



Audit
(312) 886-6503

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

REGION V
111 NORTH CANAL, SUITE 940
CHICAGO, ILLINOIS 60606

FAX: (312) 353-0244



Investigation
(312) 353-7891

SEP 10 2002

Control Number ED-OIG/A05-C0011

Mr. Wayne Godwin
Executive Vice President & Chief Operating Officer
Public Broadcasting Service
1320 Braddock Place
Alexandria, VA 22314

Dear Mr. Godwin:

This **Final Audit Report** presents the results of our audit of the Public Broadcasting Service's (PBS) administration of the TeacherLine Grant No. R286A000003-01 (Grant) awarded under the Telecommunications Demonstration Project for Mathematics for the period June 1, 2000, through May 31, 2001. Our objective was to determine whether costs charged to the Grant were allowable, reasonable, and allocable in accordance with the Elementary and Secondary Education Act of 1965 (ESEA), as amended, Grant terms, Education Department General Administration Regulations (EDGAR), and the cost principles in Office of Management and Budget (OMB) Circular A-122.

We provided a draft of this report to PBS. In its response dated August 9, 2002, PBS agreed with the findings and recommendations, except that it disagreed with unsupported (1) legal fees of \$3,255 and related indirect costs of \$260; (2) indirect costs of \$52,815 because PBS did not have an approved indirect cost rate; and (3) rent and utilities costs of \$41,735 that were allocated based on 10.85 percent of salaries. In August 13 and 15, 2002, amendments to its response, PBS stated that it found additional documentation so it disagreed with a portion of the unsupported salaries, fringe benefits, business meals, and related indirect costs. After reviewing PBS's response, we agreed to reclassify the legal fees of \$3,255 and a portion of salaries and fringe benefits as costs recommended for acceptance. We also concluded that PBS's response did not provide sufficient support to cause us to reclassify business meals, indirect costs and rent and utilities costs as recommended for acceptance. We have summarized PBS's comments after each finding, and have included the response transmittal letters as Attachments 2, 3, and 4.

AUDIT RESULTS

PBS generally complied with the ESEA, Grant terms, EDGAR, and the cost principles in OMB Circular A-122 in administering the Grant. However, as discussed in the findings, PBS charged the Grant for unallowable costs (\$1,974) or for costs which it did not

adequately support (\$147,456), and did not have adequate written policies and procedures for administering the Grant.

Finding No. 1 PBS Charged Costs to the Grant that are Unallowable or Unsupported

PBS charged costs to the Grant that are unallowable (\$1,974) or unsupported (\$147,456). The unallowable amount consists of charges for alcoholic beverages (\$48), gifts (\$676), related indirect costs (\$58), and missing equipment (\$1,192). The unsupported amount consists of charges for personnel (\$31,933), fringe benefits (\$8,868), meals (\$7,448), indirect costs (\$57,472), and rent and utilities (\$41,735) for which it did not provide adequate documentation to support that the costs were reasonable, allowable, or allocable.

OMB Circular A-122, *Cost Principles for Non-Profit Organizations, Attachment A, General Principles, Paragraph A, Subparagraphs A.2.a and A.2.g.* (1998) provide that—

To be allowable under an award, costs must...Be reasonable for the performance of the award and be allocable thereto...Be adequately documented.

Details are discussed in Attachment 1.

Recommendations

We recommend that the Assistant Secretary for the Office of Educational Research and Improvement instruct PBS to—

- 1.1 Refund to the Department of Education unallowable costs of \$1,974; and
- 1.2 Provide sufficient documentation to support \$147,456 or refund that amount to the Department of Education.

