreement Sections 16(a) and (g) required PMP to maintain its general ledger and other records in detail sufficient to account for project activities and provide an audit trail to facilitate an effective audit. Section 17(d) of the CPB grant agreement required PMP to include the following language in any written agreement with any entity:

... keep such books, records, and/or accounts of the use of CPB funds in accordance with general accepted accounting principles consistently applied, as may be reasonably necessary to disclose fully the amount and disposition of such funds and such other records as will facilitate an effective audit.

PMP did not adhere to the recordkeeping requirements in the grant agreement, because it failed to accrue the expenses reported by FMs as required by GAAP. Further, PMP's delay in recording expenses did not facilitate an effective audit of expenses reported to CPB.

The following table provides examples of the differences between FMs' reported expenses, amounts recorded in PMP's general ledger, and the costs reported to CPB through December 31, 2013.

PMP Financial Information as of December 31, 2013

FMs' Expense Categories	Amount		Recorded in PMP General Ledger	Project Expenses Reported to CPB
	Budgeted	Reported or Billed by FMs		
NPR Technical Services Agreement	\$671,250	\$493,418*	\$250,789	\$250,789
PRI Contracted Services	154,005	154,005*	0	100,575
Leadership	998,438	Not reported by FMs**	220,000	835,156
APM Build/ Service Layer	453,645	298,988***	205,000	298,988
PRI Build/Service Layer	\$495,544	\$292,268***	\$255,000	\$292,267

* Billed via invoice.

** PMP allocated these costs based on the CPB agreement without a report of costs from FMs.

*** Reported to PMP via FM's cumulative interim financial report.

Further, we found that PMP did not record in-kind contributions from the FMs in its general ledger for leadership and the software development needed. As shown above, PMP recorded only \$220,000 in the general ledger for leadership, i.e., the amount paid to the FMs through

December 31, 2013. Conversely, through the same date, PMP reported leadership expenses of \$835,156 to CPB, which included the FMs' in-kind contributions.¹⁴

Finally, our review of the PMP general ledger as of March 2015 found that FM expenses were recorded only through July 31, 2014. FM expenses recorded in the general ledger represented only costs for deliverables numbers 1 through 6 of the seven deliverables identified in the CPB grant agreement and the FM Participation Agreements. The balance of payments due the FMs (\$799,633) was to be paid upon completion of the build out phase of the project. PMP reported to CPB that the build out phase was completed in July 2014; however, the FMs' final expenses (through deliverable number 7) had not yet been recorded in the PMP general ledger in March 2015, eight months following the completion of the build out phase of the project.

Financial Reporting

At the time of our review PMP had submitted six interim financial reports with cumulative incurred costs of \$4,493,184 as of December 31, 2013. CPB had paid PMP \$3.6 million through December 31, 2013 and \$5.2 million through March 2015 in accordance with the CPB grant agreement payment schedule. PMP's reports were not submitted and processed timely for reimbursement as required by the CPB grant agreement. Attachment D of the CPB grant agreement, Schedule of Deliverables and Disbursements, stated: "All payments are subject to the Budget and all other terms and conditions set forth in the Agreement. CPB funding under this Agreement will be disbursed to Grantee according to the schedule . . . [provided in the grant agreement] upon CPB's receipt and approval of deliverables . . ."

To illustrate, the CPB grant agreement specified that the sixth payment can be issued after receipt and approval by CPB of deliverable number 6, which included an interim financial report on expenses through December 31, 2013. CPB was to receive this deliverable no later than February 15, 2014. While we could not verify the date CPB received this financial report, CPB did not reimburse PMP until January 2015, ten months following the due date for this financial information.

At the time we issued the draft report on July 17, 2015, PMP had not reported any additional grant expenses to CPB other than the \$4,493,184 reported as of December 2013. In this interim period, PMP requested a modification to the budget, which CPB approved in March 2015. CPB received financial report number 7 on July 26, 2015, which included expenditures through July 31, 2014. We did not audit the expenditures claimed in financial report number 7. It was originally due on July 15, 2014.

In discussions with PMP personnel, they stated that obtaining timely project information from the FMs was at times challenging. It also appears that some of the delays PMP experienced in providing financial reports to CPB were attributable to the lean organizational structure of PMP and the lack of a full-time accountant to track, record, and report timely on this \$10 million dollar project. Further, while the CPB budget provided for audit services during the operations phase of the agreement, it did not during the build out phase. If an audit provision had been

¹⁴ Of the \$998,438 budgeted in the grant agreement for Leadership Services, the CPB share was \$540,000 and the FMs' share was \$458,438.

included during the build out phase, the accounting and reporting problems identified in this report could have been addressed earlier in this project. Such an audit not only would have provided CPB with assurances on PMP's financial reporting, but also would have given PMP assurances that it was properly accounting and reporting on the grant project's progress and the allowability of its reported expenditures.

Recommendations

We recommend that CPB require PMP to:

- 7) record financial transactions timely and report financial information to CPB within the time frames specified in the grant agreement on an accrual basis, in accordance with GAAP (this may require PMP to obtain full time accounting services); and
- 8) ensure all financial reports submitted to CPB are traceable and can be reconciled to its general ledgers.

PMP Response

PMP agreed with recommendations 7 and 8, while noting that OIG did not question any costs related to recordkeeping and reporting issues, and stated that it will improve these functions.

With regard to recordkeeping, PMP stated that it accepted the report's criticisms in the constructive spirit in which they were offered. It appreciated OIG's recognition that discrepancies between accrual and cash-based accounting is primarily a matter of timing and that PMP's delays were attributable to PMP's lean organizational structure and the lack of a full-time accountant. PMP emphasized that the budget contained only modest funds for accounting services during the construction phase, which were insufficient for the high level of accounting needed to carry out the functions the draft report recommended.

PMP stated that it has already hired an accounting firm to help it improve its record keeping and system of internal financial controls. The new accountant has worked to assure PMP's compliance with GAAP principles and to create common reporting standards for all contractors. PMP also agreed that CPB should recognize that audit services are needed for complex grants such as this one, particularly where the project involves multiple parties who may have different accounting practices.

OIG Review and Comment

Based on PMP's response we consider recommendations 7 and 8 unresolved pending CPB's final management decision. PMP's action to hire an accountant should help eliminate further accounting issues during the remainder of the grant.

**Schedule of CPB Payments to PMP for Grant Number 14515
During the Period
November 1, 2012 – December 31, 2014**

Number	CPB Payment Dates	Amounts
1	January 30, 2013	\$600,000
2	May 23, 2013	1,000,000
3	June 12, 2013	1,000,000
4	November 8, 2013	1,000,000
5	July 17, 2014	800,000
6**	January 26, 2015	800,000
	Total	\$5,200,000*

*Unpaid grant balance = \$2,886,341

** PMP submitted Payment Request Number 6 to CPB in late 2014 for expenses incurred as of December 31, 2013.

**Interim PMP Financial Report Number 6 for Grant Number 14515,
Revenues as of December 31, 2013**

SUMMARY	
CPB Income (Note 1)	\$2,600,000
In-Kind Income	<i>(\$378,907)</i>
Expenses to Date	\$4,493,184
Difference	<i>(\$2,272,091)</i>

Note 1: CPB records show that as of December 31, 2013 CPB payments to PMP totaled \$3,600,000

