

**CORPORATION FOR PUBLIC BROADCASTING
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF COMMUNITY SERVICE AND OTHER GRANTS
AWARDED TO THE UTAH STATE BOARD OF REGENTS,
KUEN-TV, SALT LAKE CITY, UTAH
FOR THE PERIOD JULY 1, 2017 THROUGH JUNE 30, 2019**

REPORT NO. AST2005-2007

SEPTEMBER 28, 2020



Report in Brief

Why We Did This Audit

We performed this audit based on our Annual Plan to audit public television and radio stations.

Our objectives were to examine KUEN-TV's (KUEN) certifications of compliance with Corporation for Public Broadcasting (CPB) grant terms to: a) claim Non-Federal Financial Support (NFFS) on its Annual Financial Reports (AFR) in accordance with CPB Financial Reporting Guidelines; b) expend grant funds in accordance with grant agreement requirements; and c) comply with the Certification of Eligibility requirements and the statutory provisions of the Communications Act of 1934, as amended (Act). The amount of NFFS a station reports to CPB affects the amount of CPB funding the station receives.

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[Listing of OIG Reports](#)

Audit of Community Service and Other Grants Awarded to The Utah State Board of Regents, KUEN-TV, Salt Lake City, Utah, for the Period July 1, 2017 through June 30, 2019

What We Found

Based on our audit, KUEN was not compliant with the following CPB grant requirements. Specifically, KUEN:

KUEN overstated \$11,205,979 in NFFS resulting in potential CSG overpayments of \$1,322,291 and incurred questioned CSG costs of \$9,238.

- overstated NFFS by \$11,205,979, which resulted in potential CSG overpayments of \$1,322,291, which we will report as funds put to better use; and
- incurred questioned CSG costs of \$9,238.

In response to the draft report, KUEN management agreed that the station overstated \$132,899 in NFFS from ineligible contribution sources and errors but disagreed that it had overstated \$6,117,350 in Indirect Administrative Support and \$4,955,730 in in-kind Instructional Television NFFS. The station agreed that the questioned costs should not have been charged to the CSG grants and stated it has taken corrective action for future reporting. CPB management will make the final determination on our findings and recommendations.

What We Recommend

That CPB require KUEN to:

- repay the potential CSG overpayments of \$1,322,291;
- repay the questioned CSG costs of \$9,238; and
- identify the corrective actions and controls it will implement to ensure future compliance with NFFS reporting and CSG grant spending requirements.



Corporation
for Public
Broadcasting

Office of the Inspector General

Date: September 28, 2020

To: Jackie J. Livesay, Vice President, Compliance
Michael Levy, Executive Vice President and Chief Operating Officer
Debra Sanchez, Senior Vice President, Education and Children's Content Operations
Stephanie Aaronson, Senior Vice President, Engagement

From: Kimberly A. Howell, Inspector General *Kimberly A. Howell*

Subject: Audit of Community Service and Other Grants Awarded to the Utah State Board of Regents, KUEN-TV, Salt Lake City, Utah, for the Period July 1, 2017 through June 30, 2019, Report No. AST2005-2007

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

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

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

Enclosure

cc: Bruce M. Ramer, Chair, CPB Board of Directors
Elizabeth Sembler, Chair, Audit and Finance Committee, CPB Board of Directors
U.S. Senate Committee on Homeland Security and Governmental Affairs
U.S. House of Representatives Committee on Oversight and Government Reform
U.S. Senate Committee on Commerce, Science and Transportation
U.S. House of Representatives Energy and Commerce Committee

U.S. Senate Committee on Appropriations

U.S. Senate Labor-HHS-Education Appropriations Subcommittee

U.S. House of Representatives Committee on Appropriations

U.S. House of Representatives Labor-HHS-Education Appropriations Subcommittee

Table of Contents

EXECUTIVE SUMMARY	1
BACKGROUND	2
RESULTS OF REVIEW.....	3
FINDINGS AND RECOMMENDATIONS.....	4
I. Overstated NFFS.....	4
II. Questioned CSG Costs.....	16
Exhibit A – CPB Payments to KUEN-TV	18
Exhibit B – KUEN-TV Annual Financial Report.....	19
Exhibit C – KUEN-TV Summary of Non-Federal Financial Support.....	29
Exhibit D – American Graduate Phase Three Interim Financial Report	30
Exhibit E – Education Innovation Final Financial Report.....	31
Exhibit F – Scope and Methodology	32
Exhibit G – KUEN-TV Response to Draft Report	33

EXECUTIVE SUMMARY

We have completed an audit of the Corporation for Public Broadcasting (CPB) Community Service Grants (CSG) and other grants awarded to KUEN-TV (KUEN), licensed to the Utah State Board of Regents, for the period July 1, 2017 through June 30, 2019.¹ Our objectives were to examine KUEN's certifications of compliance with CPB grant terms to: a) claim Non-Federal Financial Support (NFFS) on its Annual Financial Reports (AFRs) in accordance with CPB Financial Reporting Guidelines (Guidelines); b) expend grant funds in accordance with grant agreement requirements; and c) comply with the Certification of Eligibility requirements and the statutory provisions of the Communications Act of 1934, as amended (Act).

Based on our audit, KUEN was not compliant with the following CPB grant requirements. Specifically, KUEN:

- overstated NFFS by \$11,205,979, which resulted in potential CSG overpayments of \$1,322,291, which we will report as funds put to better use; and
- incurred questioned CSG costs of \$9,238.

We recommend that CPB management require KUEN to:

- repay the potential CSG overpayments of \$1,322,291;
- repay the questioned CSG costs of \$9,238; and
- identify the corrective actions and controls it will implement to ensure future compliance with NFFS reporting and grant spending requirements.

In response to the draft report, KUEN management agreed that the station overstated \$132,899 in NFFS from ineligible contribution sources and errors but disagreed that it had overstated \$6,117,350 in Indirect Administrative Support and \$4,955,730 in in-kind Instructional Television NFFS. The station agreed that the questioned costs should not have been charged to the CSG grants and stated it has taken corrective actions for future reporting.

Based on the station's response to the draft report, we consider recommendations one and two unresolved pending CPB's final management decision resolving the audit findings. We consider recommendations three and four resolved but open pending CPB's acceptance of the station's corrective action and recovery of questioned costs. The station's response is summarized after each finding and the complete response with all exhibits is presented in Exhibit G.

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

¹ We reported on Communications Act and CPB General Provisions compliance through the date we completed our audit fieldwork.

We conducted our audit in accordance with *Government Auditing Standards* for attestation examination engagements. Our scope and methodology are discussed in Exhibit F.

BACKGROUND

KUEN is licensed to the Utah State Board of Regents and consists of two programs KUEN-TV, known as the Utah Education Network² (UEN) and Utah Telehealth Network (UTN); the combined legal entity is established as the Utah Education and Telehealth Network (UETN).³ KUEN is a broadband and broadcast network of educational services for educators and students and connects all Utah school districts, schools, and higher education institutions to a network of educational resources. The station's website states that "our services are integral to our mission of networking for education and healthcare. They include: Networking, Application, Support, Telehealth and Operational Services." The station supports the educational technology needs of Utah and provides internet access for all Utah public middle schools, high schools, and higher education institutions; and operates a fully interactive distance learning network.

KUEN broadcast operations include managing a network of translators for TV broadcasts statewide with its three channels:

- UEN-TV 9.1 provides a full schedule of programs to engage learners of all ages;
- First Nations Experience (FNX) 9.3 shows programs by and about American Indian and Indigenous people; and
- NHK World-Japan 9.4 offers English-language news and lifestyle programming from Japan.

KUEN is located at the University of Utah which by state law provides administrative support for UETN. UETN is funded by state appropriations and other sources and is operated as a public telecommunications department of the University of Utah.⁴

CPB's Community Service Grant Program

The Act provides that specific percentages of the appropriated funds CPB receives annually from the United States Treasury must be allocated and distributed to licensees and permittees of public TV and radio stations. After funds are designated as either TV or radio funds, they are placed in the appropriate CSG grant pool for distribution to eligible stations. TV funds can be distributed only to TV stations and radio funds must go to radio stations.

Each year CPB awards CSG grants to public TV and radio stations based in part on the amount of NFFS claimed by all stations on their AFRs. The CSG calculation process starts with separate amounts appropriated for the TV and radio CSG pools adjusted by base grants and

² Utah Education Network (UEN) is described as a publicly funded consortium supporting educational technology needs for Utah's public and higher education institutions, public libraries, and state agencies.

³ UETN and KUEN are the same entity. The station's audited financial statements and AFRs refer to the entity as KUEN and the law and other legal agreements refer to the entity as UETN. We refer to either as appropriate in this report.

⁴ The University of Utah is the licensee of KUED-TV and KUER-FM and those two stations share common management and facilities with KUEN.

supplemental grants. The funds that remain are called the Incentive Grant Pools; one is for TV and the other is for radio.

The Incentive Rate of Return (IRR) is calculated by dividing the Incentive Grant Pools by the total adjusted NFFS claimed by all TV and radio stations. The IRR is then multiplied by each station's total amount of adjusted NFFS to calculate the incentive award amount of the station's total CSG. There is a two-year lag between the reported NFFS and CPB's calculation of the fiscal year's (FY's) CSG amount. For example, CPB used the NFFS reported by KUEN on its FY 2017 AFRs to determine the amount of the radio CSG funds the station received in FY 2019.

As shown in Exhibit A, KUEN received CSG and other grant⁵ funds totaling \$7,440,604 for FYs 2018 (\$3,480,275) and 2019 (\$3,960,329) from CPB. The station reported NFFS of \$28,941,172 in FY 2018 and \$34,062,741 in FY 2019 as shown in Exhibit C. KUEN's audited financial statements for the two fiscal years we audited reported total support and revenues of \$38,791,669 in FY 2018 and \$47,253,921 in FY 2019. KUEN's fiscal year begins July 1 and ends June 30.

RESULTS OF REVIEW

In our opinion, KUEN did not comply with specific requirements as summarized in the following paragraph for the FYs 2018 and 2019 grant reporting as examined in Exhibits B, D, and E.⁶ We reviewed KUEN management's assertions of compliance with CPB grant requirements: a) CSG Certification of Eligibility; b) CSG Legal Agreement; and c) AFR Signature Page. The CSG Certification of Eligibility includes KUEN's compliance with AFR/NFFS reporting in accordance with CPB's Guidelines; Act requirements for open meetings, open financial records, equal employment opportunity (EEO) reporting and donor lists; use of CPB funds; and discrete accounting requirements. Our responsibility is to express an opinion on management's assertions about its compliance based on our examination.

Our audit found that KUEN did not comply with the following grant requirements because it materially overstated its NFFS claimed on its AFRs and incurred questioned CSG costs as identified in the following findings:

- overstated its FYs 2018 and 2019 NFFS in the amount of \$11,205,979 which resulted in potential CSG overpayments of \$1,322,291 (\$663,157 in FY 2020 and potential \$659,134 in FY 2021)⁷, which we will report as funds put to better use; and
- incurred questioned CSG costs of \$9,238.

Our audit was conducted in accordance with the *Government Auditing Standards* for attestation examination engagements and, accordingly, included examining, on a test basis, evidence about

⁵ The Station received CPB grant awards for the FY 17 Healthy Network (\$150,000), American Graduate Phase Three (\$200,000); and Education Innovation (\$10,000) initiatives.

⁶ We also examined the Healthy Network Grant final financial certification because a financial report was not required.

⁷ CPB has not finalized the FY 2021 CSG grant calculations or made FY 2021 payments to KUEN as of the date of our report.

KUEN's compliance with CPB's requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. However, it does not provide a legal determination on KUEN's compliance with specified requirements.

FINDINGS AND RECOMMENDATIONS

I. Overstated NFFS

Our audit found \$11,205,979 in overstated NFFS (\$5,620,035 in FY 2018 and \$5,585,944 in FY 2019) reported on KUEN's AFRs. As a result, CPB made overpayments of \$663,157 in FY 2020 and could make potential overpayments of \$659,134 in FY 2021, resulting in total potential overpayments of \$1,322,291. We classified the overpayments as funds put to better use for reporting purposes because the funds awarded to KUEN could have been distributed to other public broadcasting entities.

The station claimed \$11,205,979 in ineligible NFFS because certain funds claimed as NFFS did not meet CPB's criteria for reporting NFFS as:

- Indirect Administrative Support (IAS) (\$6,117,350);
- in-kind instructional television (\$4,955,730); and
- ineligible contribution sources and reporting errors (\$132,899).

Our results are summarized in the following table and are explained below in more detail.

Overstated NFFS and CSG Overpayments

Conditions	FY 2018	FY 2019	Total
Indirect Administrative Support AFR Schedule B	\$2,872,392	\$3,244,958	\$6,117,350
In-kind Instructional Television AFR Schedule C	\$2,641,064	\$2,314,666	\$4,955,730
Ineligible contribution sources AFR Schedule A	\$106,579	\$26,320	\$132,899
Total overstated NFFS	\$5,620,035	\$5,585,944	\$11,205,979
CPB's FY 2020 ⁸ Incentive Rate of Return (IRR)	.117998662	.117998662	
Total Potential CSG Overpayments	\$663,157	\$659,134	\$1,322,291

⁸ We applied the FY 2020 IRR as CPB has not yet calculated the 2021 IRR as of the date of this report.

a) Indirect Administrative Support

KUEN claimed IAS totaling \$6,117,350⁹ as NFFS that was not eligible resulting in potential CSG overpayments of \$721,839 as shown in the table below:

Ineligible Indirect Administrative Support

Condition	FY 2018	FY 2019	Total
Ineligible IAS NFFS	\$2,872,392	\$3,244,958	\$6,117,350
CPB's FY 2020 Incentive Rate of Return (IRR)	.117998662	.117998662	
Potential CSG overpayments	\$338,938	\$382,901	\$721,839

IAS claimed does not qualify as eligible NFFS for the following specific reasons:

- IAS was not provided by licensee (does not meet CPB criteria); and
- station costs were not included in the Federal Indirect Cost Rate (FICR) Other Sponsored Activities (OSA) rate used to claim IAS (does not meet CPB criteria).

We also found errors in how KUEN applied the FICR OSA methodology in following CPB's guidance. Specifically, repack costs were not deducted from the net station direct costs and other support services, e.g. Operations and Maintenance (O&M) costs were paid directly to the University, and were also included in IAS claimed (of those costs that OIG could specifically identify).

We also noted that the IAS was calculated on costs from third party internet telecommunications providers resulting in over one million dollars in IAS claimed for the two years we audited but we concluded this IAS would not be representative of the value of support resources the station claimed were provided. KUEN said that the university provided indirect support for procurement, payments and other expenses related to these vendor expenses; however, the IAS claimed also included O&M and depreciation on these costs.¹⁰

CPB has specific reporting requirements for claiming NFFS on a grantee's AFR. CPB Financial Guidelines (Guidelines) state:

... Institutional stations are permitted to include certain revenues from its own licensee as NFFS:

- Direct revenues, including appropriations from the licensee and expenses incurred or absorbed by the licensee specifically for the station
- Indirect administrative support

Guidelines 2018, Section 2.3.2 Interpretations and Section 2.7.1 Indirect Administrative Support Overview.

⁹ KUEN excluded the IAS calculated on UTN on its AFR Schedule A line 20, (\$168,844 in FY 2018 and \$202,897 in FY 2019).

¹⁰ KUEN was directly assessed O&M fees from the University of Utah and those fees were also included in the legislative appropriations.

CPB revised its 2019 Guidelines for clarification purposes but the policy remained the same as 2018 Guidelines.

...CSG recipients may report the following revenues as NFFS if they were provided by their licensees and not excluded as set forth in Part II, Section VI...

C. IAS (see Part II, Section XII).

Guidelines 2019 Part II Section III.NFFS from Institutional Licensees.

The General Provisions provide the definition of Licensee as:

V. Licensee: The entity with a valid, renewable license from the United States Government to operate a full-power, non-commercial, educational television station.

General Provisions Definition: Part IV: Definitions.

Further, the guidelines require an approved method to calculate IAS that reasonably allocates costs based on resources used.

B. IAS Calculations. The following methods may be used to calculate IAS. The method selected must distribute the costs in proportions reasonably consistent with the nature and extent to which the station uses its licensee's resources and be consistent with the costs the station would incur if it acquired those services in the marketplace.