Auditee Comments

PBS concurred with the questioned costs discussed in the draft report. It did not concur with unsupported legal fees (\$3,255), salaries (\$10,914), fringe benefits (\$3,031), business meals (\$2,268), and related indirect costs (\$1,557). PBS believed the legal fees were allowable based on documents it provided that showed it attempted to recruit in this country and was unsuccessful. In addition, PBS provided documents it believed supported the salaries and business meals discussed above. Therefore, PBS supported the related fringe benefits and indirect costs. Also, PBS stated that because it had submitted an indirect cost proposal to the Department of Education that proposed an indirect cost rate of 12.35 percent, it disagreed that indirect costs claimed at 8 percent should be classified as unsupported. Finally, PBS stated that it disagreed that rent and utility costs of \$41,735 may not necessarily be representative of the space and utilities by an

employee. Its methodology of allocating those costs based on salaries was consistent with the corporate methodology used at the time. Since then, PBS has changed its methodology to be based on headcount versus salaries charged. It provided an analysis for the fiscal year 2003 budget period that showed allocating rent and utilities based on headcount is materially consistent with allocating them based on square footage.

Auditor Response

We reviewed the documentation PBS provided related to the legal fees. Based on those documents, we reclassified the legal fees as recommended for acceptance. In addition, after reviewing the documents PBS provided in the amendments to its response, we reclassified salaries (\$5,250) and fringe benefits (\$1,458) as recommended for acceptance. We have not changed our conclusion regarding business meals because the additional documents PBS provided still did not adequately support the charges. We have not changed our conclusion regarding indirect costs. Until the Department of Education negotiates a final rate with PBS, we have no basis for agreeing with PBS's assertion that its proposed 12.35 percent rate will result in a negotiated rate greater than the 8 percent rate it used. We also have not changed our conclusion regarding rent and utilities costs. Although we agree that a headcount allocation is materially consistent with a square footage allocation, PBS did not use either of these methods to allocate rent and utilities costs. Instead PBS allocated them based on salaries. In its response, PBS did not provide any documentation to support that a salary allocation is materially consistent with a headcount or square footage allocation.

Finding No. 2 PBS Needs to Establish and Implement Written Policies and Procedures that Comply with the Standards for Financial Management Systems

PBS does not have written policies and procedures for financial management.

The standards for financial management systems are contained in 34 C.F.R. § 74.21. The standards specify various requirements of a financial management system that recipients must provide that include—

- Effective control over and accountability for all funds, property, and other assets. Recipients shall adequately safeguard all assets and assure they are used solely for authorized purposes. 34 C.F.R. § 74.21(b)(3) (2000).
- Written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award. 34 C.F.R. § 74.21(b)(6) (2000).
- Accounting records including cost accounting records that are supported by source documentation. 34 C.F.R. § 74.21(b)(7) (2000).

Because PBS did not have written policies and procedures that complied with the standards for financial management, PBS incurred costs that were unallowable. Also, PBS did not always have source documents to support that costs incurred were reasonable, allocable, and allowable (see Attachment 1).

Recommendation

We recommend that the Assistant Secretary for the Office of Educational Research and Improvement instruct PBS to—

- 2.1 Develop and implement written policies and procedures that comply with the standards for financial management.

Auditee Comments/Auditor Response

PBS stated that, effective April 1, 2002, it developed written policies and procedures for financial management. PBS provided training to the staff on those policies and procedures on April 5, 2002. It appears that the policies and procedures comply with the standards for financial management.

Finding No. 3 PBS Needs to Establish and Implement Written Policies and Procedures that Comply with Federal Property Management Standards

PBS did not have written policies and procedures to record, identify, or inventory equipment purchased with federal funds. As a result, PBS did not maintain an inventory that identified equipment purchased with federal funds, physically mark the equipment to identify it as government property, or perform physical inventories of equipment.

Property management standards for equipment acquired with federal funds are set forth in 34 C.F.R. § 74.34 (f) (2000). Requirements in the property management standards include—

- Equipment records shall be maintained accurately.... 34 C.F.R. § 74.34(f)(1) (2000).
- Equipment owned by the Federal Government must be identified to indicate Federal ownership. 34 C.F.R. § 74.34 (f)(2) (2000).
- A physical inventory of equipment must be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records must be investigated to determine the causes of the difference. The recipient shall, in connection with the

inventory, verify the existence, current utilization, and continued need for the equipment. 34 C.F.R. § 74.34 (f)(3) (2000).