**Interim PMP Financial Report Number 6 for Grant Number 14515,
Expenditures as of December 31, 2013**

Workscope	Organization	Expense Type	Details	Unit %	Unit #	Unit Type	Total	Report #6 Expenditures	Difference	Percent
Build /Admin	PMP, Inc.	Direct Expense	Accounting	N/A	N/A	Flat Fee	\$20,000	\$695	\$19,305	3%
Build /Admin	PMP, Inc.	Direct Expense	Computers & furniture	N/A	N/A	Flat Fee	7,500	616	6,884	8%
Build /Admin	PMP, Inc.	Direct Expense/Staff	Director	100%	16	Month	250,000	167,022	82,978	67%
Build /Admin	PMP, Inc.	Direct Expense	Insurance	N/A	N/A	Flat Fee	5,700	1,945	3,755	34%
Build /Admin	PMP, Inc.	Direct Expense	Legal fees	N/A	N/A	Flat Fee	80,000	248,078	(168,078)	310%
Build /Admin	PMP, Inc.	Direct Expense	Marketing	N/A	N/A	Flat Fee	20,000	8,195	11,805	41%
Build /Admin	PMP, Inc.	Direct Expense	Phone	N/A	N/A	Flat Fee	5,000	0	5,000	0%
Build /Admin	PMP, Inc.	Direct Expense	Printing/postage	N/A	N/A	Flat Fee	468	213	255	46%
Build /Admin	PMP, Inc.	Direct Expense	QA Testing	N/A	N/A	Flat Fee	20,000	0	20,000	0%
Build /Admin	PMP, Inc.	Direct Expense	User Integration	N/A	N/A	Flat Fee	54,001	0	54,001	0%
Build /Admin	PMP, Inc.	Direct Expense	Rent	N/A	N/A	Flat Fee	1,800	0	1,800	0%
Build /Admin	PMP, Inc.	Direct Expense/Staff	Sta. Relations Mgr.	100%	12	Month	125,000	0	125,000	0%
Build /Admin	PMP, Inc.	Direct Expense	Supplies	N/A	N/A	Flat Fee	700	418	282	60%
Build /Admin	PMP, Inc.	Direct Expense	Travel	N/A	N/A	Flat Fee	35,198	26,580	8,618	76%
Build /Admin	PMP, Inc.	Direct Expense	Web hosting	N/A	N/A	Flat Fee	35,000	35,163	(163)	100%
Build/Core PMP	APM	Direct Expense/Staff	Leadership/Flat Allocation	N/A	N/A	Flat Fee	180,000	153,125	26,875	85%
Build/Core PMP	NPR DS	Contracted Services	Development-1	N/A	1000	Hours	120,000	120,000	0	100%
Build/Core PMP	NPR DS	Contracted Services	Development-2	N/A	1000	Hours	120,000	120,000	0	100%
Build/Core PMP	NPR DS	Contracted Services	Development-3	N/A	500	Hours	60,000	10,789	49,211	18%
Build/Core PMP	NPR DS	Direct Expense/Staff	Leadership/Flat Allocation	N/A	N/A	Flat Fee	229,688	187,500	42,188	82%
Build/Core PMP	NPR DS	Contracted Services	System Admin	N/A	750	Hours	90,000		90,000	0%
Build/Core PMP	NPR DS	Contracted Services	Technical Lead	N/A	1250	Hours	281,250		281,250	0%
Build/Core PMP	PBS	Direct Expense/Staff	Leadership/Flat Allocation	N/A	N/A	Flat Fee	183,750	150,000	33,750	82%

**Interim PMP Financial Report Number 6 for Grant Number 14515,
Expenditures as of December 31, 2013**

Workscope	Organization	Expense Type	Details	Unit %	Unit #	Unit Type	Total	Report #6 Expenditures	Difference	Percent
Build/Core PMP	PBS	Salaried Position	Software Development	25%	18	Month	51,680	\$0		0%
Build/Core PMP	PRI	Direct Expense/Staff	Leadership/Flat Allocation	N/A	N/A	Flat Fee	180,000	153,125	26,875	85%
Build/Core PMP	PRX	Direct Expense/Staff	Leadership/Flat Allocation	N/A	N/A	Flat Fee	225,000	191,406	33,594	85%
Build/Core PMP	PRX	Salaried Position	Software Develop-1	25%	18	Month	50,625	45,938	4,688	91%
Build/Core PMP	PRX	Salaried Position	Software Develop-2	25%	12	Month	33,750	0	0	0%
Build/Core PMP	PRX	Salaried Position	Technical Support	25%	6	Month	8,438	7,235	1,203	86%
Build/Serv&App	APM	Salaried Position	Developer-1	50%	15	Month	70,457	96,200	(25,743)	137%
Build/Serv&App	APM	Salaried Position	Developer-2	100%	12	Month	112,731	126,093	(13,362)	112%
Build/Serv&App	APM	Contracted Services	Software Develop-1	100%	N/A	Flat Fee	85,229	0	85,229	0%
Build/Serv&App	APM	Contracted Services	Software Develop-2	100%	N/A	Flat Fee	85,229	0	85,229	0%
Build/Serv&App	APM	Contracted Services	Sys.Infrastructure (Hardware)	100%	N/A	Flat Fee	100,000	76,694	23,306	77%
Build/Serv&App	NPR DS	Salaried Position	API Developer	100%	6	Month	68,906	71,385	(2,479)	104%
Build/Serv&App	NPR DS	Salaried Position	API Product Owner	100%	6	Month	68,906	59,944	8,962	87%
Build/Serv&App	NPR DS	Salaried Position	Client Services	50%	18	Month	86,133	60,550	25,583	70%
Build/Serv&App	NPR DS	Salaried Position	Drupal Develop-1	100%	18	Month	206,719	205,192	1,527	99%
Build/Serv&App	NPR DS	Salaried Position	Drupal Develop-2	100%	6	Month	68,906	76,640	(7,734)	111%
Build/Serv&App	NPR DS	Salaried Position	Mobile Developer	100%	7	Month	80,391	78,958	1,433	98%
Build/Serv&App	NPR DS	Salaried Position	Mobile Product Owner	50%	6	Month	34,453	35,569	(1,116)	103%
Build/Serv&App	NPR DS	Salaried Position	Mobile UX / Design	50%	6	Month	38,281	34,100	4,181	89%
Build/Serv&App	NPR DS	Salaried Position	Product Owner	50%	18	Month	103,360	100,736	2,624	97%
Build/Serv&App	NPR DS	Salaried Position	QA	50%	18	Month	86,133	77,177	8,956	90%
Build/Serv&App	NPR DS	Salaried Position	UX and Design	50%	18	Month	114,844	111,197	3,647	97%
Build/Serv&App	PBS	Salaried Position	St UI Designer	100%	18	Month	219,193	127,050	92,143	58%

**Interim PMP Financial Report Number 6 for Grant Number 14515,
Expenditures as of December 31, 2013**

Workscope	Organization	Expense Type	Details	Unit %	Unit #	Unit Type	Total	Report #6 Expenditures	Difference	Percent
Build/Serv&App	PBS	Salaried Position	Sr. Visual Designer	100%	16	Month	194,979	107,041	87,938	55%
Build/Serv&App	PBS	Salaried Position	Analytics	100%	12	Month	99,531	112,500	(12,969)	113%
Build/Serv&App	PBS	Contracted Services	Development-1	100%	N/A	Flat Fee	72,000	0	72,000	0%
Build/Serv&App	PBS	Contracted Services	Development-2	100%	N/A	Flat Fee	72,000	0	72,000	0%
Build/Serv&App	PBS	Contracted Services	Development-3	100%	N/A	Flat Fee	72,000	0	72,000	0%
Build/Serv&App	PBS	Contracted Services	Development-4	100%	N/A	Flat Fee	96,000	27,033	68,967	28%
Build/Serv&App	PBS	Contracted Services	Development-5	100%	N/A	Flat Fee	96,000	96,000	0	100%
Build/Serv&App	PBS	Contracted Services	Development-6	100%	N/A	Flat Fee	108,000	108,000	0	100%
Build/Serv&App	PBS	Contracted Services	Development-7	100%	N/A	Flat Fee	72,000	103,446	(31,446)	144%
Build/Serv&App	PBS	Contracted Services	Device Hardware	100%	N/A	Flat Fee	18,550	7,490	11,060	40%
Build/Serv&App	PBS	Contracted Services	Mobile Analytics	100%	N/A	Flat Fee	100,000	99,000	1,000	99%
Build/Serv&App	PBS	Salaried Position	Product Manager	100%	16	Month	142,918	115,750	27,168	81%
Build/Serv&App	PBS	Contracted Services	QA	100%	N/A	Flat Fee	84,000	18,216	65,784	22%
Build/Serv&App	PBS	Contracted Services	Travel	100%	N/A	Flat Fee	4,700	3,487	1,213	74%
Build/Serv&App	PRI	Salaried Position	Client Services	40%	18	Month	54,000	3,876	50,124	7%
Build/Serv&App	PRI	Salaried Position	Developer-1	25%	18	Month	42,188	46,587	(4,399)	110%
Build/Serv&App	PRI	Salaried Position	Developer-2	20%	18	Month	27,000	3,891	23,109	14%
Build/Serv&App	PRI	Contracted Services	Developer-A	100%	N/A	Flat Fee	43,334	33,525	9,809	77%
Build/Serv&App	PRI	Contracted Services	Developer-B	100%	N/A	Flat Fee	43,335	33,525	9,810	77%
Build/Serv&App	PRI	Contracted Services	Developer-C	100%	N/A	Flat Fee	43,336	33,525	9,811	77%
Build/Serv&App	PRI	Contracted Services	Legal	100%	N/A	Flat Fee	17,500	0	17,500	0%
Build/Serv&App	PRI	Salaried Position	Project Lead-1	45%	18	Month	86,063	84,989	1,074	99%
Build/Serv&App	PRI	Salaried Position	Project Lead-2	40%	18	Month	76,500	16,508	59,992	22%
Build/Serv&App	PRI	Salaried Position	QA	55%	18	Month	55,688	34,660	21,028	62%