Other Sponsored Activities (OSA) method. With this method, the CSG recipient must use its licensee's federally approved OSA facilities and administrative rate...

Guidelines 2019 Part II, Section XII. Indirect Administrative Support (IAS). (See also Guidelines 2018 section 2.7.3).

Please note that if the station's direct expenses are not included in the cost base of the licensee's negotiated federal rate agreement, it may not use the OSA rate methods.

Guidelines 2018 and 2019: Part III, 6 Completing AFR Schedule B – Indirect Administrative Support, Schedule B Instructions -Worksheet I: OSA Rate (using and MTDC base).

Finally, CPB's AFR Schedule B reporting requires direct expenses or fees paid to the licensee for overhead type expenditures be deducted from final IAS NFFS calculated so as not to double count expenses as both direct and indirect.

Line 3. Deductions: Fees paid to the licensee for overhead recovery, assessments, etc.

AFR Schedule B Summary – include deductions from IAS NFFS calculated.

KUEN claimed IAS on its AFR Schedule B that included support provided by the University of Utah. Station management believes KUEN is allowed to claim IAS from the University as

NFFS. Utah state law¹¹ provides that the University shall provide administrative support for the consortium. Moreover, KUEN is administered by the University of Utah and is operated as a department of the university. The station also has a Memorandum of Understanding (MOU) between UETN and the University of Utah setting forth the parties' understanding regarding administrative support provided by the University.¹²

However, notwithstanding any of the legal or administrative framework through which the University provides the station with support, the station is licensed to the Utah State Board of Regents, not to the University of Utah and, under CPB Guidelines, the station may only claim as NFFS indirect administrative support received from its licensee. We understand that under the administrative operations of the University of Utah, KUEN's costs flow through the University of Utah's financial statements and the university provides administrative services for KUEN, indirect support was not provided by KUEN's licensee as required by the Guidelines and the station's cost were not included in the Federal rate calculation used to claim IAS on KUEN's costs.

Based on our audit work, we concluded that the IAS claimed is not allowable per CPB criteria. KUEN overclaimed \$6,117,350 in NFFS on its FYs 2018 and 2019 AFRs resulting in potential CSG overpayments of \$721,839 in FYs 2020 and 2021.

b) In-kind Contributions for Instructional Television

KUEN overstated NFFS by \$4,955,730 that was claimed as in-kind Instructional Television (ITV) contributions. Part of the NFFS claimed was from ineligible sources (\$4,566,542 from public broadcasting entities) and part was claimed for ineligible ITV (\$389,188 from production and studio costs) not allowed by CPB policy. This resulted in potential CSG overpayments of \$584,769 as shown in the following table.

¹¹ Utah state law, currently Section 53B-17-101 et seq., states that the University shall provide administrative support for the Consortium. The Consortium is defined as the Utah Education and Telehealth Network (UETN).

¹² While the MOU describes the administrative services to be provided to UETN, the MOU also limited funding to the extent funded by the legislative appropriations. The administrative support the University provided to UETN exceeded the legislative appropriation amount. The legislative appropriation includes its state appropriation and other funding sources but not indirect support. The administrative services paid with the state appropriation funds and other eligible fund sources were claimed as direct NFFS, the unfunded administrative support were claimed as IAS NFFS.

Overstated In-Kind ITV NFFS and CSG Overpayments

Condition	FY 2018	FY 2019	Total
In-kind ITV claimed on AFR Schedule C line 3.A	\$ 2,781,489	\$ 2,559,980	\$ 5,341,469
<i>Ineligible Sources:</i>			
Utah State University	\$ 2,147,364	\$ 1,982,132	\$ 4,129,496
University of Utah	\$ 334,169	\$ 102,877	\$ 437,046
Total Ineligible Sources	\$ 2,481,533	\$ 2,085,009	\$ 4,566,542
Ineligible Production and Studio Costs	\$ 159,531	\$ 229,657	\$ 389,188
Total Ineligible In-Kind ITV NFFS	\$ 2,641,064	\$ 2,314,666	\$ 4,955,730
Net Eligible In-kind ITV	\$ 140,425	\$ 245,314	\$ 385,739
CPB FY 2020 incentive rate of return	0.117998662	0.117998662	
Potential CSG Overpayments	\$ 311,642	\$ 273,127	\$ 584,769

KUEN overclaimed 93 percent of its in-kind ITV NFFS contributions reported on its AFR Schedule C, primarily because it included contributions from ineligible sources as NFFS. These sources were ineligible because the contributions came from Utah State University and the University of Utah which are both licensees of public broadcasting stations.

In addition, the station claimed as NFFS contributions production and studio costs from eligible sources, but these types of costs do not meet CPB's requirements for reporting in-kind ITV NFFS.

The Act (47 U.S.C. § 397(9)) sets the recipient, form, source, and purpose criteria that contributions and payments must satisfy in order to be eligible for NFFS:

The term “non-Federal financial support” means the total value of cash and the fair market value of property and services... received –

- (A) as gifts, grants, bequests, donations or other contributions for the construction or operation of noncommercial educational broadcast stations, or the production, acquisition, distribution, or dissemination of educational television or radio programs and related activities, from any source other than (i) the United States ...; or (ii) any public broadcasting entity: or
- (B) as gifts, grants, donations, contributions, or payments from any State, or any educational institution, for the construction or operation of noncommercial educational broadcast stations or for the production, acquisition, distribution, or dissemination of educational television or radio programs, or payments in exchange for services or materials with respect to the provision of educational or instructional television or radio programs.

Guidelines 2018 Section 2.3.1 The Statutory Definition -The Law.

CPB further defines revenues as either a contributions or payments for NFFS reporting purposes.

NFFS begins with revenues reported in the financial statements, but not all revenue is NFFS...But in terms of the NFFS criteria, revenue is divided into two distinct categories: contributions and payments. With the exception of the recipient criteria (see Sec. 2.3), the criteria for contributions are not the same as the criteria for payments... A **payment**, on the other hand, is a reciprocal transfer (i.e., an *exchange transaction*) of cash or other assets in which each party receives and sacrifices approximately equal value.

Source Criteria – The universe of eligible sources for contributions is relatively large: any source except the federal government or another public broadcasting entity, while the universe of eligible sources for payments in exchange transactions is relatively small: only eligible sources are state and local governments and educational institutions.

Guidelines 2018, Section 2.2 – Contributions vs. Payments (emphasis in the original), Section 2.3.2 Interpretations NFFS Criteria. (See also Guidelines 2019 Part II NFFS, Section II).

The Act defines a public broadcasting entity as:

The term “public broadcasting entity” means the corporation, any licensee or permittee of a public broadcast station...

The Act (47 U.S.C. § 397(11)).

CPB guidance also states: “Examples of public broadcasting entities include (but not limited to):

- CPB
- Any licensee or permittee of a public broadcasting station....”

Guidelines 2018 Section 2.3.2 – Interpretations.

CPB Guidelines have specific guidance for allowable in-kind Contributions for Instructional Television which state:

Some grantees provide Instructional Television (ITV) or Educational Radio services where the station develops and delivers educational content for in-classroom use. This content may be delivered via broadcast transmission, closed circuit transmission, the Web, or prerecorded materials... Direct revenues of contributions or payments in exchange for ITV or Educational Radio services that meet the appropriate recipient, form, source and purpose criteria are eligible as NFFS. However, with respect to the NFFS eligibility of in-kind contributions a grantee may receive for ITV or Educational Radio, there are limitations on the nature of the services provided and the value that may be recognized for NFFS purposes.

First, the grantee must be able to determine that the ITV or Educational Radio service has a direct benefit to the station’s mission as an educational broadcaster.

Second, the grantee must demonstrate that the ITV or Educational Radio service is under the station's direct management and operational control and, in the case of an institutional station, not a separate activity under the management and operational control of the licensee. The station must have control over distribution of the materials or services received.

If these criteria are met, the grantee may claim any of the following in-kind contributions as NFFS:

- Third party donations (not from the licensee) of study guides or teacher guides for the station to distribute as part of its instructional service.
- The prorated value of a utilization specialist hired by an educational system to which the station provides instructional program. The purpose of the specialist would be to coordinate the use of educational television or radio in the system and serve as a liaison with the station. A utilization specialist is not the same as the normal classroom teacher.
- The prorated value of a curriculum committee consisting of a fixed and reasonable number of people assigned by an educational system and given release time to preview series and recommend print materials. The committee's services must be such an integral part of the station's instructional service that if the committee did not provide them, the station would hire others to perform the service.
- The prorated value of professional services of faculty members who, on their own time, participate in the development of instructional television or radio programs. These people must offer the same or similar services to the public for a fee.
- The prorated share of the value of instructional programs or broadcast rights purchased by a state agency and used by the station's instructional service.
- The expenses incurred by an educational nonprofit entity to promote and advertise the courses offered by the station only if the promotion highlights the station's involvement.

Do not include any of the following in-kind contributions as NFFS (*same as stated in Section 2.4.2*)

- Salaries and benefits of classroom teachers who use the instructional services or
- The cost of receiving or playback equipment located at educational or instructional facilities.
- Donated programs produced and delivered to the grantee by others, whether local productions or national programs, even when the donated programs are produced for instructional use and/or distributed as part of a grantee's instructional services.

Guidelines, 2018, Section 2.6.6 In-kind Contributions for Instructional Television and Educational radio. (emphasis in the original). (See also Guidelines 2019 Part II, Section IX).

As background, KUEN claims in-kind ITV contributions on its AFR Schedule C. These contributions are for interactive video conferencing (IVC) programs that the station receives as

part of its distance learning service. KUEN operates the distribution network to provide educational services throughout the state of Utah. Educational institutions such as Utah State University provide support to KUEN in the form of program development and production, coordinators, instructional design and marketing, and other expenses. KUEN provides the distribution of these educational programs throughout Utah.

KUEN has a consistent process for obtaining the supporting in-kind documentation from the educational institutions donating the IVC programs for its audit and to comply with CPB requirements. The process entails the following:

- KUEN reviews the IVC programs distributed for the year and requests the supporting actual expenses incurred by the institutions.
- KUEN provides the institution with an audit worksheet in a budget format (personnel costs, equipment, materials and supplies, value of faculty and committee time, licensing fees, travel, overhead and production of classes) to report these expenses.
- The institution completes the audit worksheet and submits it to KUEN along with a letter stating that the worksheet data reflects the expenses for donated programs to UEN for that fiscal year for the exclusive use of UEN.
- KUEN then reviews the worksheets and categorizes each institution's expenses based on the six CPB eligibility criteria, eliminating equipment and overhead expenses before doing so.
- KUEN further reviews the expenses and conservatively determines the amount it will report on its audited financial statements and then categorizes these amounts as either eligible or ineligible for AFR Schedule C reporting, then completes the AFR.

KUEN provided us with the donor worksheets and letters for all the in-kind ITV claimed during our audit period. We reviewed the sources for eligibility, then if the source was eligible, we reviewed the expenses claimed as NFFS to determine if these expenses met the specific CPB eligibility categories.

KUEN reported in-kind contributions from Utah State University, which is the licensee of public broadcasting station KUSU-FM, and from the University of Utah, the licensee of KUED-TV and KUER-FM. All three are public broadcasting stations and CPB CSG recipients. Because each is a public broadcasting entity, none are eligible sources. KUEN management stated it was not aware that these universities were ineligible sources because the contributions came from the educational institutions not the public broadcasting stations¹³ and CPB guidance allows contributions or payments from educational institutions. KUEN also provided OIG evidence of CPB's prior desk reviews¹⁴ of its AFRs that did not question the eligibility of these sources. Station management said this led them to believe that the ITV contributions from these sources were in compliance with CPB guidance because it was consistent with their prior reporting of in-kind ITV contributions.

¹³ KUEN receives other contributions and payments from other public broadcasting entities and stations and properly excluded those revenues from NFFS.

¹⁴ CPB desk reviews of KUEN's 2006 and 2017 AFRs questioned the eligibility of some of the in-kind ITV claimed or requested explanations for variances but did not question the eligibility of the sources.

CPB guidance and the Act do not allow payments or contributions from public broadcasting entities as eligible as NFFS. After we informed KUEN that the universities were ineligible sources because each is a public broadcasting licensee, KUEN management still felt that the NFFS should be eligible because the amounts could be considered a payment/exchange for the distribution of educational services it provided to these educational institutions. However, the letters and other documentation from the educational institutions clearly state that the amounts provided were donations, hence contributions not payments, and KUEN has consistently reported these in-kind costs as NFFS on its AFR Schedule C as in-kind contributions.

We also evaluated the documentation support from each eligible donor and determined that production crew and studio costs were included in the NFFS claimed. The OIG concluded these costs did not meet CPB's criteria for NFFS eligibility. CPB's 2006 AFR desk review had similarly denied NFFS for production and studio costs.

KUEN had classified these costs as the prorated value of utilization specialists, an allowable CPB category. KUEN evaluated these costs as specialists in the production of instructional programming. Based on our review of the worksheet budget categories and CPB's 2006 denial of these type of costs, we concluded that the production and studio costs are ineligible as NFFS.

The station overstated NFFS from in-kind ITV contributions by \$4,955,730 in FYs 2018 and 2019, which resulted in potential CSG overpayments of \$584,769 in 2020 and 2021.

c) Ineligible contribution sources and reporting errors

The station overclaimed NFFS from ineligible sources totaling \$132,899 because it reported grant contributions on AFR Schedule A line 3.1B from the federal government (\$80,259) and payments from an instructional media consortium (\$52,640) in error.

CPB classifies revenues as either a contribution or payment for NFFS reporting purposes. (See Guidelines referenced above in our finding on in-kind ITV contributions).

CPB's AFR Schedule A line item 1 instructions state:

Federal funds are reported on this line and will be forwarded to Line 23 to be excluded from NFFS. It is the grantees responsibility to properly identify all federal funds it receives, both directly and indirectly, and to report them correctly on the AFR.

AFR Schedule A line 1.B. Department of Education instruction states:

Use this line to enter funds received that originate from the Department of Education.

Guidelines 2018 and 2019, Part III – AFR and FSR Line Item Instructions.

On its FY 2018 AFR, KUEN claimed as NFFS a grant contribution from the State of Utah Department of Education; the funds were a pass-through grant from the U.S. Department of Education. As federal funds, the grant was not an eligible state education contribution. KUEN

did not identify the grant as federal because it came from the state education department. The funds should have been excluded on AFR Schedule A line 1.B. as funds provided by a federal government agency.

KUEN also mistakenly claimed as NFFS grant contributions for payments from an instructional media consortium for web evaluation services. KUEN management said that it should not have recorded these funds as revenues or claimed this contribution on the station's AFRs as NFFS in 2018 and 2019 because starting in 2018 the station no longer received funding from the consortium for these services because state appropriations were now funding these costs.

KUEN overstated NFFS by \$132,899 on its FYs 2018 and 2019 AFRs, which resulted in potential CSG overpayments of \$15,681 in FYs 2020 and 2021.

Recommendations:

We recommend that CPB management require KUEN to:

- 1) repay the potential CSG overpayments of \$1,322,291; and
- 2) identify the corrective actions and controls it will implement to ensure future compliance with NFFS reporting requirements.

KUEN Response

In response to the draft report, KUEN management agreed that the station overstated \$132,899 in NFFS claimed from ineligible contribution sources and errors and has taken corrective actions for future reporting. KUEN disagreed that it had overstated \$6,117,350 in IAS and \$4,955,730 in in-kind ITV NFFS. KUEN's response is attached as Exhibit G.

IAS

KUEN stated it disagreed with the Draft Audit Report's IAS findings and believes it properly claimed the IAS from the University of Utah because of its unique relationship under Utah state law. KUEN's response stated that while KUEN is licensed to the Utah State Board of Regents, state law mandates the University of Utah house and provide services to the station as if the University was, in fact, the licensee of KUEN. The station believes that these mandated administrative services should not be disqualified because of the legal structures of the two entities.