As indicated in the Attachment, PBS could not locate a digital camera and accessories purchased with federal funds. During our on-site field work, PBS's Controller told us PBS was in the process of developing and implementing new equipment inventory procedures.

Recommendation

We recommend that the Assistant Secretary for the Office of Educational Research and Improvement instruct PBS to—

- 3.1 Develop and implement written policies and procedures that comply with the federal property management standards.

Auditee Comments/Auditor Response

PBS stated that, effective April 1, 2002, it developed written policies and procedures for property management. It provided training to the staff on those policies and procedures on April 5, 2002. It appears that the policies and procedures comply with the standards for property management.

Finding No. 4 PBS Needs to Revise Its Travel Policy

PBS's travel policy does not address at least one requirement contained in the cost principles.

OMB Circular A-122, *Cost Principles for Non-Profit Organizations, Attachment B, Selected Items of Cost, Paragraph 2* (1998) provides that—

Costs of alcoholic beverages are unallowable.

PBS employees purchased alcoholic beverages, and PBS charged the costs to the Grant as travel expenses. We recognize that the unallowable costs we specifically identified were not significant. However, without a written policy statement notifying employees that costs of alcoholic beverages are not allowable, it is likely that they will continue to claim and be reimbursed for such costs. As a result, federal funds intended for activities that benefit the Grant will, instead, be used for unallowable activities.

Recommendation

We recommend that the Assistant Secretary for the Office of Educational Research and Improvement instruct PBS to—

- 4.1 Revise its travel policy to ensure that it includes all applicable cost principles.

Auditee Comments/Auditor Response

PBS stated that it revised its travel policy to ensure that it includes all applicable cost principles, including the prohibition of alcoholic beverages. It appears the revised policy is adequate.

OTHER MATTERS

Our review of 20 procurements valued over \$25,000 each disclosed that PBS did not obtain competitive bids for 14 procurements. In addition, PBS named four other vendors in its Grant proposal for which it did not obtain competitive bids. According to 34 C.F.R. § 74.43, "All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition." While we did not determine if PBS paid more for the procurements because it did not competitively bid them, a lack of competitive bidding can result in less than optimum price, quality, or other factors. Subsequent to our on-site field work, PBS developed a policy for its federal programs that requires competitive bids on all procurements over \$25,000.

BACKGROUND

PBS, headquartered in Alexandria, Virginia, is a private, non-profit media enterprise incorporated in 1969 that is owned and operated by the nation's 348 public television stations. PBS uses noncommercial television, the Internet, and other media to provide programs and education services to nearly 100 million people each week.

The Telecommunications Demonstration Project for Mathematics is designed to help elementary and secondary school teachers, on a nationwide basis, prepare all students to achieve state content standards. The Department of Education awarded PBS a five-year \$39 million grant under this program. The PBS Grant, called TeacherLine, was for the period June 1, 2000, through May 31, 2005. The purpose of TeacherLine was to link PBS, the National Council of Teachers of Mathematics, individual school districts in 16 states, local public television stations, state departments of education, 5 colleges of education, the International Society for Technology in Education, and the Corporation for Public Broadcasting to create and deliver a comprehensive suite of digital professional development opportunities that could lead all teachers in meeting professional and state standards for mathematics education. For the June 1, 2000, through May 31, 2001, budget period, the Department of Education authorized funding of \$7,462,331. PBS used about one-half the funding, charging \$3,133,324 to the Grant.

The Grant is authorized by the ESEA, as amended by the Improving America's Schools Act of 1994. It is subject to the provisions contained in 34 C.F.R. Part 74, *Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* and OMB Circular A-122, *Cost Principles for Non-Profit Organizations*.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine if costs charged to the Grant during the period June 1, 2000, through May 31, 2001, were allowable, reasonable, and allocable in accordance with the ESEA, Grant terms, EDGAR, and the cost principles in OMB Circular A-122, effective June 1, 1998. Although we tested all cost categories, our testing emphasized (1) procurements, (2) travel, (3) advertising and promotional materials, (4) training seminars, and (5) equipment.