**Interim PMP Financial Report Number 6 for Grant Number 14515,
Expenditures as of December 31, 2013**

Workscope	Organization	Expense Type	Details	Unit %	Unit #	Unit Type	Total	Report #6 Expenditures	Difference	Percent
Build/Serv&App	PRI	Direct Expense	Travel	100%	N/A	Flat Fee	6,600	1,181	5,419	18%
Build/Serv&App	PRX	Salaried Position	Developer-1	100%	18	Month	180,000	137,813	42,187	77%
Build/Serv&App	PRX	Salaried Position	Developer-2	100%	13	Month	130,000	59,336	70,664	46%
Build/Serv&App	PRX	Salaried Position	Product Manager	100%	13	Month	146,251	101,254	44,997	69%
Build/Serv&App	PRX	Salaried Position	Project Management	100%	15	Month	187,500	44,023	143,477	23%
Build/Serv&App	PRX	Contracted Services	UX/UI Design	100%	N/A	Flat Fee	110,000	95,000	15,000	86%
Operations	PMP, Inc.	Direct Expense	Accounting	N/A	N/A	Flat Fee	138,000		138,000	0%
Operations	PMP, Inc.	Direct Expense	Audit	N/A	N/A	Flat Fee	42,000		42,000	0%
Operations	PMP, Inc.	Direct Expense	Computers & furniture	N/A	N/A	Flat Fee	21,000		21,000	0%
Operations	PMP, Inc.	Contracted Services	Development-1	N/A	2300	Flat Fee	276,000		276,000	0%
Operations	PMP, Inc.	Contracted Services	Development-2	N/A	2300	Flat Fee	276,000		276,000	0%
Operations	PMP, Inc.	Contracted Services	Development-3	N/A	1800	Flat Fee	216,000		216,000	0%
Operations	PMP, Inc.	Direct Expense/Staff	Director	100%	3	Year	716,316		716,316	0%
Operations	PMP, Inc.	Direct Expense	Insurance	N/A	N/A	Flat Fee	30,000		30,000	0%
Operations	PMP, Inc.	Direct Expense	Legal fees	N/A	N/A	Flat Fee	55,000		55,000	0%
Operations	PMP, Inc.	Direct Expense	Phone	N/A	N/A	Flat Fee	18,000		18,000	0%
Operations	PMP, Inc.	Direct Expense	Printing/postage	N/A	N/A	Flat Fee	2,820		2,820	0%
Operations	PMP, Inc.	Contracted Services	Project Lead-1	N/A	1520	Flat Fee	342,000		342,000	0%
Operations	PMP, Inc.	Direct Expense	Rent	N/A	N/A	Flat Fee	79,444		79,444	0%
Operations	PMP, Inc.	Direct Expense/Staff	Sta. Relations Mgr.,	100%	3	Year	477,545		477,545	0%
Operations	PMP, Inc.	Direct Expense	Supplies	N/A	N/A	Flat Fee	3,600		3,600	0%
Operations	PMP, Inc.	Contracted Services	System Admin	N/A	1800	Flat Fee	216,000		216,000	0%
Operations	PMP, Inc.	Direct Expense/Staff	TBD	100%	1.5	Year	228,375		228,375	0%
Operations	PMP, Inc.	Direct Expense	Travel	N/A	N/A	Flat Fee	146,000		146,000	0%

**Interim PMP Financial Report Number 6 for Grant Number 14515,
Expenditures as of December 31, 2013**

Workscope	Organization	Expense Type	Details	Unit %	Unit #	Unit Type	Total	Report #6 Expenditures	Difference	Percent
Operations	PMP, Inc.	Direct Expense	User Integration	N/A	N/A	Flat Fee	16,000		16,000	0%
Operations	PMP, Inc.	Direct Expense	Web hosting	N/A	N/A	Flat Fee	173,388		173,388	0%
Totals							\$10,059,880	\$4,493,184	\$5,481,266	45%

**Interim Schedule of Founding Members' Costs Claimed and Questioned
As of December 31, 2013**

Finding Categories	NPR		PBS		APM		PRI		PRX		Total Questioned	CPB Share Questioned		
	Claimed	Questioned	Claimed	Questioned	Claimed	Questioned	Claimed	Questioned	Claimed	Questioned				
Unsupported Labor														
Leadership (Note 1)	\$187,500	\$187,500	\$150,000	\$150,000	\$153,125	\$153,125	\$153,125	\$153,125	\$191,406	\$191,406	\$835,156	\$452,094	Note 2	
Development Labor (Note 1)	911,447	911,447	462,342	0	222,293	222,293	191,692	0	395,599	395,599	1,529,339	1,510,351	Note 3	
<i>Sub-total</i>	<i>\$1,098,947</i>	<i>\$1,098,947</i>	<i>\$612,342</i>	<i>\$150,000</i>	<i>\$375,418</i>	<i>\$375,418</i>	<i>\$344,817</i>	<i>\$153,125</i>	<i>\$587,005</i>	<i>\$587,005</i>	<i>\$2,364,495</i>	<i>\$1,962,445</i>		
Technical Services Agreement	250,789	110,251	0	0	0	0	0	0	0	0	110,251	110,251		
Unsupported Development Expense	0	0	462,672	129,697	76,694	0	100,575	0	95,000	0	129,697	129,697		
Excess Indirect Expenses		12,107		0		45,273		7,230		32,543	97,153	86,492	Note 4	
<i>Adjustment: Indirect Unsupported</i>		<i>(12,107)</i>				<i>(18,665)</i>		<i>(7,037)</i>		<i>(32,543)</i>	<i>(70,352)</i>	<i>(59,691)</i>		
Total	\$1,349,736	\$1,209,198	\$1,075,014	\$279,697	\$452,112	\$402,026	\$445,392	\$153,318	\$682,005	\$587,005	\$2,631,244	\$2,229,194		
<i>CPB's Share of Questioned Costs:</i>		<i>\$1,113,335</i>		<i>\$203,197</i>		<i>\$325,463</i>		<i>\$76,756</i>		<i>\$510,443</i>		<i>\$2,229,194</i>		

Note 1: Amounts claimed and questioned include direct labor, fringe benefits and overhead expenses.

Note 2: Founding member and CPB share for leadership expenses are specified in grant agreement.

Note 3: We computed using NPR share of Development Labor specified in grant agreement.

Note 4: We questioned the amounts applicable to Leadership and Development expenses. The grant agreement identified CPB's share amount.

SCOPE AND METHODOLOGY

We conducted our audit in accordance with *Government Auditing Standards* for financial audits to determine whether PMP: a) financial reports fairly present grant revenues and expenditures; b) incurred costs in accordance with grant requirements; and c) complied with grant requirements. We performed our audit field work during the period November 2014 through March 2015.

The scope of the audit included tests of the costs claimed by PMP on CPB Grant Number 14515 during the period November 1, 2012 – December 31, 2013. This financial report is provided in Exhibits B and B-1. We also obtained PMP's general ledger detail as of March 19, 2015 to determine whether FM's final costs through July 31, 2014 had been booked through the completion of the build phase of the project.

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 Business Affairs, Office of the Chief Financial Officer, and the Office of System Development and Media Strategy. We also discussed the grant, Technical Services, and Participation agreements, as well as management's policies and procedures with various PMP officials, including its Executive Director, Assistant Treasurer, as well as selected FMs or their representatives. We also reconciled the financial data maintained by PMP in its accounting records for the grant reviewed to the expenses it reported to CPB.

We tested the accuracy of grant expenditures that PMP claimed by performing financial reconciliations and comparisons to underlying accounting records to verify transactions recorded in the general ledger and reported to CPB on payment requests. We also evaluated compliance with the grant agreement terms, in part, by testing 30 types of expenditures claimed under the grant to supporting documentation maintained by PMP. During the period of our review, PMP claimed total expenses of \$4,493,184. The transactions we tested totaled \$3,081,237 that included a variety of expenditure types such as leadership, legal fees, payroll, travel, development, and design services.

We gained an understanding of the internal controls over the preparation of the grant financial reports, cash receipts, and payment authorizations to plan our substantive testing. 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.



MEMORANDUM

DATE: September 4, 2015

TO: Mary Mitchelson, Inspector General
Jackie J. Livesay, Vice President, Compliance
Ted Krichels, Senior Vice President, System Development and Media Strategy

FROM: Kristin Calhoun, Executive Director

SUBJECT: Audit of CPB Grant No. 14515
Awarded to Public Media Platform, Inc., Washington, D.C.
for the Period November 1, 2012 – December 31, 2013,
Response to Draft Report No. APM 1501-XXXX

In this memo Public Media Platform, Inc. (PMP) responds to the Draft Report of the Office of Inspector General (OIG) for the Corporation for Public Broadcasting (CPB). Before turning to specific findings of the Draft Report, PMP would like to thank you for the opportunity to offer these comments and to provide additional information relevant to your final report.

I. PMP AND WHY IT MATTERS

The need for a digital platform for collecting and distributing public media content was recognized for more than a decade before PMP was created. As early as 2002, a project called Public Radio Collaborations, spearheaded by Minnesota Public Radio, focused on nation-wide collaborative programming. Although Public Radio Collaborations ended in 2006,¹ the idea for web-based collaborative efforts among public media distributors and producers did not.

¹ See *Current* "With Regret, APM ends annual Collaborations," May 15, 2006 and *Current*, "'Damn near everybody' talked about democracy," November 17, 2003.