KUEN further explained that the OIG misinterpreted the MOU between the station and the University in the draft report and that the MOU presents a broad description of the working arrangement between UETN and the University and was never intended to restrict the support offered by the University to the state appropriation. KUEN restated that the University provides additional indirect services to the station such as rent, repairs, maintenance, payroll, contracting, purchasing, etc., that were not included in its legislative funding. KUEN's response stated that these additional services are funded through the University's state appropriation and are not

reimbursed by the station or part of UETN's state appropriation, except for additional legal and building services beyond the IAS. Station and University management believe the IAS should qualify as NFFS because it was support given by the University without compensation. KUEN management stated that going forward it will be revising the MOU language to clarify its actual practices between KUEN and the University.

Finally, KUEN did not agree with the draft report that its calculated IAS was not representative of the value of resources provided, by including vendor internet costs in its net direct costs when it calculated IAS, because of the unique role it had in serving the entire state of Utah.

In-Kind ITV Contributions

In its response to our draft report, KUEN management did not agree with the report's conclusions that Utah State University and the University of Utah were ineligible sources for ITV in-kind NFFS. The response did not specifically address the unallowed production and studio costs claimed as in-kind ITV NFFS. The station restated its prior arguments, identified and addressed in the body of the report, that the in-kind ITV was received as payments from educational institutions and therefore should be eligible pursuant to the Act and CPB guidelines because payments for ITV are allowable from educational institutions. Station management does not read CPB guidance as disallowing these payments as NFFS even if the educational institution is a licensee of a public broadcasting station.

The station referenced and provided as an attachment to its written response a copy of a 2004 OIG limited scope audit of KUEN's in-kind ITV that concluded KUEN applied CPB Guidelines properly. The response also referenced and included an exhibit showing CPB desk review correspondence related to KUEN's in-kind ITV that did not specifically challenge the in-kind donations because of the ineligible public broadcasting sources. Because these sources were not questioned in prior reviews the station believes its application of the guidelines to claim in-kind ITV as NFFS is appropriate, allowable, and approved by CPB.

OIG Review and Comment

After considering KUEN's response to our draft report, we have not changed our findings or conclusions and consider recommendations one and two open pending CPB's final management determination. We further comment on each finding component below.

IAS

After considering KUEN's response to our draft report, we have not changed our findings and recommendations regarding the ineligible IAS NFFS but eliminated our argument in the draft report that the MOU limited administrative services to be claimed as NFFS to costs funded by the appropriation. Although the station and University have a unique relationship that is mandated by state law, the legal licensee of KUEN is the Utah State Board of Regents not the University of Utah and eligible IAS must come from the licensee. The station's response did not address why it applied the FICR OSA methodology for calculating its IAS when its costs were not in the approved rate which was not in compliance with AFR Schedule B reporting Guidelines.

Further, based on the additional information KUEN provided with its response to our comment on IAS calculated on third party internet costs to reflect the net costs after e-rate credits, we revised this discussion.

In-Kind ITV Contributions

KUEN's response asserts that the in-kind ITV claimed as NFFS should be treated as payments received from eligible educational institutions in exchange for ITV services KUEN provided. They argue that if treated as payments, the amounts would be eligible as NFFS from educational institutions, which they assert is permissible under the Act. However, the OIG is not persuaded by this argument. KUEN has consistently applied the CPB guidelines Section 2.6.6 for claiming in-kind ITV Contributions reported on its AFR Schedule C. The documentation to support the ITV identified the costs and services as donations, not payments. We did not receive any contracts between the KUEN and the other parties to show payments in exchange for services. We concluded that despite KUEN's argument, the objective evidence did not support its arguments for treatment as payments.

CPB guidelines and the Act clearly disallow contributions from licensee of a public broadcasting station. Further, CPB Guidelines Section 2.3.2 Interpretations provides a diagram that shows that payments from public broadcasting entities are ineligible sources for NFFS. This guidance is reinforced in CPB's supplemental training available to stations and on its website guidance. Even if we accepted KUEN's argument that this in-kind ITV was a payment, which we do not, the amounts would still be ineligible because they were provided by public broadcasting entities. The Act defines both the University of Utah and Utah State University as licensees and neither are eligible sources under CPB guidelines and the Act.

The correspondence between CPB and KUEN specifically identifies the in-kind ITV as contributions not payments and we found that both prior CPB reviews were focused on CPB specific qualified in-kind ITV contribution criteria and variances reported on its AFR Schedule C and not a review of payments in exchange for ITV services.

KUEN also asserts that it relied upon a previous OIG review that examined in-kind ITV claimed as NFFS that did not question the station's treatment of the NFFS sources. The OIG acknowledges that its prior review did not question the ITV claimed, but the prior review was not a full compliance audit like the one recently completed. In this audit, auditors' applied its current understanding of CPB guidance and the law, while extensively testing the claimed in-kind ITV, that included the sources of funds to reach its findings and recommendations. The prior OIG review was a limited scope survey report conducted as an attestation review under the *Government Auditing Standards*, which is substantially less in scope than conducted for this audit. This audit is an attestation examination which requires extensive testing to conclude on objectives.

KUEN's complete arguments and supporting information in disagreement with the IAS and in-kind contribution findings are presented in Exhibit G.

II. Questioned CSG Costs

Our audit questioned \$9,238 in CSG costs because we found that 100 percent of the Executive Director's salary and benefits were charged to CPB's CSGs while he also had non-public broadcasting responsibilities with the Telehealth Network.

As background, Utah Law 53B-17-105 created the Utah Education (UEN) and Telehealth Network (UTN) or UETN. It provides:

UETN shall: (a) coordinate and support telecommunications needs of public and higher education, public libraries, and entities affiliated with the state systems of public and higher education as approved by the Utah Education and Telehealth Network Board, including the statewide development and implementation of all network for education, which utilizes satellite, microwave, fiber-optic, broadcast, and other transmission media.

A separate definition section provides:

"Utah Education and Telehealth Network," or "UETN," means a consortium and partnership between public and higher education, the Utah Department of Health, and health care providers, that is created in Section 53B-17-105.

Because the Executive Director has direct authority for all of UETN which includes KUEN and UTN, we determined that charging 100 percent of these costs to CSG funds was not reasonable or appropriate.

CPB's General Provisions provide the terms for CSG eligibility and outline the discretionary requirements for expending CSG funds.

G. Staffing Costs: FT employees whose salaries are paid using CSG funds must exercise full-time responsibilities over the public broadcast television station's operations. Grantee shall not require said personnel to perform duties unrelated to the public broadcast television station's operation. For FT employees whose salaries are partially paid using CSG funds, Grantee shall ensure that the portion of their salary paid with CSG funds shall not exceed the percentage of said employees' time spent on the public broadcast television station's operations.

CPB General Provisions (2018 and 2019) Part I CSG Program, Section 11. CSG Spending Restrictions.

Station management and the Executive Director initially explained that there is a separate cost center for UTN employees including separate technology and administrative personnel, and a separate director for UTN. The Executive Director stated that he basically spends no time on UTN because they have a fully competent associate director. Other station management made similar statements. After further discussion with the OIG, the station acknowledged the Executive Director spent some minimal time on non-public broadcasting activities and therefore should not have charged 100 percent of Executive Director's time to the CSGs. They provided

us with the estimated amount of the Executive Director's time spent on UTN business with which we calculated \$9,238 in CSG questioned costs during our audit period.

Based on our audit, we questioned \$9,238 in CSG costs and we noted that some other types of costs should also be allocated to UTN, because it was not related to the public broadcasting mission and therefore would not be allowable as CSG expenditures in the future.

Recommendations:

We recommend that CPB management require KUEN to:

- 3) repay the questioned CSG costs of \$9,238; and
- 4) identify the corrective action and controls it will implement to ensure future compliance with CSG grant requirements.

KUEN Response

In response to our draft report, KUEN agreed with our finding that it should not have charged 100 percent of the Executive Director's salary to the CSG grants and said it has taken correction actions for future grant reporting.

OIG Review and Comment

Based on KUEN's response to our draft report, we consider recommendations three and four resolved but open pending CPB's acceptance of KUEN's corrective action and recovery of the questioned CSG costs.

Exhibit A**CPB Payments to KUEN-TV
July 1, 2017 through June 30, 2019**

CPB Grants	2018	2019	Total
<i>Community Service Grants</i>	\$3,146,663	\$3,641,328	\$6,787,991
Interconnection Grant	60,042	69,343	129,385
Universal Service Grant	12,718	12,808	25,526
Distance Service Grant	145,852	146,850	292,702
<i>Total Community Service Grants</i>	<i>3,365,275</i>	<i>3,870,329</i>	<i>7,235,604</i>
<i>Other Grants</i>			
FY 17 Healthy Network Grant No. 34535-MS	75,000	-	75,000
American Graduate Phase Three Grant No. 34682-EDU	40,000	80,000	120,000
Education Innovation Grant No. 34777-EDU	-	10,000	10,000
<i>Total Other Grants</i>	<i>115,000</i>	<i>90,000</i>	<i>205,000</i>
Total CPB Payments to KUEN	\$3,480,275	\$3,960,329	\$7,440,604

KUEN-TV Annual Financial Report
For the periods ending June 30, 2018 and June 30,2019

KUEN Annual Financial Report -Description	FY 2018	FY 2019
Schedule A		
1. Amounts provided directly by federal government agencies	\$215,388	\$234,512
A. Grants for facilities and other capital purposes (PTFP and others)	-	-
B. Department of Education	-	-
C. Department of Health and Human Services	-	-
D. National Endowment for the Arts and Humanities	-	-
E. National Science Foundation	-	-
F. Other Federal Funds (specify)	215,388	234,512
2. Amounts provided by Public Broadcasting Entities	3,526,805	4,051,859
A. CPB - Community Service Grants	3,146,663	3,641,328
B. CPB - all other funds from CPB (e.g. DDF, RTL, Programming Grants)	341,112	319,001
C. PBS - all payments except copyright royalties and other pass-through payments. See Guidelines for details.	-	-
D. NPR - all payments except pass-through payments. See Guidelines for details.	-	-
E. Public broadcasting stations - all payments	39,030	39,030
F. Other PBE funds (specify)	-	52,500
3. Local boards and departments of education or other local government or agency sources	106,694	26,320
3.1 NFFS Eligible	106,694	26,320
A. Program and production underwriting	-	-
B. Grants and contributions other than underwriting	\$106,694	\$26,320
C. Appropriations from the licensee	-	-
E. Gifts and grants received through a capital campaign but not for facilities and equipment	-	-
F. Other income eligible as NFFS (specify)	-	-
3.2 NFFS Ineligible	-	-
A. Rental income	-	-
B. Fees for services	-	-
C. Licensing fees (not royalties – see instructions for Line 15)	-	-

Exhibit B (continued)

**KUEN-TV Annual Financial Report
For the periods ending June 30, 2018 and June 30,2019**

KUEN Annual Financial Report -Description	FY 2018	FY 2019
D. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (TV only)	-	-
E. Other income ineligible for NFFS inclusion	-	-
4. State boards and departments of education or other state government or agency sources	\$26,826,592	\$33,802,600
4.1 NFFS Eligible	23,174,592	28,199,300
A. Program and production underwriting	-	-
B. Grants and contributions other than underwriting	-	-
C. Appropriations from the licensee	23,174,592	28,199,300
E. Gifts and grants received through a capital campaign but not for facilities and equipment	-	-
F. Other income eligible as NFFS (specify)	-	-
4.2 NFFS Ineligible	3,652,000	5,603,300
A. Rental income	-	-
B. Fees for services	-	-
C. Licensing fees (not royalties – see instructions for Line 15)	-	-
D. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (TV only)	-	-
E. Other income ineligible for NFFS inclusion	3,652,000	5,603,300
5. State colleges and universities	-	-
6. Other state-supported colleges and universities	-	-
7. Private colleges and universities	-	-
8. Foundations and nonprofit associations	-	-
9. Business and Industry	7,965	242,529
9.1 NFFS Eligible	-	25,000
A. Program and production underwriting	-	-
B. Grants and contributions other than underwriting	-	25,000
D. Gifts and grants received through a capital campaign but not for facilities and equipment	-	-
E. Other income eligible as NFFS (specify)	-	-
9.2 NFFS Ineligible	\$7,965	\$217,529

Exhibit B (continued)

KUEN-TV Annual Financial Report
For the periods ending June 30, 2018 and June 30, 2019

KUEN Annual Financial Report -Description	FY 2018	FY 2019
A. Rental income	\$7,965	\$8,689
B. Fees for services	-	-
C. Licensing fees (not royalties – see instructions for Line 15)	-	-
D. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (TV only)	-	-
E. Other income ineligible for NFFS inclusion	-	208,840
10. Memberships and subscriptions (net of membership bad debt expense)	-	-
10.1 NFFS Exclusion – Fair market value of premiums that are not of insubstantial value	-	-
10.2 NFFS Exclusion – All bad debt expenses from NFFS eligible revenues including but not limited to pledges, underwriting, and membership (unless netted elsewhere in Schedule A)	-	-
10.3 Total number of contributors. 2018 data 2019 data		
11. Revenue from Friends groups less any revenue included on line 10	\$5	\$1,020
11.1 Total number of Friends contributors. 2018 data 1 2019 data 2		
12. Subsidiaries and other activities unrelated to public broadcasting (See instructions)	498,056	1,229,896
A. Nonprofit subsidiaries involved in telecommunications activities	-	-
B. NFFS Ineligible – Nonprofit subsidiaries not involved in telecommunications activities	-	-
C. NFFS Ineligible – For-profit subsidiaries regardless of the nature of its activities	-	-
D. NFFS Ineligible – Other activities unrelated to public broadcasting	\$498,056	\$1,229,896
Form of Revenue		
13. Auction revenue (see instructions for Line 13)	-	-
14. Special fundraising activities (see instructions for Line 14)	-	-
15. Passive income	-	-

Exhibit B (continued)

KUEN-TV Annual Financial Report
For the periods ending June 30, 2018 and June 30,2019

KUEN Annual Financial Report -Description	FY 2018	FY 2019
16. Gains and losses on investments, charitable trusts and gift annuities and sale of other assets (other than endowment funds)	-	-
17. Endowment revenue	-	-
18. Capital fund contributions from individuals (see instructions)	-	-
19. Gifts and bequests from major individual donors	-	-
20. Other Direct Revenue (Telehealth indirect)	(\$168,844)	(\$202,897)
21. Proceeds from spectrum auction, interest earned on these funds, channel sharing revenues, and spectrum leases (TV only)	-	-
22. Total Revenue (Sum of lines 1 through 12, 13.A, 14.A, and 15 through 21)	31,012,661	39,385,839
Adjustments to Revenue		
23. Federal revenue from line 1.	215,388	234,512
24. Public broadcasting revenue from line 2.	3,526,805	4,051,859
25. Capital funds exclusion—TV (3.2D, 4.2D, 5.2D, 6.2D, 7.2D, 8.2D, 9.2D, 18A)	-	-
26. Revenue on line 20 not meeting the source, form, purpose, or recipient criteria	-	-
27. Other automatic subtractions from total revenue	\$4,158,021	\$7,050,725
A. Auction expenses – limited to the lesser of lines 13a or 13b	-	-
B. Special fundraising event expenses – limited to the lesser of lines 14a or 14b	-	-
C. Gains from sales of property and equipment – line 16a	-	-
D. Realized gains/losses on investments (other than endowment funds) – line 16b	-	-
E. Unrealized investment and actuarial gains/losses (other than endowment funds) – line 16c	-	-
F. Realized and unrealized net investment gains/losses on endowment funds – line 17c, line 17d	-	-

Exhibit B (continued)

KUEN-TV Annual Financial Report
For the periods ending June 30, 2018 and June 30, 2019