To accomplish our objective, we—

1. Reviewed the OMB Circular A-133 audit reports for the years ended June 30, 1999-2001, prepared by an independent public accountant, and the related working papers for the audit of the year ended June 30, 2001, and reviewed working papers prepared by PBS's internal auditor related to various issues, including procurements, cash disbursements, and payroll.
2. Reviewed PBS's March 10, 2000, application and annual Grant report for the year ended May 31, 2001.
3. Reviewed written policies, procedures, and organization charts.
4. Reviewed procurements over \$25,000 and the related bid files.
5. Reviewed various records and documents, including accounting and payroll records, purchase orders, invoices, and other supporting documents for 142 financial transactions consisting of an initial sample of 38 randomly¹ and 15 judgmentally selected transactions from a universe of 747 transactions, and 89 transactions subsequently selected on a judgmental basis. The transactions subsequently selected consisted of all revenue (9), procurements (20), advertising (14), employee bonus (3), and employee relocation (1); and selected airline tickets (valued in excess of \$1,000 each) (9), business meals (26), and legal fees (7).
6. Performed a physical inventory of all equipment purchased with Grant funds.
7. Interviewed various PBS employees, Department of Education personnel, and independent public accountant personnel.

To achieve our audit objectives, we relied, in part, on computer-processed data related to the TeacherLine Grant contained in PBS's accounting system. We assessed the reliability of these data, including the relevant general and application controls, and found them to be adequate. We verified the completeness of the data by comparing source records to computer generated data, verified the authenticity by comparing computer generated data to source records, and verified the accuracy by manually duplicating selected computer processes. Based on these tests and assessments, we concluded that the data were sufficiently reliable to be used in meeting the audit's objective.

¹ Results of the random sampling may not be representative of the entire population.

We conducted our fieldwork at PBS's administrative office in Alexandria, Virginia, from February 4, 2002, through April 4, 2002. We discussed the results of our audit with PBS officials on April 4, 2002.

Our audit was performed in accordance with government auditing standards appropriate to the scope of audit described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we did not assess the adequacy of PBS's management control structure applicable to the Grant. Instead, we (1) gained an understanding of controls, policies, procedures, and practices related to travel, equipment, legal, procurements, advertising and promotional materials, training, salaries and fringe benefits expenses, cost allocations, and equipment, and (2) relied on substantive testing of costs charged to the Grant. Our testing disclosed instances of non-compliance with federal regulations and cost principles that led us to believe weaknesses existed in PBS's controls over the Grant. These weaknesses and their effects are discussed in the AUDIT RESULTS section of this report.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

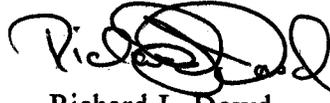
If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on the audit.

Grover J. Whitehurst, Assistant Secretary
Office of Educational Research and Improvement
U.S. Department of Education
Capitol Place, Room 600D
555 New Jersey Avenue, N.W.
Washington, D.C. 20208

Office of Management and Budget Circular A-50 directs Federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard J. Dowd", written in a cursive style.

Richard J. Dowd
Regional Inspector General
for Audit

Attachments

SCHEDULE OF COSTS RECOMMENDED FOR ACCEPTANCE, COSTS QUESTIONED, AND COSTS THAT ARE UNSUPPORTED

Cost Category	Costs			Total Costs Charged to Grant
	Recommended For Acceptance	Costs Questioned	Costs Unsupported	
Personnel	\$362,547	\$0	\$31,933 (1)	\$394,480
Fringe Benefits	98,707	0	8,868 (2)	107,575
Travel	85,134	48 (3)	7,448 (4)	92,630
Supplies/Services	74,507	0	0	74,507
Promotions	23,083	676 (5)	0	23,759
Equipment Repair	3,000	0	0	3,000
Software Acquisition	3,828	0	0	3,828
Training Seminars	19,328	0	0	19,328
Sub-Totals	\$670,627	\$724	\$48,249	\$719,107
Indirect Costs	0	58 (6)	57,472 (7)	57,530
Sub-Totals	\$670,627	\$782	\$105,721	\$776,637
Contractual	2,090,647	0	0	2,090,647
Equipment	223,113	1,192 (8)	0	224,305
Rent & Utilities	0	0	41,735 (9)	41,735
Totals	<u>\$2,984,387</u>	<u>\$1,974</u>	<u>\$147,456</u>	<u>\$3,133,324</u>