In 2007, a task force of public radio executives initiated a project called the Digital Distribution Consortium to create digital standards for storing audio content and distributing it to websites and mobile devices. The project was abandoned before it came to fruition.²

Supported by grants from a number of foundations, NPR, through its Digital Media and Digital Services Divisions, developed an application programming interface (API) that allowed listeners and authorized developers to retrieve news stories from NPR's storage system and to access those stories through digital devices. The proprietary API was initially known as "Story".

PMP built on Story's creation of a digital platform for public radio, but expanded the platform's capability to serve as a comprehensive distribution system that could ingest, store, aggregate, tag and deliver digital content to public radio and TV stations and ultimately directly to the public. Even before the Grant under review, CPB in 2010 provided a substantial grant to plan for a collaborative API (see Draft Report, p. 3). CPB's 2012 Annual Report cites CPB's support for PMP as a demonstration of CPB's "commitment to innovation."³

PMP was organized by five Founding Members (FMs)⁴ as an independent nonprofit corporation, with directors from each FM plus up to four at-large directors. The FMs are among the largest, most established organizations in public broadcasting, each with its own set of internal administrative controls and accounting practices. PMP is a new nonprofit, which was operated by one full-time employee for the period November 1, 2012 – December 31, 2013.

² See *Current*, "Full Speed Ahead for Public Media Platform," December 17, 2012.

³ President and CEO's Report, <http://www.cpb.org/annualreports/2012/about/president-ceo-s-report.html>.

⁴ American Public Media (APM), National Public Radio (NPR), Public Broadcasting Service (PBS), Public Radio International (PRI) and Public Radio Exchange (PRX).

II. THE CPB GRANT

The Grant is for a five-year term beginning September 1, 2012 and ending May 31, 2017.

The budget for the entire project (Budget) is \$10,059,880, of which CPB's commitment is \$8,086,341. The balance of the Budget is the responsibility of PMP and the FMs, who are investors in PMP as well as beneficiaries of the Grant. While CPB provides funding for a significant portion of PMP's startup costs, it reduces support from 80% to 40% over the three-year operating term.

The Budget is divided into two phases: a phase devoted to the development and construction of the PMP platform (the "Construction Budget") and a phase devoted to three years of operations (the "Operating Budget"). The Construction Budget specifies allowable expenses for certain categories of construction and assigns each of these a "Unit Type." The Unit Type for expenses such as PMP overhead and Leadership expenses (as discussed below) is "Flat Fee." Salaries are assigned a Unit Type "Month." Contracted Services are assigned the Unit Type "Hours."

The Grant requires PMP to enter into a Founding Member Participation Agreement with each FM. The Participation Agreements, which are identical in substance, require the FMs to provide services from high-level managers and executives ("Leadership" services), as well as services from FM employees and contractors. Within the Construction Budget, two types of work are conducted. Building the Core PMP by NPR ("Core"), and the Service and Application Layer by all the FMs.

Section II of the Grant requires PMP to enter into a separate Agreement for Technical Services ("Technical Services Agreement") with NPR. The Statement of Work ("SOW") provides that "NPR will use an 'Agile' process to build the PMP Platform," and gives PMP an

opportunity to review and approve the objectives for each 10-day cycle of work (called a “Sprint”). NPR then invoices PMP monthly “for the fraction of the Project Cap [\$671,250.90] that NPR reasonably estimates corresponds to the then-completed fraction of the Provider Services to be rendered hereunder; provided that the total amount invoiced by NPR does not exceed the Project Cap.”

III. WHAT IS NOT IN DISPUTE

Before responding to specific findings and recommendations of the Draft Report, PMP would like to highlight certain findings and conclusions the Draft Report does *not* make.

- The Draft Report does not question the value of the platform PMP has created or the importance of that platform to the future of public media.
- It finds no evidence of fraud, waste, or abuse.
- It does not question that the build out phase was successfully completed as planned.
- It does not find that PMP, any FM or any contractor exceeded the CPB-approved Budget.
- It does not question PMP’s compliance with legal requirements of the Grant.
- It does not question PMP’s own costs.
- It does not express “an opinion on the effectiveness of PMP’s internal control” (Draft Report, p. 6).

IV. EXPENSES OF FOUNDING MEMBERS

For work outside building the Core, the Draft Report questions two types of FM expenses: (1) FM Leadership expenses and (2) service and application expenses related to the development of software for the PMP Project.

A. LEADERSHIP ALLOCATION

The Draft Report questions PMP Leadership expenses of \$835,156 and recommends that CPB determine the reasonableness of CPB's \$452,094 share, or disallow and recover this amount. As explained below, PMP's claims for reimbursement of the Leadership Allocation were entirely reasonable.

Characterization of Leadership expenses as an "allocation" is not simply a matter of semantics. The relevant documents consistently treat Leadership expenses as an "allocation," a fee rather than an hourly expense. The Budget approved by CPB as Attachment B to the Grant describes Leadership expenses as a "Flat Allocation." The Participation Agreements repeatedly describe Leadership payments as an "allocated" disbursement. For example, Section 7 of the Participation Agreements specifies that "disbursements to the Founding Members for Founding Member Services are to be made in seven (7) installments (each, a "Payment")" The Grant *requires* PMP to pay undisputed invoices as "installments," based purely on an allocated portion of the Budget. In evaluating an invoice, PMP may consider "*any* accompanying documentation" (emphasis added). Time sheets are *not* required.

The "accompanying documents" on which PMP based its payments were adequate to confirm that the costs were "actual." Although the Draft Report proposes a definition of "actual costs" that means "actual salaries supported by payroll and timekeeping records of the actual number of hours worked" (Draft Report, p. 13), that definition does not appear in the Grant, the Budget, the Participation Agreements -- or the Inspector General Act (the "Act"), 5 U.S.C. § 1 *et seq.* While Section 5(f) of the Act defines an "unsupported cost" as one that may be questioned because it is not supported by "adequate" documentation, the Act does not confine the meaning of adequate documentation to timesheets.

The Draft Report acknowledges that the Grant is vague or deficient with respect to the type of documentation required. For example, the Draft Report recommends that “future grant agreements specify that employee direct labor expenses are based on actual project level timekeeping records” and that *future* CPB grants include auditing services for all phases of a grant: “If an audit provision had been included during the build out phase, the accounting and reporting problems identified in this finding could have been addressed earlier in the project. Such an audit ... would have given PMP assurances that it was properly accounting and reporting on the grant’s progress and the allowability of its reported expenditures” (Draft Report, p. 22). In the absence of more specific documentation requirements and more adequate funding in the Grant, PMP’s performance must be measured by a standard of adequacy that is reasonable in the circumstances.

The FM Leadership are CEOs or high-level managers of well-established media organizations. They perform executive functions rather than 9-to-5 employment positions. Performance of their functions does not require time sheets in the ordinary course of business, and nothing in the Grant imposes such an extraordinary requirement. Although PMP did not require Leadership to maintain time sheets for their services, PMP had an ample basis for concluding that Leadership actually provided the valuable services the Grant required. The Budget itself assigns tasks and allocates expenses to each FM. In implementing these tasks, PMP approved objectives for each phase of the work in advance. CPB management tracked progress on each phase of the project. PMP’s Interim Narrative Reports outlined its own activities, its meetings with Leadership and its work with FM employees.⁵

⁵ PMP received reports from the FMs which PMP integrated into the reports provided to CPB. The narrative reports organized by FM are provided in Exhibit I.

The Grant, the WorkScope included as Attachment A of the Grant, and Section 6(a)(iii) of the Participation Agreements describe Leadership Services that require the Leadership of the FMs to “devote necessary and reasonable time to supporting the staff of the corporation and coordinating with the other Founding Members to plan the Platform” As illustrated by the detailed summary of PMP activities below, PMP actively supervised every aspect of work performed by the FMs. Its day-to-day supervision of work performed pursuant to the Participation Agreements confirmed that the expenses paid by PMP were based on the “actual costs and expenses” claimed. As the following calendar of PMP activities makes clear, PMP worked closely with the FMs on every aspect of the Project.⁶

Public Media Platform, Inc.

Reporting Period #6 (October 1, 2013 – December 31, 2013)

Activity Detail (gathered from Google Calendar and emails):

Standing Meetings:

Every Tuesday morning, PMP Board President and Executive Director have a Touch Base call.

Every Tuesday afternoon there was a PMP Partner Call. These calls include representatives from each of the FMs.

October, 2013:

October 3, PMP and PBS joint presentation at GM Planning Meeting.

October 4, PMP and NPR Digital Spring Planning Meeting (this meeting includes technical representatives from each of the FMs).

October 8, Executive Director and PMP Board Secretary meeting

October 9, PMP and VP, NPR Digital met

October 15, PMP presented to NPR’s Satellite Engineering Division

October 16, PMP and NPR Digital Check-In Meeting

October 17, Online News Association (ONA) annual conference. Participated with PRI and NPR.