KUEN Annual Financial Report -Description	FY 2018	FY 2019
G. Rental income (3.2A, 4.2A, 5.2A, 6.2A, 7.2A, 8.2A, 9.2A)	\$7,965	\$8,689
H. Fees for services (3.2B, 4.2B, 5.2B, 6.2B, 7.2B, 8.2B, 9.2B)	-	-
I. Licensing Fees (3.2C, 4.2C, 5.2C, 6.2C, 7.2C, 8.2C, 9.2C)	-	-
J. Other revenue ineligible as NFFS (3.2E, 4.2E, 5.2E, 6.2E, 7.2E, 8.2E, 9.2E)	3,652,000	5,812,140
K. FMV of high-end premiums (Line 10.1)	-	-
L. All bad debt expenses from NFFS eligible revenues including but not limited to pledges, underwriting, and membership (Line 10.2)	-	-
M. Revenue from subsidiaries and other activities ineligible as NFFS (12.B, 12.C, 12.D)	498,056	1,229,896
N. Proceeds from spectrum auction, interest earned on these funds, channel sharing revenues, and spectrum leases from line 21 (TV only)	-	-
28. Total Direct Nonfederal Financial Support (Line 22 less Lines 23 through 27). (Forwards to line 1 of the Summary of Nonfederal Financial Support)	23,112,447	28,048,743
AFR Schedule B - Worksheet I: Federal Other Sponsored Activities		
1. Determine Station net direct expenses		
1a. Total station operating expenses and capital outlays (forwards from line 10 of Schedule E)	43,136,922	47,665,139
Deductions (lines 1b.1. through 1b.7.):		
1b.1. Capital outlays (from Schedule E, line 9 total)	1,361,966	1,923,749
1b.2. Depreciation	2,226,863	1,786,134
1b.3. Amortization	-	-
1b.4. In-kind contributions (services and other assets)	4,562,928	4,211,168
1b.5. Indirect administrative support (see Guidelines for instructions)	3,041,235	3,447,855
1b.6. Donated property and equipment (if not included on line 1b.1)	-	-
1b.7. Other	2,127,900	2,493,720
1b.8. Total deductions	\$13,320,892	\$13,862,626

Exhibit B (continued)

KUEN-TV Annual Financial Report
For the periods ending June 30, 2018 and June 30,2019

KUEN Annual Financial Report -Description	FY 2018	FY 2019
1c. Station net direct expenses	\$29,816,030	\$33,802,513
2. Modify licensee negotiated cost rate		
If station's direct expenses are not included in the cost base, do not continue with this worksheet		
2a. Licensee's negotiated indirect cost rate	36.5%	36.5%
Less: rate components that do not benefit station operations.		
2b.1. Departmental administration	16.2%	16.2%
Institutional support calculation		
2.b.2. Sponsored projects administration	5.5%	5.5%
2.b.3. Library support	4.3%	4.3%
2.b.4. Other	0.3%	0.3%
2.b.5. Total deductions (sum of 2b.1 through 2b.4)	26.3%	26.3%
2.c. Modified cost rate	10.2%	10.2%
3. Apply modified rate to station net direct expenses		
3a. Station net direct expenses	29,816,030	33,802,513
3b. Modified cost rate from line 2c	10.2%	10.2%
4. Total indirect support (forwards to line 1 of Schedule B Tab 3)	3,041,235	3,447,856
Schedule B Totals		
1. Total support activity benefiting station	3,041,235	3,447,856
2. Occupancy value	-	-
3. Deductions: Fees paid to the licensee for overhead recovery, assessment, etc.	-	-
4. Deductions: Support shown on lines 1 and 2 in excess of revenue reported in financial statements.	-	-
5. Total Indirect Administrative Support (Forwards to Line 2 of the Summary of Nonfederal Financial Support)	3,041,235	3,447,856
6. Please enter an institutional type code for your licensee.	SU	SU
Schedule C		
1. PROFESSIONAL SERVICES (must be eligible as NFFS)	\$6,001	\$6,162
A. Legal	-	-

Exhibit B (continued)

KUEN-TV Annual Financial Report
For the periods ending June 30, 2018 and June 30,2019

KUEN Annual Financial Report -Description	FY 2018	FY 2019
B. Accounting and/or auditing	\$6,001	\$6,162
C. Engineering	-	-
D. Other professionals (see specific line item instructions in Guidelines before completing)	-	-
2. GENERAL OPERATIONAL SERVICES (must be eligible as NFFS)	-	-
3. OTHER SERVICES (must be eligible as NFFS)	2,781,489	2,559,980
A. ITV or educational radio	2,781,489	2,559,980
B. State public broadcasting agencies (APBC, FL-DOE, eTech Ohio)	-	-
C. Local advertising	-	-
D. National advertising	-	-
4. Total in-kind contributions - services and other assets eligible as NFFS (sum of lines 1 through 3), forwards to Line 3a. of the Summary of Nonfederal Financial Support	2,787,490	2,566,142
5. IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	1,781,439	1,651,188
A. Compact discs, records, tapes and cassettes	-	-
B. Exchange transactions	-	-
C. Federal or public broadcasting sources	-	-
D. Fundraising related activities	-	-
E. ITV or educational radio outside the allowable scope of approved activities	\$1,781,439	\$1,651,188
F. Local productions	-	-
G. Program supplements	-	-
H. Programs that are nationally distributed	-	-
I. Promotional items	-	-
J. Regional organization allocations of program services	-	-
K. State PB agency allocations other than those allowed on line 3(b)	-	-
L. Services that would not need to be purchased if not donated	-	-
M. Other	-	-

Exhibit B (continued)

KUEN-TV Annual Financial Report
For the periods ending June 30, 2018 and June 30,2019

KUEN Annual Financial Report -Description	FY 2018	FY 2019
6. Total in-kind contributions - services and other assets (line 4 plus line 5), forwards to Schedule F, line 1c. Must agree with in-kind contributions recognized as revenue in the AFS.	\$4,568,929	\$4,217,330
Schedule D		
1. Land (must be eligible as NFFS)	-	-
2. Building (must be eligible as NFFS)	-	-
3. Equipment (must be eligible as NFFS)	-	-
4. Vehicle(s) (must be eligible as NFFS)	-	-
5. Other (specify) (must be eligible as NFFS)	-	-
6. Total in-kind contributions - property and equipment eligible as NFFS (sum of lines 1 through 5), forwards to Line 3b. of the Summary of Nonfederal Financial Support	-	-
Schedule E		
1. Programming and production	7,689,592	7,345,391
A. TV CSG	1,239,839	387,470
B. TV Interconnection	64,489	60,042
C. Other CPB Funds	-	176,348
D. All non-CPB Funds	6,385,264	6,721,531
2. Broadcasting and engineering	30,223,326	35,614,174
A. TV CSG	608,102	1,597,707
B. TV Interconnection	-	-
C. Other CPB Funds	57,651	142,965
D. All non-CPB Funds	29,557,573	33,873,502
3. Program information and promotion	1,740,989	359,342
A. TV CSG	407,894	281,457
B. TV Interconnection	-	-
C. Other CPB Funds	16,153	-
D. All non-CPB Funds	1,316,942	77,885
4. Management and general	2,121,049	2,422,483
A. TV CSG	1,262,238	1,304,736
B. TV Interconnection	-	-
C. Other CPB Funds	-	-
D. All non-CPB Funds	\$858,811	\$1,117,747
5. Fund raising and membership development	-	-
6. Underwriting and grant solicitation	-	-

Exhibit B (continued)

**KUEN-TV Annual Financial Report
For the periods ending June 30, 2018 and June 30,2019**

KUEN Annual Financial Report -Description	FY 2018	FY 2019
7. Depreciation and amortization (if not allocated to functional categories in lines 1 through 6)	-	-
8. Total Expenses (sum of lines 1 to 7) must agree with audited financial statements	\$41,774,956	\$45,741,390
A. Total TV CSG (sum of Lines 1.A, 2.A, 3.A, 4.A, 5.A, 6.A, 7.A)	3,518,073	3,571,370
B. Total TV Interconnection (sum of Lines 1.B, 2.B, 3.B, 4.B, 5.B, 6.B, 7.B)	64,489	60,042
C. Total Other CPB Funds (sum of Lines 1.C, 2.C, 3.C, 4.C, 5.C, 6.C, 7.C)	73,804	319,313
D. Total All non-CPB Funds (sum of Lines 1.D, 2.D, 3.D, 4.D, 5.D, 6.D, 7.D)	38,118,590	41,790,665
9. Total capital assets purchased or donated	1,361,966	1,923,749
9a. Land and buildings	-	-
9b. Equipment	1,361,966	1,923,749
9c. All other	-	-
10. Total expenses and investment in capital assets (Sum of lines 8 and 9)	43,136,922	47,665,139
11. Total expenses (direct only)	34,170,793	38,285,264
12. Total expenses (indirect and in-kind)	7,604,163	7,456,126
13. Investment in capital assets (direct only)	1,361,966	1,923,749
14. Investment in capital assets (indirect and in-kind)	-	-
Schedule F		
1. Data from AFR		
a. Schedule A, Line 22	31,012,661	39,385,839
b. Schedule B, Line 5	3,041,235	3,447,856
c. Schedule C, Line 6	4,568,929	4,217,330
d. Schedule D, Line 8	-	-
e. Total from AFR	38,622,825	47,051,025
2. GASB Model A proprietary enterprise-fund financial statements with business-type activities only		
a. Operating revenues	7,965	8,689
b. Non-operating revenues	\$38,783,704	\$47,245,232
c. Other revenue	-	-
d. Capital grants, gifts, and appropriations (if not included above)	-	-

Exhibit B (continued)

**KUEN-TV Annual Financial Report
For the periods ending June 30, 2018 and June 30,2019**

KUEN Annual Financial Report -Description	FY 2018	FY 2019
e. Total From AFS, lines 2a-2d	\$38,791,669	\$47,253,921
3. Difference (line 1 minus line 2) Telehealth indirect from the University of Utah	(168,844)	(202,896)
4. If the amount on line 3 is not equal to \$0, click the “Add” button and list the reconciling items.	(\$168,844)	(\$202,896)

KUEN TV
Summary of Non-Federal Financial Support
For the periods ending June 30, 2018 and June 30, 2019
Certified by Head of Grantee and Independent Accountant's Report

Line	Description	FY 2018	FY 2019	Total
	<i>Summary of Non-Federal Financial Support:</i>			
1	Direct Revenue (Schedule A)	\$23,112,447	\$28,048,743	\$51,161,190
2	Indirect Administrative (Schedule B)	3,041,235	3,447,856	6,489,091
3	In-Kind Contributions (Schedule C)	2,787,490	2,566,142	5,353,632
4	Total Non-Federal Financial Support	\$28,941,172	\$34,062,741	\$63,003,913

American Graduate Phase Three
CPB Grant No. 34682-EDU
Interim Financial Report
January 1, 2018 through June 30, 2019

Budget Category	Budget	Actual	Variance
Personnel			
<i>Project Manager</i>	\$34,922	\$23,982	(\$10,940)
<i>Production Assistant</i>	25,378	15,900	(9,478)
<i>Additional Compensation</i>	8,000	6,100	(1,900)
Personnel Subtotal	68,300	45,982	(22,318)
Fringe			
<i>Personnel Benefits</i>	13,588	9,111	(4,477)
Fringe Subtotal	13,588	9,111	(4,477)
Other Expenses			
<i>Travel</i>	8,512	5,728	(2,784)
<i>Production</i>	44,100	43,748	(352)
<i>Community Engagement Activities</i>	27,000	10,391	(16,609)
<i>Marketing / Promotion</i>	18,500	13,710	(4,790)
<i>Research</i>	20,000	14,625	(5,375)
Other Subtotal	118,112	88,202	(29,910)
Total	\$200,000	\$143,295	(\$56,705)

**Education Innovation CPB Grant No. 34777-EDU
Final Financial Report March 1, 2019**

Budget Category	Revised Budget Amount	Actual 8/1/2018 through 3/1/2019	Variance
Contractual			
Development Consultant	\$2,000	\$2,000	
Pre-Post Tool Prototyping Consultant	\$8,000	\$8,000	
Total	\$10,000	\$10,000	

Scope and Methodology

We performed an attestation examination to determine KUEN's compliance with CPB Guidelines, provisions of the Act, grant certification requirements, and other grant provisions. The scope of the examination included reviews and tests of the information reported by the station on its AFRs and reconciled to audited financial statements for the years ending June 30, 2018 and 2019; grant certifications of compliance with Act requirements; and certifications on its financial reports submitted to CPB.

We tested the allowability of NFFS claimed on KUEN's AFRs by performing financial reconciliations and comparisons to underlying accounting records (general ledger) and the audited financial statements. We reviewed state appropriations and other grant contributions and related supporting documentation, in-kind donations, and indirect administrative support. Specifically, we tested 100 percent of revenue transactions on AFR Schedule A for state appropriations (\$51,373,892) as this source represented over 99 percent of amounts claimed. We tested additional other grant contributions (\$157,899). In addition, we tested the indirect administrative support claimed on AFR Schedule B (\$6,117,350) and in-kind revenues claimed on AFR C Schedule C for Instructional Television Contributions (\$5,341,469).

We reviewed the allowability of expenses charged to CSGs and other grants. To determine that expenditures were incurred in accordance with the grant terms, we reviewed \$1,856,630 of \$7,365,615 (26 percent) expenses reported on the CSG grants. We also tested other non-CSG grant expenditures for compliance with grant terms.

We reviewed corporate policies, records, and documents supporting the station's compliance with the Act requirements to provide advance notice of public meetings; make financial and equal employment opportunity information available to the public; and provide documents supporting compliance with donor lists and political activities prohibitions. We also reviewed the station's website and policies to determine its compliance with CPB's transparency requirements for eligibility. Furthermore, we reviewed the independent public accountant's (IPA) audit planning, internal controls, and attestation working papers. Our procedures included interviewing station officials and its IPA.

We gained an understanding of internal controls over the preparation of AFRs, cash receipts, and cash disbursements. We also gained an understanding of KUEN's policies and procedures for compliance with certification of eligibility requirements, Act, and CPB grant agreement terms for allowable costs. We used this information to assess risks and plan the nature and extent of our testing to conclude on our objectives.

Our fieldwork was conducted from April through July 2020 and our examination was performed in accordance with the *Government Auditing Standards* for attestation engagements.



Utah Education and Telehealth Network

September 11, 2020

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

RE: Audit of Community Service and Other Grants Awarded to the Utah State Board of Regents, KUEN-TV, Salt Lake City, Utah for the Period July 1, 2017 Through June 30, 2019, Report No. AST2005-XXXX

Dear Mr. Richardson:

Thank you for the opportunity to respond to the Office of Inspector General (“OIG”) Draft Audit Report in the matter indicated above for KUEN (locally branded UETN, used interchangeably). We appreciate the diligent work and professionalism of your office throughout this process and value the collegial nature of our interactions with your staff as they conducted the audit, particularly during this period of remote work due to COVID-19 restrictions.

The KUEN management team viewed the audit as a learning experience and we believe KUEN has emerged stronger from the process. We are also proud that the auditor found KUEN to be in compliance with the legal requirements for grants from the Corporation for Public Broadcasting (CPB) and, with the exception of the matters pointed out in the Draft Audit Report, KUEN complied with CPB’s financial reporting requirements for both its Community Service Grants (CSGs) and other project based grants.

While we agree with some of the recommendations concerning the reporting of non-Federal Financial Support (NFFS) and documentation of costs applied to CPB grants, we would like to take this opportunity to primarily address the Draft Audit Report’s findings and concerning KUEN’s receipt of indirect administrative support (IAS) from the University of Utah, and KUEN’s reporting of in-kind support for instructional television services (ITV services) as NFFS.

For your convenience, we have organized our response according to the Draft Report’s four (4) recommendations.

OIG Recommendations 1 and 2: The Draft Audit Report recommends CPB management require KUEN to repay potential CSG overpayments; and identify the corrective actions and controls KUEN will implement to ensure future compliance with NFFS reporting requirements.

The Draft Report arrives at Recommendations 1 and 2 based on findings about three (3) different categories of ways in which the Draft Audit Report concluded KUEN overstated NFFS because: KUEN claimed funds as NFFS that did not meet CPB’s criteria for reporting NFFS with regard to IAS from the University of Utah; in-kind support for ITV services; and certain ineligible contribution sources and reporting errors. We will address each of these categories in turn.

IAS:

The Draft Audit Report first concludes KUEN overstated its NFFS because it improperly claimed IAS provided to KUEN by the University of Utah. The Draft Audit Report cites three (3) reasons why IAS was improper: the IAS was provided by the University of Utah instead of KUEN's licensee, the Utah State Board of Regents; the existence of a Memorandum of Understanding (MOU) between the Utah Education and Telehealth Network (UETN)¹ and the University of Utah; and KUEN's costs were not included in the Federal Indirect Cost Rate (FICR) for the University of Utah.