- (1) Represents the amount of salaries PBS charged to the Grant for which it did not provide after the fact determinations to support the charges. *OMB Circular A-122, Attachment B, Paragraph 7, Subparagraph m. (2)* (1998) states, "Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. ...Reports maintained by non-profit organizations to satisfy these requirements must...(a) ...reflect an *after-the-fact* determination of the actual activity of each employee." According to *OMB Circular A-122, Attachment A, Paragraph A, Subparagraph 2.g.* (1998), to be allowable, costs must be adequately documented.
- (2) Represents the fringe benefits related to the unsupported salaries. *OMB Circular A-122, Attachment B, Paragraph 7, Subparagraph f.(2)* (1998) states, "Fringe benefits...shall be distributed to particular awards...in a manner consistent with the pattern of benefits accruing to the individuals or group of employees whose salaries and wages are chargeable...." Because the salaries are unsupported, the related fringe benefits are unsupported.
- (3) Represents charges for alcoholic beverages. *OMB Circular A-122, Attachment B, Paragraph 2* (1998) states, "Costs of alcoholic beverages are unallowable."
- (4) Represents costs of meals. PBS claimed the meals were served as part of business meetings. Meals as part of meetings and conferences are allowable under *OMB Circular A-122, Attachment B, Paragraph 29, Subparagraph a* (1998). However, PBS did not provide support that business meetings were held, and business was conducted, when the meals were

provided. According to *OMB Circular A-122, Attachment A, Paragraph A, Subparagraph 2.g.* (1998), to be allowable, costs must be adequately documented.

- (5) Represents gifts provided to people who participated in Community Center chats and panel discussions. *OMB Circular A-122, Attachment B, Paragraph 1, Subparagraph f. (3)* (1998) states, "Unallowable...public relations costs include...Costs of...gifts."
- (6) Represents indirect costs related to questioned travel and other costs. We used the eight percent rate PBS used in lieu of an approved rate to calculate the unallowable amount.
- (7) Includes \$3,860 of indirect costs related to unsupported personnel, fringe benefits, and travel costs. The remaining \$53,607 is unsupported because PBS did not have an approved indirect cost rate. *OMB Circular A-122, Attachment A, Paragraph E, Subparagraph 1.f.* (1998), defines an indirect cost proposal as, "...the documentation prepared by an organization to substantiate its claim for the reimbursement of indirect costs...." According to *OMB Circular A-122, Attachment A, Paragraph E, Subparagraph 2.b.* (1998), "A nonprofit organization which has not previously established an indirect cost rate with a Federal agency shall submit its initial indirect cost proposal immediately after the organization is advised that an award will be made and, in no event, later than three months after the effective date of the award." Department of Education officials told us PBS had submitted an initial indirect cost proposal, then withdrew it and did not re-submit another proposal.
- (8) Represents the cost of a digital camera and accessories PBS could not locate. According to *OMB Circular A-122, Attachment A, Paragraph A, Subparagraph 4.a.* (1998), "A cost is allocable to a particular cost objective, such as a grant...in accordance with the relative benefits received...." The Grant received no benefits from missing equipment.
- (9) Represents rent and utility costs PBS allocated based on salaries. According to *OMB Circular A-122, Attachment A, Paragraph A, Subparagraph 4.a.* (1998), "A cost is allocable to a particular cost objective, such as a grant...in accordance with the relative benefits received...." Salaries are not necessarily representative of the space and utilities usage by an employee.