October 18, PMP and NPR Digital Check-In Meeting

October 23, PMP meetings with NPR Digital

October 25, Sprint review meeting with all FMs

October 28, PMP and NPR meeting to discuss rights/permissioning

⁶ See Exhibit 2 for illustrative summaries of Leadership involvement in PMP meetings and Kristin Calhoun’s calendar entries further documenting points of contact.

October 31, PMP and NPR Digital Check-In Meeting

November, 2013:

November 1, Executive Director and PMP Board Secretary meeting

November 1, PMP and NPR Digital meeting

November 4, PMP @ PRX meeting

November 4, PMP and Board President, Board Meeting Agenda Review

November 5, PMP meeting with VP, NPR Digital, PMP met with NPR Digital, PMP Board meeting

November 7, Public Broadcasters International Conference and PMP/NPR Digital meeting

November 8, Sprint review meeting with all FMs

November 12, PMP and SVP, NPR Digital meeting

November 13, Public Radio Super-Regional Meeting (PMP, APM, PRI, NPR and PRX in attendance)

November 14, PMP and NPR Digital Check-In Meeting

November 15, PMP and NPR Digital Check-In Meeting

November 18, Meetings with NPR Digital

November 20, PMP Board call (not an official Board Meeting)

November 21, PMP and NPR Digital Check-In Meeting

December, 2013:

December 5, PMP and NPR Digital Check-In Meeting

December 6, Sprint review meeting with all FMs

December 10, PMP met with PBS rep on Board

December 12, PMP and NPR Digital Check-In Meeting

December 17, PMP and NPR Digital Check-In Meeting

December 18, Sprint review meeting with all FMs, PMP met with NPR Digital

December 19, PMP and NPR Digital Check-In Meeting

December 20, PMP met with NPR Digital Services

December 23, Executive Director and PMP Board Secretary meeting

In addition to the PMP activities summarized above, the attached invoice for legal services to PMP confirms that Leadership did, in fact, “devote necessary and reasonable time” to PMP Leadership projects. For example, the invoice for December 2012 confirms that Leadership actively participated in weekly calls and in reviewing drafts of the text and exhibits

to critical documents, such as the Participation Agreements, the PMP Budget and PMP's application for exempt status.⁷

B. FM EMPLOYEE EXPENSES

The Draft Report questions CPB's \$1,510,351 share of non-Leadership expenses by three FMs because the FMs did not provide "timesheets or other project accounting records to support amounts claimed." (Draft Report, p. 8). The Draft Report accepts \$654,034 in expenses claimed by the two other FMs, but recommends that CPB "determine the reasonableness or disallow and recover" \$1,510,351 of labor, fringe benefits and overhead expenses "claimed without adequate project accounting records."

PMP's approach to payment of FM employment expenses was reasonable and its claims for reimbursement were supported by "adequate" documentation. Exhibit A of the Grant divides FM employment expenses into two phases: the Core PMP (Core) and a Service and Application Layer (SAL). It is important to consider the two phases separately because they not only involve different tasks, but different forms of compensation. The Core involves the creation of a data repository and two-way API; the SAL involves the integration of FM content management systems into the PMP platform and the creation of software tools that enable stations and content producers to use the PMP platform. Each FM is assigned a specific set of duties in the SAL phase and is permitted to enter into contracts with third parties to provide these services. The Budget clearly distinguishes between FM services that will be provided through a "salaried position" (Unit Type "Month") and through "Contracted Services" (Unit Type "Flat Fee").

⁷ See Exhibit 3. During the course of the OIG's audit, NPR and other FMs provided the OIG with detailed, contemporaneously-generated documentation that more than adequately substantiated its Leadership efforts. See, e.g., Exhibit 4 summarizing the documentation NPR provided to the OIG. Until the Draft Report, the OIG never identified a material noncompliance issue with such documentation.

Disbursements of funds to the FMs is governed by Section 7 of the Participation Agreements, which provides that PMP will pay the portion of the Grant “allocated to each Founding Member for its respective Founding Member Services” in accordance with the Agreements and the schedule set forth in Attachment C-2 (“**Payment Schedule**”). A “Payment” is defined as one of seven fixed-price installments. Each FM is required to invoice PMP for each Payment, and each Payment must be promptly paid after PMP reviews the FM’s submission “and any accompanying documentation.” The type of “accompanying documentation” is not specified.⁸ Nothing in the Grant or Participation Agreements required the FMs to generate timesheets, or PMP to withhold Payment unless it received timesheets for the services invoiced.

In short, FM employee expenses were paid precisely as the Grant required.

V. **TECHNICAL SERVICES AGREEMENT**

The Draft Report questions \$245,793 NPR “overbilled” PMP in the Construction phase, based upon the conclusion that NPR billed on an unauthorized “flat fee” basis rather than on the “actual” costs of employee salaries.⁹ The Draft Report conclusion is incorrect. NPR billed PMP at a negotiated “hourly rate” because CPB and PMP agreed to that hourly rate for the discrete purpose of building the Core.

The Draft Report faults PMP for plainly interpreting the plain language of the Technical Services Agreement. According to the Draft Report:

- “Contracted services” does not mean services “reimbursed at contract rates” but non-contract work based upon “employees’ salaries” (Draft Report, p. 13).

⁸ As previously described, PMP was actively engaged with the FMs and received reports describing their work. See Exhibits 1 and 2.

⁹ Draft Report, p. 10.

- “Estimated hours” does not mean hours which are reasonably “estimated” and confirmed, but hours based upon “timekeeping records of the actual number of hours worked” (Draft Report, p. 6).
- The requirement that PMP make Payments when invoiced does not require PMP to make Payments based upon the portion of work actually completed, but merely describes how work should be billed, “not what labor rates can be billed” (Draft Report, p. 12).

Despite its acknowledgement that the Technical Services Agreement does not “clearly state” the distinctions the Draft Report proposes, the Draft Report concludes that PMP so materially failed to comply with the requirements of the Technical Services Agreement as to warrant recovery or disobligation of most of the funds awarded. PMP respectfully disagrees.

a. Hourly Rates vs. Actual Labor Costs

The Draft Report assumes that the Grant did not allow NPR to charge higher hourly rates than its salaried costs because “[a]s an FM of PMP, NPR should not expect to profit from PMP’s development.”¹⁰ CPB and PMP understood that PMP as the Grantee would engage a competent software developer to transform the NPR Story API into the Core PMP. Because of the great value NPR brought to the project, NPR represented PMP’s best, but not only, option to perform the work. PMP could have utilized the services of other potential contractors – at greater cost and to lesser effect. It was to PMP’s considerable benefit that it engaged NPR for the work and achieved savings by using NPR as a vendor who was proficient in building the desired platform and was intimately familiar with the producers and customer-base that would use it. As part of

¹⁰ Draft Report, p. 12.

the transaction, NPR also agreed to license its intellectual property interests in the Story API at no additional consideration to PMP.

The parties' intent to bill NPR's services at contracted hourly rates rather than salaried costs for the work performed under the Technical Services Agreement is confirmed by the following:

- Line items in the Budget approved by CPB, which was attached to both the Grant and Participation Agreements.
- Contractual language from the Grant and Participation Agreements.
- A separate Technical Services Agreement between PMP and NPR.
- Corroborative email exchange with CBP in developing the Budget.

1) The Budget Specifies Hourly Rates for NPR's Build/Core PMP Work.

All parties, including CPB, understood that NPR's services for building the Core would be provided at a contract rate of \$120 per hour for development staff and \$225 per hour for senior technical staff. Those rates are clearly specified in the Budget:¹¹

Workscope	Org	Type	Details	Unit %	Unit #	Unit Type	TOTAL
Build/Core PMP	NPR DS	Contracted Services	Development-1	N/A	1000	Hours	\$120,000
Build/Core PMP	NPR DS	Contracted Services	Development-2	N/A	1000	Hours	\$120,000
Build/Core PMP	NPR DS	Contracted Services	Development-3	N/A	500	Hours	\$60,000

Build/Core PMP	NPR DS	Contracted Services	System Administration	N/A	750	Hours	\$90,000
Build/Core PMP	NPR DS	Contracted Services	Technical Lead	N/A	1250	Hours	\$281,250

¹¹ Grant Agreement, Att. B, page 21; Participation Agreement, page B-2.

The total of \$390,000 for the NPR Contracted Services for Development-1, Development-2, Development-3 and System Administration, divided by 3,250, the total Unit # of Hours, yields an hourly rate of \$120. The 1,250 Hours of the Technical Lead, divided into the total of \$281,250, yields an hourly rate of \$225.

The Draft Report relied on a chart, only partially based on the Budget, which shows columns for Type (Contracted Services or Salaried Position), Details, Unit %, Unit Type, Cost, Subtotal, Fringe, Subtotal, Overhead, and TOTAL.¹² The chart and surrounding text (quoted below), mischaracterize NPR’s contract rate by mixing and matching another FM’s “Salaried Position” with NPR’s contracted-for hourly rates:

The following excerpt from the CPB grant budget shows that the agreement provided for work done by contactors to be reimbursed at contract rates, while work performed by FM employees was to be billed based upon the employees’ salaries.