KUEN disagrees with the Draft Audit Report's findings and believes it properly claimed the IAS from the University of Utah as the result of its unique structure under Utah state law. As the Draft Audit Report correctly noted, Utah law mandates the University of Utah shall provide administrative support to UETN.² In discussing IAS, CPB's Financial Reporting Guidelines allow IAS to be claimed as NFFS because CPB recognizes the value of IAS for a station that exists as part of a larger institution. CPB's Financial Reporting Guidelines specifically acknowledge the value of facilities, administrative costs, and occupancy support for public broadcasting stations provided by such larger institutions. While KUEN is licensed to the Utah State Board of Regents, state law mandates the University of Utah house and provide such valuable services to the station as if the University was, in fact, the licensee for KUEN. Certainly KUEN would unquestionably be allowed to claim IAS from the University of Utah if the University held the license for the station. Due to state law, though, while not having its name on KUEN's license, the University must function as de facto licensee of the station by providing all administrative support to the station. KUEN believes such mandatory administrative contributions by the University of Utah should not be disqualified simply due to a quirk of state law, over which neither KUEN nor the University of Utah has any control. As such, in practice and pursuant to state law, the University of Utah provides administrative support for KUEN. Accounting records provided during the audit and discussed below provide further evidence of this IAS support.

In addition, the Draft Audit Report cites the MOU between UETN and the University of Utah as a reason why KUEN should not be allowed to count the IAS from the University of Utah as NFFS. Specifically, the Draft Audit Report notes the MOU states: "[t]he University's administrative support for UETN, including staffing, resources and services provided for the Consortium by the University pursuant to this MOU, shall be funded entirely by legislative appropriations for UETN."

KUEN's financial records, which were provided to the auditor, demonstrate the legislative appropriation for UETN was not, in fact, paid to the University of Utah for the costs claimed as IAS by KUEN (other than two payment areas discussed below: legal and building costs). The University of Utah supports KUEN/UETN out of funds appropriated by the State of Utah to the University, not the funds appropriated to UETN. In turn, the University of Utah supports KUEN with administrative services because KUEN functions as part of the University of Utah. The MOU with the University is a broad description of the working arrangement between UETN and the University, and was never intended to restrict the support offered by the University to that which is appropriated by the State. As KUEN has explained and the Draft Audit Report noted, "... the University provides additional indirect services to KUEN that were not included in the legislative funding."

KUEN does not pay the university for expenses such as rent, repairs, maintenance, snow removal, lawn care, security, payroll, contracting, purchasing, university financial services, audit, commuter services,

¹ UETN operates KUEN and is governed by the Utah State Board of Regents.

² As also noted in the Draft Audit Report, Section 53B-17-101 et seq., of the Utah Code mandates the University of Utah provide administrative support for UETN.

etc. KUEN employees are University of Utah employees, with benefits equal to that of other University employees without additional fees paid by KUEN. These services are provided by the University of Utah to KUEN at no additional cost to KUEN.

For legal fees, KUEN paid additional support in the amount of \$19,129.50 in Fiscal Year 2018 and \$16,501 in Fiscal Year 2019. This was not inclusive of all legal fees provided to KUEN by the University. KUEN was required to provide additional support for legal services because the hours KUEN used exceeded KUEN's allotment provided by the University at no cost (see Attachment 1).

In June 2000 the footprint for the building that houses KUEN on the University of Utah campus, the Eccles Broadcast Center ("EBC"), was expanded. The EBC's original square footage was 59,191 square feet, which was increased to 91,432 square feet (or an increase of 32,241 square feet). Those administrative units housed in the EBC were required by the University to pay the University for the increase in utilities and other expenses that resulted from the increase in the EBC's square footage. The payment amount calculated for both Fiscal Year 2018 and Fiscal Year 2019 was \$14,695.66 per month (see Attachment 2). Again, this represented additional fees beyond the University's existing support provided at no cost to KUEN.

The Draft Report misinterprets the MOU as disqualifying the IAS as potential NFFS by its mere existence and ignores the reality that, as recognized by University of Utah officials, the UETN state appropriation does not reimburse the University of Utah for its administrative support (see the email from Stephen Hess, Chief Information Officer, University of Utah, to Lisa Kuhn, Chief Financial Officer, UETN, attached hereto as Attachment 3). If the UETN appropriation didn't pay for the IAS provided by the University of Utah (as evidenced by KUEN's records), such support should qualify as NFFS because it was support given by the University of Utah without compensation.

Going forward, though, KUEN (and UETN more broadly) will be revising its MOU to clarify the language to track the actual practices of KUEN and the University.

Finally, the IAS claimed was specific to KUEN costs, which are different than other stations and based on KUEN's different role in serving the entire state of Utah. The report incorrectly states that the telecommunication providers for internet connectivity represents over 60% of KUEN's total cost. Fiscal Year 2018, internet connectivity was 9% of total expenses, and for Fiscal Year 2019, internet connectivity was 17% of KUEN's total cost. KUEN reports internet fees "net" of federal telecommunications reimbursements (see Attachment 4). The system for reporting NFFS is not comparative to other stations or parts of the University of Utah. As such, KUEN should be allowed to claim the support it actually receives from an institution so that such support is appropriately attributed to KUEN.

In-kind Support for ITV Services:

The OIG Report further concluded KUEN overstated NFFS by including in-kind ITV service contributions in its NFFS primarily because KUEN included contributions from Utah State University and the University of Utah, which the Draft Audit Report concludes are ineligible sources as NFFS. KUEN disagrees with this conclusion with regard to Utah State University and the University of Utah.

As the Draft Audit Report notes, Utah State University and the University of Utah are both public broadcasting entities because they are the licensees of public broadcasting stations.³ Utah State

³ The public broadcasting provisions of the Communications Act of 1934, as amended, define public broadcasting entity as: "...the Corporation, any licensee or permittee of a public broadcast station, or any nonprofit institution engaged primarily in the production, acquisition, distribution, or dissemination of educational and cultural television or radio programs." 47 U.S.C. §397(11).

University is the licensee of KUSU-FM and the University of Utah is the licensee of KUED-TV and KUER-FM. The Draft Audit Report then concludes KUEN misstated its in-kind support from Utah State University and the University of Utah as NFFS for ITV services because CPB's Financial Reporting Guidelines do not allow contributions from public broadcasting entities to be counted as NFFS. However, as KUEN has explained, the CPB Financial Reporting Guidelines allow payments from educational institutions to be claimed as NFFS.

As institutions of higher education, the mission of both Utah State University and the University of Utah is to provide an education to students throughout Utah and the nation as a whole. Similarly, KUEN's mission, in part, is to support courses, meetings, and other educational events with interactive video conferencing.⁴ KUEN's service allows students, educators and administrators to collaborate from almost any location and furthers the mission of both the Universities and KUEN. Utah State University and the University of Utah each compensate KUEN for providing support for ITV services. Such compensation qualifies as payments which may be properly counted as NFFS.

CPB's Financial Reporting Guidelines explain that a public broadcast station claiming NFFS must meet three (3) criteria (form, source, and purpose) for support to be claimed as NFFS. In terms of the form criterion, NFFS can come as either a contribution or payment. In terms of source, CPB's Financial Guidelines explain:

The universe of eligible sources for contributions is relatively large: any source except the federal government or another public broadcasting entity), while the universe of eligible sources for payments in exchange transactions is relatively small: only eligible sources are state and local governments and educational institutions.⁵

CPB's Financial Guidelines make clear that payments from educational institutions are allowable as NFFS. In fact, the distinction in which forms of support qualify as NFFS is rooted in the public broadcasting provisions of the Communications Act of 1934, as amended, that state:

The term "non-Federal financial support" means the total value of cash and the fair market value of property and services (including, to the extent provided in the second sentence of this paragraph, the personal services of volunteers) received—

(A) as gifts, grants, bequests, donations, or other contributions for the construction or operation of noncommercial educational broadcast stations, or for the production, acquisition, distribution, or dissemination of educational television or radio programs, and related activities, from any source other than (i) the United States or any agency or instrumentality of the United States; or (ii) any public broadcasting entity; or

(B) as gifts, grants, donations, contributions, or payments from any State, or any educational institution, for the construction or operation of noncommercial educational broadcast stations or for the production, acquisition, distribution, or dissemination of educational television or radio programs, or payments in exchange for services or materials with respect to the provision of educational or instructional television or radio programs.⁶ [Emphasis added.]

The Draft Audit Report states that CPB does not allow payments from public broadcasting entities to count as NFFS, but there is no support in the law or CPB's Financial Reporting Guidelines for this

⁴ Sections 53B-17-104(g) and (h) of the Utah Code.

⁵ CPB's Fiscal Year 2018 Financial Reporting Guidelines at page 5.

⁶ 47 U.S.C. §397(9)

position. As quoted above, CPB's Financial Reporting Guidelines and the statutory language upon which CPB's Financial Reporting Guidelines are based specifically exempt out from NFFS contributions from public broadcasting entities but do not make such an exception for payments from educational institutions. CPB's Financial Reporting Guidelines and the statute did not make an exception to the rule allowing payment to count as NFFS when such payments come from educational institutions that are also public broadcasting entities. If CPB and Congress had intended to make such an exception, both understood how to, and could have done so, because the statute and CPB's Financial Reporting Guidelines do exempt contributions from public broadcasting entities. As such, it appears the Draft Audit Report is creating an exemption for payments coming from educational institutions that are also public broadcasting entities without a basis found in the law or CPB's Financial Reporting Guidelines.

Further, under CPB's Financial Reporting Guidelines, if support qualifies as NFFS, it may be counted as NFFS. CPB's Financial Reporting Guidelines set rules for what may and may not be claimed as NFFS. Under CPB's Financial Reporting Guidelines, support either qualifies as NFFS or it doesn't. Nothing in CPB's Financial Reporting Guidelines imposes an intent element from a supporter when discussing whether a payment qualifies as NFFS.

For NFFS coming in the form of a contribution, Section 2.6.4 of CPB's Fiscal Year 2018 Financial Reporting Guidelines (for example) states that to claim a contribution as NFFS, documentation is required to show the donor's intent in making an in-kind contribution to a public broadcasting station.⁷ However, there is no "intent" element for payments discussed in CPB's Financial Reporting Guidelines. The fact the institution had a charitable intent in making the payment is not a factor to determine whether it qualifies as NFFS or not under CPB's guidelines. If the payment meets the criteria for form, source, and purpose, it counts as NFFS. Intent is neither relevant to nor included in such a determination.

As such, the Draft Audit Report's language explaining KUEN may not claim NFFS from payments from educational institutions because documentation from such educational institutions showed charitable intent also appears to be creating a new exception for NFFS without basis in CPB's Financial Reporting Guidelines. Under CPB's Financial Reporting Guidelines, if a payment meets the criteria provided in CPB's Financial Reporting Guidelines (which does not include an intent element) to be claimed as NFFS, it should be counted as NFFS.

In this case, as page 10 of the Draft Audit Report recognizes:

KUEN operates the distribution network to provide educational services throughout the state of Utah. Educational institutions such as Utah State University provide support to KUEN in the form of program development and production, coordinators, instructional design and marketing, and other expenses. KUEN provides the distribution of these educational programs throughout Utah.

As noted above, the form criteria in CPB's Financial Reporting Guidelines allows payments to count as NFFS when they come from educational institutions. Utah State University and the University of Utah compensate KUEN for ITV service distribution. As such, this compensation qualifies as a payment. Both universities are educational institutions and therefore meet the source criteria for their payments to count as NFFS. The Draft Audit Report does not contend such payments would not meet CPB's Financial Reporting Guidelines purpose criteria to qualify as NFFS. Therefore, this support meets the statutory criteria as interpreted by CPB's Financial Reporting Guidelines to qualify as NFFS and should be counted as such.

⁷ CPB's Fiscal Year 2018 Financial Reporting Guidelines at page 13.

Finally, KUEN's in-kind support has been previously audited by the OIG and reviewed by CPB management. Both audits determined KUEN's reporting to be within the CPB guidelines.

On March 11, 2004, KUEN received a letter notifying KUEN the OIG will be conducting a financial related audit of the CPB Annual Financial Reports ("AFRs") that are filed with CPB and the compliance requirements of the Communication Act of 1934 (see Attachment 5). The audit started 6-8 weeks after notification. On September 30, 2004 KUEN received the final report from the Office of Inspector General (see Attachment 6). The audit results stated the CPB OIG has reviewed the in-kind ITV service contributions that KUEN claimed as NFFS on its Fiscal Year 2003 AFR Schedule C submitted to CPB. The report concluded "[w]e determined that KUEN managers and staff properly applied the CPB guidelines when reporting their in-kind ITV contributions as NFFS".⁸

As the Draft Audit Report noted, KUEN's methodology for reporting in-kind contributions supporting ITV services has been reviewed and approved by CPB management in the past as demonstrated by the attached email from Sean Simplicio dated December 27, 2007 (see Attachment 7). ITV service support has been an area CPB has continuously requested additional information as part of annual AFR reviews. KUEN has always responded and provided the additional information requested. Attached is a sample of the AFR review for KUEN -TV Fiscal Year 2017 (see Attachment 8).

KUEN has consistently followed this methodology after receiving such approval from CPB; an approach further verified by KUEN's outside auditors. KUEN should not now be penalized for utilizing a methodology approved by CPB.

Ineligible Contribution Sources and Reporting Errors:

The Draft Audit Report concluded KUEN overstated its NFFS because it claimed as NFFS support that originated with the Federal government and an ineligible instructional media consortium in error. KUEN agrees with this conclusion.

Going forward, KUEN has proactively implemented a number of processes to ensure the ongoing accuracy of its financial reporting to CPB. KUEN will continue to review the guidelines and will provide a more robust review of the process.

OIG Recommendations 3 and 4: The Draft Audit Report recommends CPB management require KUEN to repay the questioned CSG costs related to its Executive Director and identify the corrective actions and controls KUEN will implement to ensure future compliance with CSG grant requirements.

The Draft Audit Report questioned KUEN charging its Executive Director's full salary to the KUEN CSG. The Draft Audit Report concluded that because the Executive Director had responsibility over KUEN as well as the Utah Telehealth Network, it was not reasonable to charge the entirety of the salary to the CSG.

KUEN agrees that it should not have charged the entire salary to the CSG because the Executive Director does spend some time performing duties related to the Utah Telehealth Network, and CPB requires salary costs charged to the CSG be for portions of salary paid for performing duties related to public television station operations. Going forward, to ensure the proper amount in salary costs are charged to the CSG, when applicable, KUEN staff will review all time charged to the CSG to ensure staff activities paid with CSG funds are allowable CSG expenses.

⁸ See Attachment 6, Review of In-Kind Contributions of Instructional Television Services Claimed as Non-Federal Financial Support by KUEN, licensed by the Utah State Board of Regents, Report No. EST 409-410 at page 7.

Thank you once again for the opportunity to comment on the Draft Audit Report. Please feel free to contact KUEN staff if you have any questions or would like further information.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ray Timothy', with a stylized flourish extending from the end.

Ray Timothy
Executive Director
KUEN/Utah Education and Telehealth Network

Legal Fee Issue:

The Office of General Counsel at the University of Utah is partially supported by UIT/KUEN(UETN). Funds are sent directly from UIT and KUEN (UETN) to the Office of General Counsel on an annual basis.

On March 21, 2017, the Office of General Counsel requested payment of \$39,259 for FY'18 from UIT and KUEN (UETN) (see legal letter attached and snippet below):

The full cost for one attorney FTE in the Office of General Counsel is \$295,705. The cost for .26 FTE is \$76,883. Against that cost of providing legal services we give you a credit of \$38,624 leaving a net of \$38,259 which is the amount of support we are asking you to provide to the Office of General Counsel for FY18. The enclosed attachment describes the work we have performed for UIT/UETN over the past year.

The full \$38,259 was transferred to the Office of General Counsel on 7/1/2017 (see journal entry EJ00226342 attached and snippet below):

Debit Total: \$38,259.00 Credit Total: \$38,259.00

Ln	BU	Org	Fund	Activity	Project	Account	A/U	Product	Group	Place	Debit Amount	Credit Amount	Line Description	Reference	Related JE	Status
1	01	00132	2000	01563		64300	1				19,129.50	0.00	FY18 General Counsel Support	EJ00226342		P
2	01	00336	6000	25562		66308	1				19,129.50	0.00	FY18 General Counsel Support	EJ00226342		P
3	01	00638	2000	10950		49420					0.00	38,259.00	FY18 support from UETN and UIT			P

The expense was split evenly between UIT and KUEN (UETN). As such, UETN's portion for support of the Office of General Counsel is \$19,129.50 (or half of the \$38,259).