August 9, 2002

Richard J. Dowd
Regional Inspector General
for Audit
U.S. Department of Education
Office of Inspector General
111 N. Canal Street, Suite 940
Chicago, IL 60606

Dear Mr. Dowd,

Please find below our written comments on the findings and recommendations outlined in your **Draft Audit Report (Report)** dated July 10, 2002.

Finding No. 1 PBS Charged Costs to the Grant that are Unallowable or Unsupported

Management's Response: Management agrees that it must refund the Department of Education for unallowable costs of \$1,974 representing alcoholic beverages, gifts, the corresponding indirect costs to these charges, and a missing digital camera.

The status of the unsupported costs of \$157,419 is addressed below using the same reference numbers as indicated in the Attachment to the Report.

- (1) Management agrees that it was unable to provide after the fact determinations to support \$37,183 of salaries it charged to the Grant. This amount will be refunded to the Department of Education.
- (2) Management agrees that fringe benefits of \$10,326 related to the unsupported salaries are also unsupported. This amount will be refunded to the Department of Education.
- (4) Management agrees that it was unable to provide support that business meals of \$7,448 were served as part of business meetings. This amount will be refunded to the Department of Education.
- (5) Management disagrees with the unsupported costs of \$3,255 for legal fees related to immigration approval to hire a new employee from overseas to work on the Grant. Documentation supporting that the position required skills that this individual possessed, and that no one already in this country had those skills, may be found in Attachment A. Therefore, PBS has demonstrated that the Grant derived a benefit from the legal fees and that these costs should be recommended for acceptance.
- (8) Management agrees that indirect costs of \$4,397 related to unsupported personnel, fringe benefits, and travel are also unsupported. This amount will be refunded to the Department of Education. However, support has been provided for supplies/services costs of \$3,255 (the aforementioned legal fees) and; therefore, the related \$260 in indirect costs is also supported. Management also disagrees that the remaining \$52,815 in indirect costs is unsupported due to PBS not having an approved indirect cost rate. Management submitted an indirect cost rate proposal to the Department of Education on April 24, 2002. The proposal substantiates an indirect cost rate of 12.35%--greater than the 8% indirect cost rate

currently being applied to the Grant. Management responded to follow-up questions by the DOE on July 31, 2002. Management anticipates we are only weeks away from establishing an approved indirect cost rate with the DOE that will be greater than 8% and; therefore, supports our use of the 8% indirect cost rate.

- (10) Management disagrees that rent and utility costs of \$41,735 may not necessarily be representative of the space and utilities usage by an employee. The methodology of allocating rent and utilities costs based on salaries was consistent with the method PBS used to allocate rent and utilities at the corporate level at the time the Grant proposal was accepted. Since this time, PBS has changed its rent and utilities' allocation methodology at the corporate level to an allocation method based on budgeted headcount versus salaries charged. Management believes this is a reasonable distribution methodology because the average rent/utility expense is spread evenly to all employees. See Attachment B for an analysis that demonstrates that the allocation of rent and utilities based on budgeted headcount is materially consistent with results of an allocation based on square footage and thus a reasonable distribution of costs proportional to the Federal programs.

Based on the reasonableness of the analysis, beginning with the year 3 award for the Grant, management will allocate rent and utilities to the Grant based on budgeted headcount consistent with PBS's corporate allocation.

Finding No. 2 PBS Needs to Establish and Implement Written Policies and Procedures that Comply with the Standards for Financial Management Systems

Management's Response: PBS developed and implemented written policies and procedures that comply with the standards for financial management. Please see Attachment C for a copy of the policy effective April 1, 2002. Grant and related staff were trained on the policy on April 5th.