**Excerpt from CPB
Grant Agreement Budget [13]**

Type	Details	Unit %	Unit #	Unit Type	Cost	Subtotal	Fringe	Subtotal	Over head	TOTAL
Contracted Services	Development-1	N/A	1000	Hours	\$120	\$120,000	\$0	\$120,000	\$0	\$120,000
Contracted Services	Development-2	N/A	1000	Hours	\$120	\$120,000	\$0	\$120,000	\$0	\$120,000
Contracted Services	Development-3	N/A	500	Hours	\$120	\$60,000	\$0	\$60,000	\$0	\$60,000
Contracted Services	System Adm.	N/A	750	Hours	\$120	\$90,000	\$0	\$90,000	\$0	\$90,000
Contracted Services	Technical Lead	N/A	1250	Hours	\$225	\$281,250	\$0	\$281,250	\$0	\$281,250
Total Technical Services Agreement**								\$671,250		\$671,250
Salaried Position	Development-1	25%	18	Month	\$90,000	\$33,750	\$8,438	\$42,188	\$8,438	\$50,625
Salaried Position	Development-2	25%	12	Month	\$90,000	\$22,500	\$5,625	\$28,125	\$5,625	\$33,750
<i>**Totals added by OIG</i>										

The line items shown above for the contracted services and the salaried positions are both budget estimates of what the services would cost.
Draft Report, page 13.

The Draft Report’s chart conspicuously fails to identify the “Org” associated with each line item.¹⁴ Although the Budget designates NPR as the organization performing the

¹² Draft Report, p. 13.

¹³ As shown in this section of the Response, this chart is not a true excerpt but one created to support the Draft Report’s conclusion that NPR’s work on the Core was for outside contractor hours, not for NPR employees at a negotiated hourly rates.

“Contracted Services,” the rows in the Draft Report chart correspond to rows in the Budget that relate to “Salaried” work by employees of PRX, *not* NPR. Here is how the Budget actually reflects those costs:

Workscope	Org	Type	Details	Unit %	Unit #	Unit Type	TOTAL
Build/Core PMP	NPR DS	Contracted Services	Development-1	N/A	1000	Hours	\$120,000
Build/Core PMP	NPR DS	Contracted Services	Development-2	N/A	1000	Hours	\$120,000
Build/Core PMP	NPR DS	Contracted Services	Development-3	N/A	500	Hours	\$60,000
Build/Core PMP	NPR DS	Contracted Services	System Administration	N/A	750	Hours	\$90,000
Build/Core PMP	NPR DS	Contracted Services	Technical Lead	N/A	1250	Hours	\$281,250
Build/Core PMP	PRX	Salaried Position	Software Development-1	25%	18	Month	\$50,625
Build/Core PMP	PRX	Salaried Position	Software Development-2	25%	12	Month	\$33,750

Grant Agreement, Att. B, page 21; Participation Agreement, page B-2.

After the Core construction phase, the Budget shows that NPR will bill only for Salaried Positions.

Workscope	Org	Type	Details	Unit %	Unit #	Unit Type	TOTAL
Build/Serv&App	NPR DS	Salaried Position	API Developer	100%	6	Month	\$68,906
Build/Serv&App	NPR DS	Salaried Position	API Product Owner	100%	6	Month	\$68,906
Build/Serv&App	NPR DS	Salaried Position	Client Services	50%	18	Month	\$86,133

¹⁴ It also adds columns not in the Budget, such as Fringe and Overhead, while omitting the Workscope column that differentiates between the phases of work such as between building the Core or building the Service and Application layer. Compare Draft Report, p. 13, with Grant Agreement, p. 21, or Participation Agreement, pp. B-2 & B-3.

Build/Serv&App	NPR DS	Salaried Position	Drupal Developer-1	100%	18	Month	\$206,719
Build/Serv&App	NPR DS	Salaried Position	Drupal Developer-2	100%	6	Month	\$68,906
Build/Serv&App	NPR DS	Salaried Position	Mobile Developer	100%	7	Month	\$80,391
Build/Serv&App	NPR DS	Salaried Position	Mobile Product Owner	50%	6	Month	\$34,453
Build/Serv&App	NPR DS	Salaried Position	Mobile UX and Design	50%	6	Month	\$38,281
Build/Serv&App	NPR DS	Salaried Position	Product Owner	50%	18	Month	\$103,360
Build/Serv&App	NPR DS	Salaried Position	QA	50%	18	Month	\$86,133
Build/Serv&App	NPR DS	Salaried Position	UX and Design	50%	18	Month	\$114,844

Grant Agreement, pages 21 – 22; Participation Agreement, page B-3.

Although the Budget carefully distinguishes between “Contracted Services” during the Core and “Salaried Positions” thereafter, the Draft Report does not respect this distinction. It interprets “Contracted Services” not as a separate category of services to be billed at a rate specified in the Budget, but merely as an option that gives “NPR the flexibility to use either its employees or contractor personnel.” Draft Report, p. 13. While PMP agrees that either employees or contractor personnel could be used, the hourly rates specified in the Budget apply to either.

Contrary to the language of the Grant and the clear intent of the parties, the Draft Report concludes that if salaried employees were used to perform NPR’s work on building the Core, NPR somehow forfeited the ability to charge “Contracted” rates for its employees. In short, the Draft Report rewrites the Grant to conform to its own assumptions, not the intent of the parties.

2) *The Grant and Participation Agreements Support Payment of NPR’s Hourly Rates.*

The Draft Report concludes that, in its judgment, “it is unreasonable for NPR to bill its employees to PMP at flat hourly rates that are almost double NPR’s actual labor rates,” and that “the CPB grant agreement and the FM Participation Agreement clearly state that NPR should be

reimbursed for its costs and expenses (including G&A and overhead)”¹⁵ – meaning only salaried labor costs. In fact, neither the Grant nor the Participation Agreements support such a finding.

The Grant requires PMP, as grantee, to pay fees and expenses as they come due. Paragraph 5 of the Grant provides that during the Construction phase, CPB will reimburse PMP for “*its actual* fees and expenses associated with the initial operations of PMP” (emphasis added). Paragraph 6 of the Grant likewise provides that CPB shall reimburse “Grantee for its actual fees and expenses” The following sentence goes on to state that “*subject to full reimbursement of fees and expenses set forth in the Budget associated with the CPB Construction Commitment*, the FMs will use their best efforts to establish the PMP as a viable utility for the system for at least the first three (3) years after completion of the PMP Construction Term. . . .” (emphasis added). The word “full” (not “actual”) modifies the phrase “fees and expenses.” The same pre-condition – “Subject to full reimbursement of fees and expenses set forth in the Budget associated with the CPB Construction Commitment” – appears in paragraph 8 of the Grant. In other words, the Grant requires full reimbursement of fees and expenses charged to PMP for work actually done. These are PMP’s “actual costs.” The Draft Report applies the PMP reimbursement restriction to fees submitted by the FMs. That interpretation is not supported by the language of the Grant, which distinguishes between PMP’s expenses as grantee and “Contracted Services” provided by third parties, including NPR.

The Participation Agreements likewise contradict the Draft Report’s interpretation. The Participation Agreements state that “CPB will reimburse the Corporation [*i.e.*, PMP] for up to \$6,100,000.00 in actual fees and expenses associated with development and construction of the Platform, of which \$2,015,056.00 will fund development of the Core PMP and \$4,084,944.00

¹⁵ Draft Report, p. 12.

will fund development of the Service and Application Layer, all as reflected in the Budget.” The reference to “actual fees and expenses” pertains to PMP’s obligation to make a prescribed Payment, not to salaried costs. NPR’s hourly rate for services expended in building the Core is a fee for “Contracted Services,” which becomes PMP’s “actual” cost. Similarly, Paragraph 8 of the Participation Agreement states that PMP “will reimburse NPR, on a monthly basis, for *all* costs and expenses (including G&A and overhead) incurred by NPR in developing the Foundational NPR API into the PMP API for use by the Corporation and in hosting and/or supporting the Platform. . .” (emphasis added).¹⁶ NPR was to be paid in full at the rate set forth in the Budget for work actually completed.

3) *The Technical Services Agreement Specifies Hourly Fee Rates.*

PMP and NPR entered into a separate Technical Services Agreement for NPR services in building the Core. This agreement required NPR services over and above those it and other FMs were to provide through the Participation Agreements. The fact that the Technical Services Agreement is a separately negotiated agreement for a form of expertise unique to NPR highlights its kinship with a software vendor’s agreement for a stated scope of work.

The Grant provides that “[t]o the extent that the terms of the NPR Services Agreement deviate substantively from or are substantively inconsistent with the terms described in the Term Sheet for the Founding Member Participation Agreement . . . , release of the second disbursement will be contingent upon CPB’s approval of such terms.”¹⁷ CPB thus tacitly affirmed the NPR Technical Services Agreement when it released the second disbursement which was contingent upon CPB’s approval of the NPR Services Agreement. CPB did not

¹⁶ That same phrase was in the Grant Agreement, Attachment F, Term Sheet for Founding Member Participation Agreement, p. 40 at Section 4.e.