On March 5, 2018, the Office of General Counsel requested payment of \$33,002 for FY'19 from UIT and KUEN(UETN) (see legal letter attached and snippet below):

The full cost for one attorney FTE in the Office of General Counsel is \$308,357. The cost for .24 FTE is \$74,006. Against that cost of providing legal services we give you a credit of \$41,004 leaving a net of \$33,002 which is the amount of support we are asking you to provide to the Office of General Counsel for FY19. For reference, last year you paid \$38,259. The enclosed attachment describes the work we have performed for UIT/UETN over the past year.

The full \$33,002 was transferred to the Office of General Counsel on 8/1/2018 (see journal entry EJ00290509 attached and snippet below):

Debit Total: \$33,002.00 Credit Total: \$33,002.00

Ln	BU	Org	Fund	Activity	Project	Account	A/U	Product	Group	Place	Debit Amount	Credit Amount	Line Description	Reference	Related JE Status
1	01	00332	2000	01563		66320	1				16,501.00	0.00	FY19 General Counsel Support	EJ002905 0	P
2	01	00336	6000	29284		66308	1				16,501.00	0.00	FY19 General Counsel Support	EJ002905 0	P
3	01	00655	2000	10950		40420					0.00	33,002.00	FY19 support from UETN and UIT		P

The expense was split evenly between UIT and UETN. As such, UETN's portion for support of the Office of General Counsel is \$16,501 (or half of the \$33,002).

e-Journal Entry EJ00290509

Journal ID: EJ00290509	Acq Date: 01-Aug-18	State: Complete
Created On: 21-Aug-18	Owner OrgID: 00336 KUEN/UTAH EDUCATION NETWORK	Requested By: Lisa Kahn
GL Status: P	Source: EJD-eJournal - Campus Departments	Prepared By: 00514981-JANVERSAN, WENDY
GL Posted Date: 21-Aug-18	Sub Source: 000-NO SUB SOURCE DEFINED	Preparer Phone: 801/587-7636
Revised: N	From Excel: N	Preparer Email: wjanversan@medix.utah.edu

Backup Documentation

Explanation:

FY19 Office of General Counsel support for UETN and UIT.

Journal Lines

Debit Total: \$33,002.00 Credit Total: \$33,002.00

Ln	BU	Org	Fund	Activity	Project	Account	AMU	Product	Group	Place	Debit Amount	Credit Amount	Line Description	Reference	Related JStatus
1	01	00332	2000	01563		66320	1				16,501.00	0.00	FY19 General Counsel Support	EJ002905	P
2	01	00336	6000	29284		66308	1				16,501.00	0.00	FY19 General Counsel Support	EJ002905	P
3	01	00658	2000	10950		40420					0.00	33,002.00	FY19 support from UETN and UIT		P



March 5, 2018

Stephen H. Hess
Chief Information Officer
University of Utah

Re: Support for the Office of General Counsel

Dear Steve:

This letter is a follow up to our discussion this week about UIT/UTN financial support for the Office of General Counsel. The Office of General Counsel is supported primarily by the clients we serve. We receive 25% of our budget from state funds, and provide a credit to each of the units we serve based on the unit's proportionate share of the University's total state funding. Based on recent utilization, we anticipate that we devote .24 FTE of attorney time to UIT/UTN.

The full cost for one attorney FTE in the Office of General Counsel is \$308,357. The cost for .24 FTE is \$74,006. Against that cost of providing legal services we give you a credit of \$41,004 leaving a net of **\$33,002 which is the amount of support we are asking you to provide to the Office of General Counsel for FY19.** For reference, last year you paid \$38,259. The enclosed attachment describes the work we have performed for UIT/UTN over the past year.

The Office of General Counsel has been very fortunate in attracting and retaining lawyers with outstanding academic credentials and professional experience. We have developed significant expertise on transactional, regulatory, and administrative issues and are able to perform most work in-house at significant savings. We work hard to maintain an office that is responsive and service oriented. We appreciate the close working relationship we have developed over the years with your team, and truly enjoy working through the challenging legal issues that arise in your area.

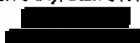
We will call to schedule a time to discuss this with you.

Sincerely,

Elizabeth D. Winter
Vice President and General Counsel

Phyllis J. Vetter
Deputy General Counsel

Office of General Counsel
201 S Presidents Cir Rm 309
Salt Lake City, Utah 84112-9018


www.legal.utah.edu

e-Journal Entry EJ00226342

Journal ID:	EJ00226342	Acct Date:	01-Jul-17	State:	Complete
Created On:	13-Jun-17	Owner OrgID	00332 UTI UNIV INFORMATION TECH	Requested By:	Lisa Kuhn
GL Status:	P	Source:	EJ00226342 - Campus Departments	Prepared By:	00514981-JANYERSAN,WENDY
GL Posted Date:	13-Jun-17	Sub Source:	000-NO SUB SOURCE DEFINED	Preparer Phone:	801/587-7636
Recycled:	N	From Facet:	N	Preparer Email:	wjanyersan@medla.utah.edu

Backup Documentation

Explanation:

FY18 Office of General Counsel support for UETN and UTI.

Journal Lines

Debit Total: \$38,259.00 Credit Total: \$38,259.00

Ln	BU	Org	Fund	Activity	Project	Account	Alt Product	Group	Place	Debit Amount	Credit Amount	Line Description	Reference	Related JE Status
1	01	00332	2000	01563		64300	1			19,129.50	0.00	FY18 General Counsel Support	EJ00226342	P
2	01	00336	6000	25562		66308	1			19,129.50	0.00	FY18 General Counsel Support	EJ00226342	P
3	01	00658	2000	10950		40420				0.00	38,259.00	FY18 support from UETN and UTI		P



March 21, 2017

Stephen H. Hess
Chief Information Officer
University of Utah

Re: Support for the Office of General Counsel

Dear Steve:

This letter is a follow up to our discussion this week about UIT/UTN financial support for the Office of General Counsel. The Office of General Counsel is supported primarily by the clients we serve. We receive less than 25% of our budget from state funds, and provide a credit to each of the units we serve based on the unit's proportionate share of the University's total state funding. Based on recent utilization, we anticipate that we devote .26 FTE of attorney time to UIT/UTN.

The full cost for one attorney FTE in the Office of General Counsel is \$295,705. The cost for .26 FTE is \$76,883. Against that cost of providing legal services we give you a credit of \$38,624 leaving a net of \$38,259 which is the amount of support we are asking you to provide to the Office of General Counsel for FY18. The enclosed attachment describes the work we have performed for UIT/UTN over the past year.

The Office of General Counsel has been very fortunate in attracting and retaining lawyers with outstanding academic credentials and professional experience. We have developed significant expertise on transactional, regulatory, and administrative issues and are able to perform most work in-house at significant savings. We work hard to maintain an office that is responsive and service oriented. We appreciate the close working relationship we have developed over the years with your team, and truly enjoy working through the challenging legal issues that arise in your area.

We will call to schedule a time to discuss this with you.

Sincerely,

Elizabeth B. Winter
Vice President and General Counsel

Phyllis J. Vetter
Deputy General Counsel

01 00658 2000 10 150 40420
per Brian Christensen

Office of General Counsel
201 S Presidents Cir Rm 309
Salt Lake City, Utah 84112-9018


www.legal.utah.edu

Building Support :

University of Utah Facilities receives a \$14,695.66 per month from KUEN (UETN). These funds are paid for the increase in utilities as a result the expansion of the EBC of 32,241 sq ft. Funds are sent directly from KUEN to the University of Utah Facilities on a monthly basis for the increase in building expenses (monthly recurring charge, or MRC). The expenses are due to the increase in labor and utilities related to building expansion. The MRC is set up and charged by University of Utah Facilities.

Labor	8,931.35
Gas	1,740.80
Power	3,632.92
Water	340.59
	14,645.66

For FY'18 & 19, the MRC was determined to be \$14,695.66 per month, or a total of \$176,347.92 for the entire fiscal year FY 18 (see snippet of UETN Operations and Maintenance Budget below):

BUDGET LINE ITEM	APPROVED BUDGET FY18	TOTAL EXPENDED	BALANCE
Building Maintenance	106,023	147,166	(41,143)
EBC Computer Support	163,529	185,520	(21,991)
U of U Building O & M Expense	137,637	176,348	(38,711)
EXPENSE TOTALS	407,189	509,034	(101,845)

As seen above, the total charges related to management and general operations of the EBC. These expenses were recorded throughout FY'18 in numerous journal entries, which were subject to FY'18 audit test work, by WSRP, LLC (FY'19 is exactly the same).

On the audited Combining Schedule of Programs - Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2018 the \$176,347.92 and total \$509,033.93 expenses to operations and maintenance are included as part of the \$1,775,122.02 amount under the "Management and general" expense category (see financial statements attached and snippet below):

KUEN**(A Public Telecommunications Department of the University of Utah)****COMBINING SCHEDULE OF PROGRAMS – STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**

Year ended June 30, 2018

	KUEN-TV	TeleHealth	Total
OPERATING REVENUES			
Commercial	\$ 7,965		\$ 7,965
Total operating revenues	7,965		7,965
OPERATING EXPENSES			
Broadcasting	3,681,613		3,681,613
Education service and training	1,195,533	\$ 176,702	1,372,235
Installation and transport	24,654,654	1,887,059	26,541,713
Programming and production	7,689,592		7,689,592
Program information	368,754		368,754
Management and general	1,775,122	345,927	2,121,049

These financial statements and the relevant management and general expense category and their accounting treatment have been previously audited.

Below is the JE's for FY 19 showing the same dollar amount.

Journal ID	Journal Date	Journ	Description	Busi	Orgld	Fund	Activity	Account	A/U	Amount
EJ00290600	8/31/2018	EJD	0179 O&M	01	00336	6000	29284	62410	1	14,695.66
EJ00296247	9/30/2018	EJD	0179 O&M	01	00336	6000	29284	62410	1	14,695.66
EJ00301568	10/31/2018	EJD	0179 O&M	01	00336	6000	29284	62410	1	14,695.66
EJ00306629	11/30/2018	EJD	0179 O&M	01	00336	6000	29284	62410	1	14,695.66
EJ00310739	12/31/2018	EJD	0179 O&M	01	00336	6000	29284	62410	1	14,695.66
EJ00316083	1/31/2019	EJD	0179 O&M	01	00336	6000	29284	62410	1	14,695.66
EJ00321235	2/28/2019	EJD	0179 O&M	01	00336	6000	29284	62410	1	14,695.66
EJ00326776	3/31/2019	EJD	0179 O&M	01	00336	6000	29284	62410	1	14,695.66
EJ00332181	4/30/2019	EJD	0179 O&M	01	00336	6000	29284	62410	1	14,695.66
EJ00337259	5/31/2019	EJD	0179 O&M	01	00336	6000	29284	62410	1	14,695.66
EJ00341408	6/30/2019	EJD	0179 O&M	01	00336	6000	29284	62410	1	14,695.66
EJ00349989	7/31/2019	EJD	0179 O&M	01	00336	6000	29284	62410	1	14,695.66
							TOTAL FY2019			176,347.92

Attachment 3

From: Stephen Hess (CIO)

Sent: Sunday, September 6, 2020 3:57 PM

To: Lisa Kuhn (CFO-UIT/UETN) <[REDACTED]>; Ray Timothy <[REDACTED]>; Laura Hunter <[REDACTED]>

Subject: Re: CPB OIG Audit of KUEN

Lisa,

The initial intent of the updated MOU, as you point out was to include UTN with UETN/KUEN. I was not here when the initial MOU took from the University of Utah direct control of the hiring of the Executive Director of UEN and later UETN and gave it to the UETN Board. But when this occurred I believe the University wanted to assure Board of Trustees of the University of Utah that administrative support for UETN was not from tuition, student fees, athletic fees, etc., but from state appropriation. However as you know the University does not get a specified state appropriation for UETN. This is the important point and the truth. The University of Utah supports UETN out of its own state appropriated funds with in-kind services because they are a part of the University of Utah. The University of Utah created and chooses to support UETN with in-kind support from purchasing, legal, utilities and all the other funds defined as non-federal financial support. All of this in kind "administrative support" comes from university departments funded by state support for the general University operations.

The other intent of the language is that the University would give more administrative support from its general state funds as the network expanded. They, however, would expect that UETN continue to get state appropriation and federal e-rate for expansions of its network operations to other higher, technical and public entities.

I really think it would be very unfair and not the truthful intent to think that the University gets specific state appropriation to fund "administrative support services for UETN". I'm sure the general state appropriations bills to the University never specify any funding for UETN. UETN gets no special treatment for "administrative support" but like the University colleges and departments they get basic support from, facilities, HR, accounting, accounts payable, legal, etc.

I hope that is helpful.

Steve

--

Stephen H. Hess

Chief Information Officer, University of Utah

Chief Information Officer, Utah System of Higher Education

UETN Board Member

KUEN**(A Public Telecommunications Department of the University of Utah)****NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

(5) Commitments

The Station contracts for certain long-term Internet-based services. Internet fees for such services totaled \$19,579,202 for fiscal year 2018 and are shown net of \$15,723,458 in federal telecommunications reimbursements as installation and transport in the Statement of Revenue, Expenses, and Changes in Net Position. At June 30, 2018, future commitments under these service contracts consist of the following:

2019	\$ 25,942,925
2020	16,897,009
2021	13,804,397
2022	10,015,104
2023	<u>2,657,291</u>
Total	<u>\$ 69,316,726</u>

All telecommunication contracts have a nonappropriation clause. The nonappropriation clauses express that if the Station is not appropriated funds or appropriated insufficient funds to pay the charges for the telecommunication services, the Station may terminate the agreement.

The Station entered into a lease agreement during fiscal year 2013 for land in Washington County, Utah, on which a second station is located. Rent for the year ended June 30, 2018 totaled \$5,018. The rental payments under the lease will be approximately \$5,191 in fiscal year 2018 through 2022, and the lease will expire in July 2022.

(6) Pension Plans and Retirement Benefits

As required by State law, eligible nonexempt employees (as defined by the U.S. Fair Labor Standards Act) of the Station are covered by defined benefit plans sponsored by the Utah Retirement Systems (Systems) and eligible exempt employees (as defined by the U.S. Fair Labor Standards Act) are covered by defined contribution plans, such as the Teachers Insurance and Annuity Association (TIAA) or Fidelity Investments (Fidelity).

Defined Benefit Plans

Eligible plan participants are provided with pensions through the Utah Retirement Systems. Utah Retirement Systems are comprised of the following Pension Trust Funds:

- Public Employees Noncontributory Retirement System (Noncontributory System) and the Public Employees Contributory Retirement System (Contributory System) which are cost-sharing, multiple-employer public employee retirement systems.
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees System) which is a cost-sharing multiple-employer public employee retirement system.

The Tier 2 Public Employee System became effective July 1, 2011. All eligible employees who have no previous service credit with any of the Utah Retirement Systems prior to that date, are members of the Tier 2 Retirement Systems.

KUEN

(A Public Telecommunications Department of the University of Utah)

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

(5) Commitments

The Station contracts for certain long-term Internet-based services. Internet fees for such services totaled \$21,046,226 for fiscal year 2019 and are shown net of \$13,264,416 in federal telecommunications reimbursements as installation and transport in the Statement of Revenue, Expenses, and Changes in Net Position. At June 30, 2019, future commitments under these service contracts consist of the following:

2020	\$ 31,506,475
2021	16,557,181
2022	13,282,612
2023	5,613,699
2024	2,621,860
2025 to 2029	129,000
Total	<u>\$ 69,710,827</u>

All telecommunication contracts have a nonappropriation clause. The nonappropriation clauses express that if the Station has not appropriated funds or appropriated insufficient funds to pay the charges for the telecommunication services, the Station may terminate the agreement.

The Station entered into a lease agreement during fiscal year 2013 for land in Washington County, Utah, on which a second station is located. Rent for the year ended June 30, 2019 totaled \$4,971. The rental payments under the lease will be approximately \$5,508 in fiscal year 2019 through 2022, and the lease will expire in July 2022.