Finding No. 3 PBS Needs to Establish and Implement Written Policies and Procedures that Comply with Federal Property Management Standards

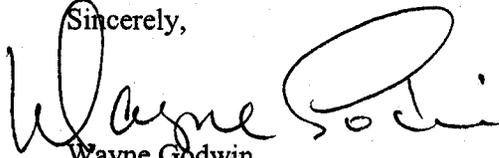
Management's Response: PBS developed and implemented written policies and procedures that comply with the federal property management standards. Please see Attachment D for a copy of the policy effective April 1, 2002. Grant and related staff were trained on the policy on April 5th. Any equipment purchases using Federal funds that occurred during PBS's fiscal year 2002 (ending June 30, 2002) are properly tagged as government property. Additionally, equipment purchases during fiscal years 2001 and 2002 are listed in a Federal equipment inventory and a physical inventory of equipment was undertaken during June 2002.

Finding No. 4 PBS Needs to Revise Its Travel Policy

Management's Response: PBS revised its travel policy to ensure that it includes all applicable cost principles, including the prohibition of alcoholic beverages to be charged to Federal Grants. Please see Attachment E for a copy of the policy.

If you have any questions or if you wish to discuss any of our responses further, please contact me at 703-739-5440. Thank you for your time and consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Wayne Godwin". The signature is written in a cursive style with a large, looping initial "W".

Wayne Godwin
Executive Vice President &
Chief Operating Officer



August 13, 2002

Richard J. Dowd
Regional Inspector General
for Audit
U.S. Department of Education
Office of Inspector General
111 N. Canal Street, Suite 940
Chicago, IL 60606

Dear Mr. Dowd,

Please find below an amended response to our written comments dated August 9, 2002 on the findings and recommendations outlined in your **Draft Audit Report** dated July 10, 2002. Since the date of our response, we have obtained the detail of the unsupported costs addressed in your Report. Upon further research, we are able to provide the following supporting documentation.

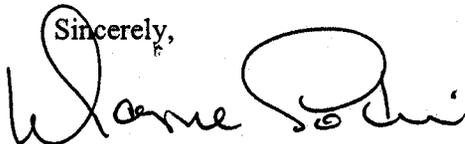
Finding No. 1 PBS Charged Costs to the Grant that are Unallowable or Unsupported

Management's Revised Response:

- (1) Management can now provide after the fact determinations for \$10,914 of salaries charged to the Grant. Please see Attachment F for the time sheets supporting these charges. Therefore, only \$26,269 is considered unsupported and will be refunded to the Department of Education.
- (2) Therefore, fringe benefit costs of \$3,031 related to supported salaries are now supported. The remaining fringe benefits of \$7,295 relate to unsupported salaries and are also unsupported. This amount will be refunded to the Department of Education.
- (4) Management agrees that it was unable to provide support that business meals of \$5,180 were served as part of business meetings. This amount will be refunded to the Department of Education. However, management has support for business meals of \$2,268. The support for these costs is currently in archives. We will provide the support by the end of the week.
- (8) Management agrees that indirect costs of \$3,100 related to unsupported personnel, fringe benefits, and travel are also unsupported. This amount will be refunded to the Department of Education. However, management has now supported some personnel, fringe benefits, and travel costs of \$16,213 and; therefore, has supported the related \$1,297 in indirect costs.

We appreciate your time in considering this revised response. If you have any questions or if you wish to discuss any of our responses further, please contact me at 703-739-5440. Thank you for your time.

Sincerely,

A handwritten signature in black ink, appearing to read "Wayne Godwin". The signature is fluid and cursive, with a large initial "W" and a distinct "G".

Wayne Godwin
Executive Vice President &
Chief Operating Officer



August 15, 2002

Richard J. Dowd
Regional Inspector General
for Audit
U.S. Department of Education
Office of Inspector General
111 N. Canal Street, Suite 940
Chicago, IL 60606

Dear Mr. Dowd,

As promised in Wayne Godwin's letter to you dated August 13, 2002, we have enclosed supporting documentation for the travel costs (meals) of \$2,268 for Teacherline Grant No. R286A000003-01. Behind this letter is the detail of meals we have support for, some additional information explaining each expense, and the supporting documentation.

Again we appreciate your time in considering this additional support. If you have any questions or if you wish to these materials further, please contact me at 703-739-5079. Thank you for your time.

Sincerely,

Denise M. Wise

Denise Wise
Controller & Assistant Treasurer