¹⁷ See Grant Agreement, paragraph 11.

object to the Budget for the technical services work after reviewing the Grant and the Participation Agreements. The second CBP disbursement was released May 23, 2013.

Paragraph 4.a of the Participation Agreement provides that the “NPR Services Agreement will govern distribution of the remaining \$671,250.00 to NPR, which has been designated to reimburse NPR for its development of the PMP API and services performed in connection with NPR’s development of Core PMP.” The Technical Services Agreement, in turn, describes how NPR can invoice PMP for “work performed each month (including any applicable costs and overhead) for the Provider Services. . . .”¹⁸ The payment provision defines the maximum amount NPR can bill PMP as \$671,250 – the “Project Cap.” NPR’s monthly fee was based upon the portion of the Project Cap that corresponded to the portion of then-completed Provider Services rendered under the Technical Services Agreement.¹⁹ The Project Cap equals the total of the hourly fee amounts listed in the Budget. The required monthly Payments were based on progress of the work, not salaried labor costs.

The payment method prescribed by the Technical Services Agreement supports the fundamental understanding of the parties that NPR would invoice PMP at negotiated hourly rates. Monthly progress payments were based on the fraction of the Project Cap that corresponded to work actually completed.²⁰ The Draft Report’s misreading of this provision as

¹⁸ Technical Services Agreement, pp. 14-15.

¹⁹ “Each invoice shall be for the fraction of the Project Cap . . . that NPR reasonably estimates corresponds to the then-completed fraction of the Provider Services to be rendered hereunder; provided that the total amount invoiced by NPR hereunder does not exceed the Project Cap. Each invoice will be accompanied by a detailed narrative description of the work NPR has completed since it last invoiced the [PMP], as well as an estimate of the percentage of the Provider Services it has completed as of the date of its report.” Technical Services Agreement, p. 15.

²⁰ Exhibit 5 includes NPR invoices supplemented by the estimate of completed work for building the Core. In addition, using Agile Sprint cycles, PMP received and approved NPR’s work throughout the Core phase. Exhibit 6 includes email confirming how NPR would bill PMP and PMP’s sign off on Agile Sprint cycles.

simply “a reference to how NPR will invoice each month not what labor rates can be billed”²¹ is implausible at best.²²

The Draft Report recognizes that the Technical Services Agreement required PMP to pay monthly invoices, but posits an inconsistency between the Technical Services Agreement and the Grant:

“[T]he Technical Services Agreement section 7.7 states that,

In the event of a conflict between this Agreement and the Grant Agreement, the Grant Agreement will govern. In the event of a conflict between this Agreement and the Participation Agreement between the Corporation and NPR, the Participation Agreement will govern.²³

The inconsistency does not exist. Paragraph 22 of the Participation Agreement provides that ambiguities, inconsistencies or conflicts will not be strictly construed against either PMP or NPR “but will be resolved by applying the most reasonable interpretation under the circumstances, giving full consideration to the parties’ intentions at the time this Participation Agreement is entered into and common practice in the industry.” Paragraph 7.3 of the Technical Services Agreement contains a similar provision. The Grant and Participation Agreements are consistent with the Technical Services Agreement. There is no reason to posit an inconsistency except to reach a conclusion other than the bargain the parties actually struck.

When the intentions of the parties are considered, the only conclusion that can reasonably be reached is that NPR consistently invoiced PMP based on hourly rates established by the Budget.²⁴

²¹ Draft Report, p. 12.

²² Exhibit 7 shows a contemporaneous email exchange regarding how NPR billed the Core work.

²³ Draft Report, pp. 12-13.

²⁴ See Exhibit 8 for NPR’s invoices. The hourly breakdown for the work at negotiated rates is also provided.

4) Contemporaneous Email Affirms Intent to Charge Hourly Rate for NPR's Core PMP Build Services

CPB was well aware of the fact that NPR and PMP agreed to an hourly rate for NPR's work in the building of the Core. The hourly rates were described in an email exchange with CPB staff in November 2011 contemporaneously with negotiating the Grant Agreement that CPB accepted.²⁵ That email unambiguously shows that the hourly rate of \$120 would be charged for development and the hourly rate of \$225 would be charged for the technical lead.

b. Fringe Benefits and Overhead; Funds Put to Better Use

The Draft Report (p. 14) concludes that NPR charged \$135,542 in "unallowable" expenses for overhead and fringe benefits. To the contrary, NPR charged *no* overhead or fringe benefit costs on the portion of its work applicable to building the Core.²⁶ As explained in the charts above, the Draft Report relies on extraneous figures to determine salaries of NPR employees involved in building the Core, and subtracts the amount extrapolated from those figures from NPR's contracted-for hourly rates, in order to derive a hypothetical overage in fringe and overhead charges. As shown above, this approach is inconsistent with the intent of the parties and the structure of the Grant.

During the subsequent SAL phase, NPR billed its overhead as a percentage of the work for "Salaried Positions." For Core services it did not. This distinction is consistent with provisions of the Grant that authorize NPR to charge differently for different phases of work. The Draft Report concludes that \$135,542 in expenses billed at budgeted rates were in excess of actual costs and are thus "funds put to better use." This conclusion is contrary to the understanding of the parties that the work was to be billed at hourly, contracted-for rates. Not to

²⁵ See Exhibit 9 relating to the email exchange justifying the technical lead hourly rate of \$225.

²⁶ That no overhead or fringe was charged for the Core work is recognized in the Draft Report in the chart on page 13 relating to the contracted services rows of the Budget. See also Exhibit 7.

pay for NPR's work at these rates would require PMP to breach the Technical Services Agreement.

As explained at the outset, the PMP platform evolved from the efforts of many other public media companies. In particular, NPR invested millions of dollars in developing the NPR Story API. The PMP platform took advantage of NPR's efforts and intellectual property rights to create an enhanced digital platform for audio and video content. Using NPR's services rather than those of another software developer meant that the time and expense of building the Core could be greatly reduced. Not only did NPR have a sophisticated product on which to build the PMP platform, but NPR was intimately familiar with the needs and services of public broadcasting stations and independent media producers and thus had a unique ability to create the PMP Core at a bargain rate.

VI. ADDITIONAL FRINGE BENEFITS AND INDIRECT COSTS OVER CLAIMED

The Draft Report questions an additional \$85,244 for allegedly claiming excessive fringe benefits and indirect overhead expenses for FM employees. Draft Report, p. 15.²⁷ The OIG spoke directly to FMs about these overhead and fringe rates. PMP was not always privy to those conversations and does not have copies of all documentation the FMs provided. Without such documentation, PMP cannot take a position with respect to some findings of the Draft Report, such as the calculation of \$26,801 in travel expenses. Those expenses bring the total of fringe benefits and indirect costs questioned to \$112,045, of which \$98,324 is CPB's share.

PMP can report that APM disagrees with the \$18,665 in Fringe Benefits and G&A questioned for APM labor expenses.²⁸ APM believes this amount should not be questioned

²⁷ Apparently, \$72,560 is already included within the Draft Report's question of FM's Labor Expenses in Section I of the Draft Report. Draft Report, p. 15 note 9.

²⁸ Draft Report, p. 17 (chart).

because the 21.26% fringe rate attributed to APM is incorrect. The percentage calculated by the Draft Report excludes a significant fringe benefit: vacation expense. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] APM's adjusted fringe benefit percentage, including vacation expense, is 27.9%, which is greater than the 25% reported.²⁹ In light of this adjusted calculation for APM fringe benefits, the Draft Report should not question the \$18,665 amount.

The percentage calculated by the Draft Report excludes a significant fringe benefit: vacation expense. APM's adjusted fringe benefit percentage, including vacation expense, is 27.9%, which is greater than the 25% reported.³⁰ In light of this adjusted calculation for APM fringe benefits, the Draft Report should not question the \$18,665 amount.

PMP can also report that PRI disagrees with the \$29,929 in Fringe Benefits questioned for PRI labor expenses.³¹ The 19.9% fringe rate calculated in the chart on page 16 of the Draft Report is incorrect. PRI provided the OIG fiscal year 2013 data supporting PRI's fringe benefit rate calculation including total vacation and sick expense for actual time taken (Item 1 in Exhibit 11), FMLA expenses (PRI pays for the first two weeks of an employee's FMLA leave – Item 2), benefit costs (Item 3), retirement match – employer contributions (Item 4), FICA (Item 5),

²⁹ Support for the calculation is provided in Exhibit 10.

³⁰ Support for the calculation is provided in Exhibit 10.

³¹ Draft Report, p. 17 (chart).

workers compensation (Item 6), and unemployment insurance (Item 7). The total fringe benefit costs (Item 8 - numerator) should be divided by the adjusted base compensation (Item 10 - denominator) to calculate the fringe benefit rate percentage using the data provided by PRI. The resulting fringe benefit percentage is 31.9%, which is greater than the 25% contained in the Draft Report. Accordingly, PMP asks that this adjusted calculation for PRI fringe benefits be used and that PRI's fringe benefits not be questioned.