(6) Pension Plans and Retirement Benefits

As required by State law, eligible nonexempt employees (as defined by the U.S. Fair Labor Standards Act) of the Station are covered by defined benefit plans sponsored by the Utah Retirement Systems (Systems) and eligible exempt employees (as defined by the U.S. Fair Labor Standards Act) are covered by defined contribution plans, such as the Teachers Insurance and Annuity Association (TIAA) or Fidelity Investments (Fidelity).

Defined Benefit Plans

Eligible plan participants are provided with pensions through the Utah Retirement Systems. Utah Retirement Systems are comprised of the following Pension Trust Funds:

- Public Employees Noncontributory Retirement System (Noncontributory System) and the Public Employees Contributory Retirement System (Contributory System) both of which are cost-sharing, multiple-employer public employee retirement systems.
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees System) which is a cost-sharing multiple-employer public employee retirement system.

The Tier 2 Public Employee System became effective July 1, 2011. All eligible employees who have no previous service credit with any of the Utah Retirement Systems prior to that date, are members of the Tier 2 Retirement Systems.

KUEN**(A Public Telecommunications Department of the University of Utah)****STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

Year ended June 30, 2019

		[For Comparison Only]
	2019	2018
OPERATING REVENUES		
Commercial	\$ 8,689	\$ 7,965
Total operating revenues	8,689	7,965
OPERATING EXPENSES		
Broadcasting	5,663,216	3,681,613
Education service and training	1,581,253	1,372,235
Installation and transport	28,369,705	26,541,713
Programming and production	7,345,391	7,689,592
Program information	359,342	368,754
Management and general	2,422,483	2,121,049
Total operating expenses	45,741,390	41,774,956
Operating loss	(45,732,701)	(41,766,991)
NONOPERATING REVENUES		
State of Utah appropriations	33,802,600	26,826,592
Indirect in-kind support from governmental entities	4,211,168	4,562,928
Corporation for Public Broadcasting grants – CPB	3,960,329	3,487,775
Indirect support from University of Utah	3,447,855	3,041,235
Other grants	722,802	420,492
Support from KUED-TV	39,030	39,030
Member fees	820,426	399,646
Other	241,022	6,006
Total nonoperating revenue	47,245,232	38,783,704
Increase (decrease) in net position	1,512,531	(2,983,287)
NET POSITION		
Net position - beginning of year	41,092,945	44,076,232
Net position - end of year	\$ 42,605,476	\$ 41,092,945

See accompanying notes to financial statements.

	FY 18	FY 19
TOTAL EXPENSES	41,774,956	45,741,390
TOTAL CIRCUIT EXPENSESES	19,579,202	21,046,226
ERATE REIMBURSEMENT	(15,723,458)	(13,264,416)
	<u>3,855,744</u>	<u>7,781,810</u>
% OF EXPENSES	9.23%	17.01%



Corporation
for Public
Broadcasting

Office of Inspector General

March 11, 2004

Laura Hunter
Station Manager
KULC
101 Wasatch Drive
Salt Lake City, UT 84112-1107

Dear Ms. Hunter:

This letter will confirm the discussion that I had with you earlier this week. We will be conducting an Office of Inspector General (OIG) financial related audit of the Corporation for Public Broadcasting (CPB) Annual Financial Reports (AFR) that you file with CPB and the compliance requirements of the Communication Act of 1934, as amended. As I said over the telephone, I wanted to give you a heads-up about the audit even though we have not firmed up a date of arrival yet. I expect the start date will probably be 6 to 8 weeks away. We will, of course, work with you to establish a mutually agreeable starting date.

For your information, I am attaching a document that discusses the intended scope of our review and the documentation that we would like to have available on arrival. If it is convenient, we would like to have an entrance meeting with you and appropriate members of your accounting staff the day we arrive.

If you have any questions about this material please don't hesitate to Email or call me, or Michael Levi of my staff. We can be reached at [REDACTED], and [REDACTED]

Sincerely,

David Tanner
Deputy Inspector General

Attachment

cc: Public File
Steve Hess
Larry Smith
Lisa Kuhn
Mike Petersen
Christy Dunn



Corporation
for Public
Broadcasting

Office of Inspector General

Date: September 30, 2004

To: Douglas A. Weiss, Senior Vice President, System & Station Development
Elizabeth A. Griffith, Vice President, Finance & Administration, Treasurer
Brian Sickora, Director, Station Development

From: 
Kenneth A. Konz, Inspector General

Subject: Review of In-Kind Contributions of Instructional Television Services
Claimed as Non-Federal Financial Support by KUEN, licensed by the
Utah State Board of Regents, Report No. EST409-410

We performed this review based on the Office of Inspector General's (OIG) annual audit plan objective to perform reviews on a cross-section of institutions and stations comprising the public broadcasting system. This report presents the results of our survey of in-kind contributions of Instructional Television (ITV) services claimed as Non-Federal Financial Support (NFFS). We conducted this review at KUEN in Salt Lake City, UT, that is well recognized for their provision of ITV, to determine whether they claimed in-kind contributions of ITV as NFFS in a manner consistent with the CPB Financial Reporting Guidelines (Guidelines).

Based upon our limited survey review, nothing came to our attention that caused us to believe that the in-kind ITV contributions reported on KUEN's fiscal year (FY) 2003 AFR, Schedule C for the fiscal year ended June 30, 2003 is not presented, in all material respects, in conformity with CPB Guidelines. Because this review was limited to ITV programming activities, we did not attempt to review the overall accuracy of the FY 2003 NFFS reported by KUEC. Based upon our survey work, an audit of KUEN's ITV services reported as NFFS is not warranted at this time.

BACKGROUND

Effective September 10, 2004, the Federal Communications Commission changed the subject station's call letters from KULC to KUEN. KUEN's goal is to deliver quality educational services through the latest available technologies to Utah's teachers and

students. The services provided by KUEN include ITV programs for grades K-12 and instructional television training and professional development. Instructional television programming is a cooperative effort with the Utah State Office of Education and the Utah Instructional Media Consortium. EDNET and Utah/LINK are the principle delivery systems used for the transmission of telecourses and other instructional material.

KUEN -TV is operated by the University of Utah. There are common management and facilities between KUEN and an affiliated television station, KUED-TV and an affiliated radio station, KUER-FM Radio. Certain KUEN station personnel share their time among the stations.

KUEN, together with EDNET, Utah/LINK and the Utah Education Network (UEN), and the UEN Satellite Services, is under the administrative supervision of the University of Utah on behalf of the state's systems of public and higher education. The Board of Regents has authorized the UEN Steering Committee, a consortium of public and higher education members appointed by the Governor of Utah, to provide governance of KUEN. The UEN Steering Committee is comprised of 23 appointees representing the Utah System of Higher Education and its ten universities and colleges; the Utah State Office of Education; rural and urban school districts; the Utah Electronic High School and the Utah Electronic College; the State Library Division; the Utah Senate and Utah House of Representatives; the Governor's Executive Office; and private industry.

The Steering Committee approves annual strategic plans and budgets, and is responsible for major policy and planning decisions for KUEN and the UEN. Two advisory subcommittees representing technical and instructional content issues report directly to the Steering Committee.



SCOPE AND METHODOLOGY

We selected KUEN because the station is well known, industry-wide, for their provision of ITV services. We evaluated the CPB Guidelines for reporting in-kind contributions of ITV for FY 2003. We interviewed CPB management and staff and reviewed their files related to in-kind contributions of ITV reported by KUEN.

We determined the allowability of KUEN's use of ITV in-kind contributions when computing their NFFS for FY 2003. We held discussions with KUEN managers and staff to obtain an understanding of ITV programming performed by KUEN and its reporting of in-kind ITV contributions as NFFS. Specifically we performed the following steps:

- Reviewed the policies and procedures used by KUEN managers and staff when they plan, approve, develop, distribute and evaluate ITV programs.
- Identified the ITV programs that benefited from the in-kind contributions.

- Reviewed documentation related to the management and oversight of the ITV services provided.
- Identified the funding sources for ITV programs and evaluated the role and responsibility for each funding source.
- Evaluated the processes and documentation used to report in-kind ITV contributions to determine if KUEN has a clearly measurable and objective basis of valuation that shows KUEN directly benefits from the donated services.
- Reviewed the ownership and use of equipment used to distribute ITV programs.

We conducted the field work for our review during May and June 2004. We did not test KUEN compliance with provisions of the Communications Act. We conducted this review in accordance with Generally Accepted Government Auditing Standards and attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on KUEN's reporting of in-kind ITV contributions on the FY 2003 AFR submitted to CPB.

Criteria for Determining the Allowability of In-kind Contributions of ITV Claimed as NFFS

Throughout its history, CPB has directly supported the provision of ITV by public broadcasting stations through the Community Service Grant Program. This included recognizing direct payments to stations in support of ITV. Other CPB support for ITV has generally been on a national or regional scale, including grant support for ITV conferences, program-screening events, and statistical research on the use of ITV and the financial activities involved in providing ITV services.

Since 1976, CPB has published its Guidelines and permitted grantees to report as NFFS certain "in-kind" contributions of ITV defined as property and services, except for the personal services of volunteers, received by the licensee and reported at fair market value. The Guidelines were later revised to include as in-kind support payments made to a third party for the benefit of certain public stations.

In-kind contributions of ITV are a relatively small and distinct sub set of the general category of in-kind contributions that may be claimed as NFFS on the Annual Financial Report (AFR). Periodically, CPB reviews and refines the Guidelines in an effort to make them less vague and easier to understand and follow.

The Guidelines discuss claiming in-kind contributions of ITV as NFFS in two different sections. The requirements are presented here in their entirety. Chapter 2 of the Guidelines, which defines NFFS, discusses in-kind contributions of ITV services and states:

In-kind contributions received by the station for instructional services may include:

- study guides or teacher guides provided by a third party for the station to distribute as part of its instructional service.

- prorated value of a utilization specialist hired by an educational system to which the station provides instructional programming. The purpose of the specialist would be to coordinate the use of educational television or radio in the system and serve as a liaison with the stations.
- prorated value of a curriculum committee consisting of a fixed and reasonable number of people assigned by an educational system and given release time to preview series and recommend print materials. The committee's services must be such an integral part of the station's instructional service that if the committee did not provide them, the station would hire others to perform the service.
- prorated value of professional services of faculty members who, on their own time, participate in the development of instructional television or radio programs. These people must offer the same or similar services to the public for a fee.
- prorated share of the value of instructional programs or broadcast rights purchased by a state agency and used by the station's instructional service.
- expenses incurred by an educational nonprofit entity to promote and advertise the courses offered by the station only if the promotion highlights the station's involvement.

These examples of in-kind contributions of ITV are detailed and specific as to what activities can be counted as NFFS.

Chapter 4 of the Guidelines, under Schedule C, discusses the broad category of in-kind contributions of services and other assets (such as ITV) that can be claimed on AFR Schedule C. There are two key definitions that apply to all claims of NFFS on Schedule C that result from in-kind contributions. They apply to ITV and other donated services such as those from accountants or attorneys or other professionals. These definitions are for "valuation" and "documentation." The Guidelines include the following statements for each of these criteria.

Valuation—Record all significant contributed support at fair value at the time of donation, provided the station has a clearly measurable and objective basis for determining the value. If the donated services, materials, supplies, etc. are such that values cannot reasonably be determined, they should not be recorded as contributions.

Documentation—All claims for in-kind services must be *independently documented by each donor* as to receipt, value, and date or dates of service. Sufficient, competent, relevant evidence must be available at the station for audit purposes. An *invoice* for contributed services is an example of such documentation.

All documentation must be maintained at the station and may be requested by CPB.

Finally, in-kind contributions of ITV and educational radio are discussed under Schedule C, Line 3, Other Services. The Guidelines state:

Instructional television and educational radio: Support for instructional television (ITV) or educational radio services includes only materials or services that expand or enhance the use of educational programs. Examples include curriculum materials from state education departments; local broadcast councils, foundations, businesses, or other organizations outside the licensee.

These entities must provide documentation of the actual costs incurred for the materials. Expenses incurred to promote and advertise ITV and educational radio are included whenever the station's involvement is highlighted.

Claim instructional services only if the station can prove that the instructional service is

- of direct benefit to the station's provision of telecommunications services, and
- under the station's direct management and control

The station must have control over distribution of the materials or services received.

Do not include salaries or benefits of classroom teachers who use the instructional services.
Non-cash contributions from PBS Adult Learning Services should not be claimed as NFFS.

We have included the Guidelines that pertain to claiming in-kind contributions of ITV as NFFS in their entirety because they are the only instructions that define allowable activities that may be claimed as NFFS. Stations must be able to demonstrate that their activities, which result in claims for in-kind contributions of ITV, fall within the definitions discussed above.

RESULTS OF REVIEW

The CPB OIG has reviewed the in-kind ITV contributions that KUEN claimed as NFFS on its FY 2003 AFR Schedule C submitted to CPB. This report is the responsibility of KUEN management.

Our discussions with the Utah Board of Regents, KUEN managers and staff and review of documentation used to report the in-kind contributions demonstrated that ITV is under the management and operational control of the station, the ITV in kind services claimed as NFFS are of a direct benefit to the operations of the station and the providers of the ITV services are non-profit entities. Also, we did not identify any in-kind ITV contributions, such as instructor salary costs or equipment, costs that should not be included as NFFS.

Further, we determined that KUEN's mission is to provide quality ITV programming to K-12, universities, and vocational users. The majority of the ITV programming efforts are performed by colleges and universities. The primary role of KUEN is to assist and coordinate the various processes and organizations used to develop and distribute the ITV programs.

Finally, EDNET is the primary component of ITV programming. EDNET is a two-way non-broadcast audio and video microwave system used to distribute ITV programs. The EDNET system connects all of the state universities and colleges, as well as many rural high schools and vocational training centers.

Based on our review, nothing came to our attention that caused us to believe that the \$4,577,209 on in-kind ITV contributions reported on KUEN's FY 2003 AFR, Schedule C for the fiscal year ended June 30, 2003 is not presented, in all material respects, in conformity with CPB Guidelines, Chapters 2 and 4. Accordingly, we concluded that our review was sufficient to fulfill the purpose of this effort and issue this survey report.

Management and Operational Control

The Utah State Board of Regents working with the Steering Committee and the Technical and Instructional Content Committees provide overall governance of KUEN and its production and distribution of ITV programs. Users of EDNET are required to submit applications for consideration and must follow KUEN policies and guidelines to maintain their site certifications. When user training is complete, the EDNET General Manager meets with the site administrator and coordinator to review site rights and commitments, to confirm policies and operational standards and to review available programming and to explain the programming processes.

Formal agreements with the various state universities and colleges are used to ensure that these institutions follow established ITV program development criteria. We found that KUEN evaluates the in-kind contributions reported by the providers of ITV services to determine whether the services qualify as NFFS. For example, one provider submitted FY 2003 costs totaling \$5,854,224 that was questioned by KUEN management. After further review, KUEN claimed \$2,284,667 as ITV in-kind contributions because the excess amount was determined to not directly support the development of ITV programs.

We found that the delivery of ITV programming is under the operational control of KUEN. For example, the switching and scheduling of ITV programs are performed by KUEN.

Most of the equipment is located at the Eccles broadcast Center (home of KUEN) or at various sites located throughout the state. KUEN maintains control of the equipment and the equipment is capitalized on KUEN's financial statements.

ITV In-Kind Services Benefit the Operations of the Station

We determined the use of the EDNET system and distant learning centers is consistent with the mission of KUEN and their use directly benefits KUEN. The ITV contributions that KUEN claimed as in-kind services appear to enhance normal station operations which would otherwise have to be purchased by the station.

Providers of ITV Services are Not for Profit Entities

ITV programming is a cooperative effort with the Utah State Office of Education and the Utah Instructional Media Consortium which licenses these programs for educational use. We determined that the sources of the ITV in-kind contributions claimed by KUEN are the universities, colleges, and vocational centers that prepare and support the instructional courses. The ITV support claimed represents the value of the expenses donated by these not for profit entities when providing ITV services to KUEN.