VII. CONTRACTED SERVICES

The Draft Report recommends that CPB recover \$129,697 in contracted services on grounds that the services for the development of the PMP platform could not be separated from software development work the contractor performed for PBS.

The contractor the report references, Three Pillars Global (3PG), was the primary contractor for PBS Digital during this time period. Some 3PG staff were physically located at PBS headquarters and others off-shore. Use of 3PG staffing was instrumental in retaining economical resources that worked on the PMP project. PBS and 3PG had a Statement of Work (see Exhibit 12) in place for development work being done for PBS.

PBS management was involved in overseeing the work performed by 3PG. Those managers allocated based on their understanding of the work that 50% of the time spent by 3PG developers was for work on the PMP.

If PBS had used internal resources or hired domestic resources, the price tag for PMP deliverables would have been at least 50% more than what was allocated in the PMP budget. Quality US based technical development rates can range from about \$9,000 to \$15,000 per month. The average monthly rate for a 3PG developer is slightly over \$5,000. Further, 3PG rates are significantly lower than the average off-shore rate of approximately \$7,500/month.

PBS was able to receive such a favorable PMP rate because of other work done for PBS and thus leverage this savings to PMP's benefit.

VIII. DEFICIENCIES IN PMP RECORDKEEPING AND REPORTING

a. PMP Financial Recordkeeping

The Draft Report finds that PMP failed to follow generally accepted accounting principles. More specifically, it finds that PMP recorded CPB revenues and FM expenses on a cash basis but recorded PMP's own expenses on an accrual basis and did not timely report accrued revenues and expenses to CPB. The Draft Report does not question any costs related to these defects or recommend that CPB recover or disobligate any funds because of them.

PMP accepts these criticisms in the constructive spirit in which they are offered. In particular, it appreciates the Draft Report's recognition that discrepancies between accrual and cash-based accounting is primarily a matter of timing and that PMP delays in promptly providing financial reports to CPB during the build out phase were attributable to "the lean organizational structure of PMP and the lack of a full-time accountant to track, record and report timely on this \$10 million dollar project" (Draft Report, p. 22).

PMP would like to emphasize that the Budget contained only modest funds for accounting services during the Construction phase. These funds were sufficient for simple bookkeeping functions such as paying bills, performing bank reconciliations and maintaining a general ledger, but *not* for the high level of accounting needed to carry out the functions the Draft Report recommends. Those accounting functions would require PMP to create and enforce GAAP-consistent financial policies that would transcend the disparate accounting practices followed by the FMs and their contractors.

In fact, in 2015, PMP, on its own initiative, has already hired an accounting firm to help it to improve PMP's record keeping and system of internal financial controls. The new accountant has worked to assure PMP's compliance with GAAP principles and to create common reporting standards for all contractors.

PMP heartily concurs in the recommendation that future CPB grants provide for audit services during *all* phases of a project.

b. Financial Reporting

The Draft Report concludes that PMP's failure to submit all interim financial reports on a timely basis caused delays in CPB's reimbursement for expenses. PMP again agrees with the recommendation that CPB recognize that audit services are needed for complex grants such as this one. An auditor's services are particularly useful for collaborative projects involving multiple parties who may have different accounting practices. Coordinating the information to be included in financial reports, and conforming that information to a uniform system of reporting is the best way to ensure that all financial reports can be reconciled to the grantee's general ledger.

CONCLUSION

1. The Draft Report recommends that CPB management determine the reasonableness or disallow and recover CPB's share of the questioned costs totaling \$1,962,445 for Leadership and FM labor expenses.

- PMP disagrees. The questioned costs correspond with the Grant and its Budget. PMP's costs, even when "estimated" or allocated as permitted by the Grant, were supported by adequate documentation and corroborated by PMP's close supervision of the PMP project.

2. The Draft Report recommends that future CPB grants specify that employee direct labor expenses be based on actual project level time keeping records and that Leadership costs be based on the organization's indirect costs determined in accordance with CPB's indirect cost policy.

- PMP agrees that future CPB grants should more clearly specify the applicable time keeping records and indirect cost methodology. PMP does *not* agree that it should be held to record keeping and cost methodology requirements that are *not* contained in its Grant.

3. The Draft Report recommends that CPB recover \$110,251 as an amount that PMP was overbilled under the Technical Services Agreement with NPR.

- PMP disagrees that it was "overbilled," or that it acted irresponsibly in paying invoices it was contractually obligated to pay for its own "actual costs."

4. The Draft Report recommends that CPB deobligate \$135,542 for unallowable NPR billings under the Technical Services Agreement.

- PMP disagrees that the claim is "unallowable." The Draft Report calculates hypothetical salaried "costs" rather than recognize costs agreed to for Contracted Services.

5. The Draft Report recommends that CPB recover CPB's share of questioned indirect expenses totaling \$98,324.

- PMP disagrees that any inappropriate fringe benefits and indirect costs were paid.

6. The Draft Report recommends that CPB recover \$129,697 for unsupported software development work claimed by PBS.

- PMP submits that the software development work has been delivered at an incredible value and that no recovery of costs is warranted.

7. The Draft Report recommends that CPB require PMP to record financial transactions and report financial information to CPB within the time frames specified in the grant agreement on an accrual basis, in accordance with generally accepted accounting principles. It acknowledges that this recommendation could require PMP to obtain full time accounting services.

- PMP fully supports the clarification of accounting standards for CPB grants and the inclusion of accounting services in grant budgets. PMP believes that this recommendation is particularly important for startups, such as PMP, and for collaborative efforts among established organizations that may have different accounting practices and procedures.

8. The Draft Report recommends that CPB require PMP to ensure that all financial reports submitted to CPB are traceable and can be reconciled to its general ledgers.

- PMP agrees that additional auditing services would help it and future CPB grantees improve the quality of its financial reporting.

The objectives of the Draft Report were to determine whether PMP: a) submitted financial reports that fairly present grant revenues and expenses; b) incurred costs in accordance with grant requirements; and c) complied with grant requirements.

PMP has satisfied these objectives. Although PMP does not dispute the Draft Report's findings that future CPB grants should more clearly specify the accounting standards to which the grantee must adhere and recognize that accounting services are an essential part of significant grants, it does dispute the Draft Report's conclusion that PMP's failure to document its claims

for expenses were so deficient as to constitute a “material weakness” (Draft Report, p 6) that warrants recovery of CPB funding for much of the PMP project.

The Draft Report reads the phrase “actual costs” to mean one thing: fees backed up by time sheets for time worked at a specified salaried rate. That reading is not supported by the Grant. The Grant does not specify that PMP will be reimbursed *only* for fees supported by timesheets, nor does the IG Act itself dictate such a reading. The Act instructs the IG to “question” a cost if it is unsupported by “adequate documentation.” The Act does *not* specify that timesheets are the only form of documentation that will be considered “adequate.” As explained above, the Draft Report’s narrow interpretation of “actual costs” is inconsistent with the language of the Grant and related Agreements, and with the ample documentation PMP has provided. The Grant obligates PMP to make certain allocated payments when assigned tasks are completed and when invoices for services are supported by “accompanying documentation.” Only the interpretation of the phrase “actual costs” intended by CPB and PMP would allow PMP to capture the enormous value of Leadership services to PMP and the expertise NPR developed in creating the Story API. The indispensable participation of Leadership is amply supported by documents PMP has provided.³²

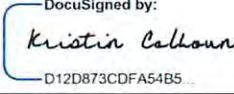
A failure to allow the questioned Leadership and FM labor expense as reasonable would be disastrous for PMP, CPB and the public broadcasting system. Disallowing and recovering the costs incurred in developing the PMP platform, or disobligating unpaid claims would destroy a project that has evolved over the past decade out of the collective efforts of the FMs and other public radio and TV stations and that is essential to the future of public media.

³² See Exhibit 13. From the beginning, CPB recognized that the success of the PMP project depended on “effective and inspirational leadership” from the “highest leadership levels of the public media system.”

Simply disallowing and recovering CPB's share of the questioned costs, as the Draft Report recommends, would also be disastrous for future collaborations between existing organizations and startups such as PMP. The message to bold new collaborative adventures should not be "Proceed at your peril." The most useful revision to the Draft Report would be to recast it in the form of guidelines for prospective compliance with financial reporting standards by PMP and future collaborative grants by CPB.

Respectfully submitted,

Public Media Platform, Inc.

By: 
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Kristin Calhoun
Executive Director

GSB.7227607.10

**Audit of CPB Grant No.14515 Awarded to Public Media Platform, Inc.,
Washington, D.C., for the Period November 1, 2012 – December 31, 2013**

Report No. APM1501-1509

**Exhibits 1-13 referenced in the response from Public Media Platform
are available upon request.**

Contact our office at:

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