Application of CPB Guidelines

We determined that KUEN managers and staff properly applied the CPB guidelines when reporting their in-kind ITV contributions as NFFS. We believe their awareness of the CPB requirements was obtained, in part, because KUEN managers and staff worked closely with the CPB Grants Administration Office staff to better understand the CPB reporting guidelines.

cc: Laura G. Hunter, Ph.D., Director of Instructional Services, Manager, KUEN-TV
Mike Petersen, Executive Director, UEN

From: [Lisa Kuhn \(CFO-UIT/UETN\)](#)
To: [Lisa Kuhn \(CFO-UIT/UETN\)](#)
Subject: Fw: Response to KUEN ITV materials
Date: Wednesday, April 29, 2020 9:08:07 AM
Attachments: [KUEN ITV.xls](#)

From: Simplicio, Sean <[REDACTED]>
Sent: Thursday, December 27, 2007 3:48 PM
To: Lisa Kuhn
Cc: Martin, Kevin; Feaster, Nadine; Michel, Robert
Subject: RE: Response to KUEN ITV materials

Hi Lisa,

CPB has completed its review of the supplemental materials that you provided regarding the ITV donations claimed as NFFS. Thank you for providing us with those materials, your patience as we reviewed them, and for your helpful assistance in this matter over the past several months.

Our analysis has shown that of the initial \$6,938,925 of ITV donations claimed on Schedule C of the FY 2006 Annual Financial Report submitted by KUEN, \$2,479,145 is eligible. Of this, \$59,525 was allowed in the calculation of your 2008 grant several months ago. **This means we must positively adjust your FY 2008 NFFS by \$2,419,620.**

As you no doubt saw last week, CPB's 2008 funding will be subject to a 1.74% rescission. This means that our 2008 grants will have to be recalculated. CPB will recalculate your 2008 CSG based on a total acceptable NFFS of **\$23,756,391** (the original \$21,336,771 used in the earlier calculations plus the additional \$2,419,620). The difference in CSG funds between the old and new calculations will be distributed to the station in its second 2008 CSG payment. We will also need KUEN to submit a revised 2006 AFR that reflects the correct NFFS value; we'll let you know soon how that work is to proceed.

I've attached an updated copy of the initial spreadsheet you sent that will detail which amounts we view to be acceptable (green) and those we do not (red).

To follow up from where we left off, I want to comment the individual amounts you addressed in your last communication:

- **Salt Lake Community College**
 - \$38,227: acceptable
 - \$35,778: acceptable
- **Utah State University**
 - \$8,610: acceptable
 - \$4,305: acceptable
 - \$227,200: unacceptable. These costs are associated with producing audio and video content integral to the course, and are viewed as production expenses.
 - \$159,040: unacceptable. Same as above: these are viewed as production expenses for content integral to the course.

- \$227,200: unacceptable. A duplicate entry as noted by KUEN.
 - \$989,718: acceptable
 - \$23,833: unacceptable. The description was insufficient.
 - \$33,459: unacceptable. Equipment is specifically prohibited in the guidelines
 - \$64,170. unacceptable. No detail provided.
- **Snow College**
 - \$22,563: unacceptable. Equipment is specifically prohibited in the guidelines.
 - \$500: unacceptable. As equipment is ineligible, so too would be maintenance on equipment.
- **Data Applied Technical College**
 - \$5,808: acceptable
 - \$200: acceptable
 - \$100 and \$200: unacceptable. Overhead and maintenance have already been deemed unacceptable.
- **Southern Utah University**
 - \$74,976: acceptable
 - \$45,000: unacceptable. Equipment is specifically prohibited in the guidelines.
- **Unitah Basin Applied Technical College**
 - \$6,000: acceptable
 - \$3,750: unacceptable. Maintenance/upkeep unallowable.
 - \$2,000: unacceptable. Equipment is prohibited; insufficient detail to determine percentage.
- **Delta Technical Center**
 - \$6,040: acceptable
 - \$750: unacceptable. Production expenses.
 - \$2,215: unacceptable. Equipment is prohibited; insufficient detail to determine percentage.
 - \$470: unacceptable. Maintenance/upkeep unallowable.

Please let me know if you have any questions or comments.

Again, thank you for all of your assistance.

-Sean

From: Lisa Kuhn [REDACTED]
Sent: Wednesday, November 28, 2007 12:22 PM
To: Simpicio, Sean
Subject: RE: Response to KUEN ITV materials

Sean,

Attached is KUEN's response to your questions/comments on KUEN's ITV material.

Just a reminder of my desire to participate in the group who will be reviewing the Financial Reporting Guidelines.

FYI.. I am the CFO of KUEN, a licensed CPA, I am familiar with GAAP/GASB guidelines and have experience with CPB's Financial Reporting Guidelines.

Thank you very much for your patience and I look forward to hearing from you.

Thanks, Lisa

From: Simplicio, Sean [REDACTED]
Sent: Tuesday, November 06, 2007 1:41 PM
To: Lisa Kuhn
Cc: Martin, Kevin; Michel, Robert
Subject: Response to KUEN ITV materials

Dear Lisa,

I'm writing to follow up with you about the questioned NFFS from KUEN's FY 2006 Annual Financial Report. First, thanks again for providing the additional detail related to the ITV donations. The extra material helped us immensely in our analysis.

After reviewing the material, there are three buckets into which the claimed expenditures fall: Allowable, Not Allowable, and Questionable. I'll refer to the columns on the spreadsheet you provided to illustrate many of our findings. I've also included a color-coded spreadsheet for your reference.

Allowable (Green)

CPB accepts that \$1,309,483 of the claimed NFFS is allowable according to our Financial Reporting Guidelines (Guidelines). This total is made up of all the values in Column A (Study guides, etc.) and Column E (Rights), nearly all of the values in Column B (Utilization specialist), and certain select values from Column D (Faculty) and Column F (Advertising/Promotion).

Not Allowable (Red)

CPB has identified \$4,167,574 as unallowable donations. This is the total of Columns G (Overhead), H (Gray Area), and I (Ineligible).

On its spreadsheet, KUEN includes nearly \$1.1 million in overhead as an acceptable donation. We do not believe that it is proper to claim overhead as a legitimate donation as it does not relate to the incurring of direct expenses as called for in multiple places in the Guidelines.

Column H lists nearly \$3 million in classroom teacher salaries as a "gray area." It is not a gray area: classroom salaries of teachers using the ITV programs are specifically prohibited. If these salaries went into the production of the programs, this would also be unallowable as acceptable ITV donations include only amounts related to *"materials or services that expand or enhance the use of educational programs,"* as noted in the Guidelines.

CPB agrees with KUEN's assessment that the values in Column I are unallowable.

Questionable (Blue)

The \$1,982,112 that remains is made up of most of the values in Columns D (Faculty) and F (Advertising/Promotion). Much of what has been claimed in these areas appears to be ineligible, but we

wanted to give you one final opportunity to address these issues convincingly. Admittedly, the bar is set pretty high at this point.

The values from Utah State University in these two columns make up the bulk of the questioned amount (\$1,616,073) and we would request that you focus your attention on those amounts:

- The \$989,718 listed in Column D corresponds to the total “Faculty Honorarium” in the USU detailed spreadsheet. We are not clear how this honorarium corresponds to what the Guidelines state must be the *“prorated value of professional services of faculty members who, on their own time, participate in the development of instructional television or radio programs. These people must offer the same or similar services to the public for a fee.”* It does not appear that the faculty could have been on their own time in this case as USU has also included a “Faculty Part of Load” column in its spreadsheet.
- The \$626,355 listed in Column F corresponds to the total of multiple columns in the USU detailed spreadsheet: development costs, graphics costs, production crew costs, studio maintenance & engineering costs, and “costs”. In our estimation none of this, save perhaps “graphics costs,” would count as acceptable advertising and promotion costs allowed by our guidelines. We are also not clear about this total, as it appears that the USU spreadsheet duplicates the value under the “production crew costs” column under the “costs” column.

Thank you very much for your continued attention to this matter. We are eager to bring these issues to a conclusion, so please address the questionable amounts of \$1,982,112 by responding to us by Friday, November 16.

Sincerely,

Sean

Sean Simplicio
Director, CSG Policy & Review



KUEN		INCLUDE AS NFFS any of the following contributed instructional services						
INSTITUTION	Study guides or teacher guides provided by a third party for the station to distribute as part of its instructional service	Prorated value of a utilization specialist hired by an educational system to which the station provides instructional programming. The purpose of the specialist would be to coordinate the use of educational television or radio in the system and serve as liaison with the station	Prorated value of professional services of faculty members who, on their own time, participate in the development of instructional television or radio programs. These people must offer the same or similar services to the public for a fee	Prorated share of the value of instructional programs or broadcast rights purchased by a state agency and used by the stations instructional service	Expense incurred by an educational nonprofit entity to promote and advertise the courses offered by the station only if the promotion highlights the stations involvement	Classroom teacher salaries Ineligible		TOTALS
Utah Valley State College (EDNET)	12,210	54,700			600	overhead	1,095	272,050
Utah Valley State College (KUEN)	14,600	59,675					18,500	151,775
	3,330	66,700					2,300	141,195
							100	9,730
University of Utah	4,759	323,126		5,029	2,536		1,003	336,453
							398	398
Salt Lake Com. College (KUEN)			38,227	23,732			15,291	77,250
Salt Lake Com. College (EDNET)			35,778				12,522	48,300
Utah State University	30,568	36,900	989,718	4,056	8,610	993,560	2,726,400	13,455
					4,305			4,803,267
					227,200			4,305
					227,200			227,200
					159,040			227,200
Utah State University		530,715			1,415	9,512		159,040
		23,833			64,170			28,165
					33,459			594,885
					11,405			57,292
								11,405
Snow College - (EDNET)	1,475	20,700	1,300		22,563	3,150		49,188
					500			500

Attachment 8

From: [Lisa Kuhn](#)
To: [Goulet, Ken](#)
Cc: [Ray Timothy](#); [Lisa Kuhn](#); [Janeen Bennion](#); [REDACTED]; [REDACTED]; [Arno, Kate](#); [Debebe, Biniam](#)
Subject: KUEN-TV FY 2017 AFR Review Comments
Date: Tuesday, February 13, 2018 3:46:33 PM
Attachments: [Negotiated Indirect Cost Agreement.pdf](#)
[FY-17 NFFS Individual Summary.xlsx](#)
[FY-17 NFFS Report.xlsx](#)

Ken.

Below, Please see my responses in red.

Thanks. Lisa

From: Goulet, Ken [REDACTED]
Sent: Monday, January 29, 2018 11:28 AM
To: Ray Timothy <[REDACTED]>; Lisa Kuhn <[REDACTED]>; Janeen Bennion <[REDACTED]>; [REDACTED]; [REDACTED]; [REDACTED]
Cc: Arno, Kate <[REDACTED]>; Debebe, Biniam <[REDACTED]>
Subject: KUEN-TV FY 2017 AFR Review Comments
Importance: High

FY 2017 AFR REVIEW COMMENTS

Subject: KUEN-TV FY 2017 AFR Review Comments

Attention: Head of Grantee, Grants Administrators and Independent Accountant

CPB is in receipt of KUEN-TV's FY2017 Annual Financial Report (AFR) and audited financial statements (AFS). As part of our normal process for reviewing these documents each year, CPB may request additional information as part of the review. Based on our review of the AFR and AFS, the following are questions/comments that we request your assistance:

1) AFS :

- Does KUEN-TV receive and revenue from NHK under an agreement with them to broadcast NHK World? **No**

If so, please provide copy of the agreement and the amount NHK is paying KUEN-TV for reimbursement of operating costs. Based on our review of other agreements with stations, the revenue received is deemed to be an exchange transaction (fee for service). The revenue is classified as "Operating Cost Compensation" that is being paid to offset a portion of the station's operating costs. This revenue can be viewed as compensation in exchange for airing the program and also as a reimbursement of costs, both of which are not eligible as

NFFS. Please provide the years in which the agreement has been in place and the amount received in each FY. What exact line item in the AFR is this revenue recorded?

2) Schedule A:

- Line 1 – Did KUEN-TV receive any federal funds in FY2017 as in prior years? **No** If so, how much and where is it recorded in the AFR? Why the decrease in FY2017? **KUEN was not a recipient of any Federal Grants.**
- Line 4.1C – Please provide detailed explanation for increase in appropriation from licensee of \$3.2M that was eligible as NFFS, as well as the decrease in other income ineligible as NFFS of \$7M per line 4.2E. **The \$3.2M increase is a reflection of the additional ongoing operational state dollars. The \$7M dollar decrease is a reflection of the reduction in one time state dollars received in FY 17.**
- Line 4.2C – Why have licensing fees decreased by \$323K (46%) – Have all licensing fees been properly excluded from NFFS? **It is a reflection of funds collected. Yes all licensing fees have been properly accounted for.**
- Line 9.2B – Why the decrease in fees for service in FY2017? **There were no services collected.**
- Line 20 – Why are the other revenue items for surplus and gain on sale of equipment not excluded from NFFS? These amounts (totaling \$55,708) should be properly excluded and the amounts would automatically roll forward to Line 26. This will need to be revised. **I agree it needs to be corrected. My intent was to exclude the surplus and gain on sale of equipment, I made a mistake when completing the form.**

-

3) Schedule B:

- Please provide Licensee's Federal Negotiated Indirect Cost agreement that supports the rate of 36.5% and the breakdown of the rate components of the federal negotiated rate that includes the rate components that were excluded in arriving at the modified rate of 10.2%. **See Attached "Negotiated Indirect Cost Agreement.pdf"**
- CPB Financial Reporting Guidelines require that for NFFS purposes, a station's base (Station net direct expenses, Line 1c) should be calculated on a basis comparable to their licensee's federal negotiated indirect cost rate agreement. Is the base a MTDC (modified total direct costs) base? **Yes**
- If so, this calculation requires stations to adjust their base for costs not allowed per their licensee's federal rate agreement and per applicable OMB circulars, for example, federal rates commonly exclude indirect costs such as general and administrative, fundraising, membership development, and grant solicitation

costs.

- i. It was noted that in FY2017 additional administrative support costs were included on Line 1b.7 of approx. \$2.4M. Are there any other costs that should be excluded in accordance with OMB Uniform Guidance for any unallowable expenses? **No** Is the Station net direct expenses on Line 1c representative of the MTDC base per the agreement? **Yes**
- ii. Please review all guidance and provide a schedule of additional expenses that should be included on Line 1.b.7 (if any). **none**

Schedule C, Line 3A: Please provide supporting documentation for amounts recorded as eligible and ineligible in-kind contributions related to ITV. Why the overall decrease of in-kind contributions of approx. \$1M and why the amount recorded as eligible NFFS increased by \$450K.

KUEN annually sends out a letter asking the institutions to provide us their cost the ITV programing .I provide the worksheets to the individual intuitions, and the institutions, complies their cost are reports back to KUEN. I compile and review their responses and backing out any ineligible expenses. When the information is compiled, it is based upon their responses. Variances are a reflection of the institutions responses.

Please see attached file *"FY-17 NFFS Report.xlsx"* and *"FY-17 NFFS Individual summary.xlsx"*.

- o Attached is the excel spread sheet *"FY-17 NFFS Report.xlsx"* showing the expenses incurred by the individual institutions. When compiling the spread sheets overhead and equipment is backed out. A secondary review occurs and the items in yellow are the \$ amounts reported on sechdule C. Column "H" totals the expenses reported on schedule C. Column "I" reflects those expense as eligible and the difference been backed out.
- o Please Note Column H reflects the eligible amount of \$4.607M. KUEN backed out an additional \$1.89M of eligible NFFS reporting \$2.717 M as eligible. KUEN's reason for backing out \$1.89M was to be extremely conservative in claiming NFFS. (Please note that KUEN's NFFS non cash contributions were reviewed by Sean Simplicio in December 2007. CPB determined that honorariums paid to faculty qualify as an eligible NFFS expense for Instructional Programming. In FY 2017 Utah State University paid \$2.674M in honorariums).
- o Attached is the file *"FY-17 NFFS individual summary.xlsx"* which is the documentation provided to KUEN in support of the in-kind contributions for instructional television (ITV).

4) Schedule E, Line 8A-8C – Are the CPB funds expended properly recorded in Schedule

E? **Yes** The interconnection fund expended on Line 8B is the same as PY, but the amount of the grant changed from PY. **For FY 17 KUEN spent \$66,644 and carryforward the unspent \$ amount of \$64,489. For FY 16 dollar amount spent should have been \$60,025 and \$66,644 was carryforward for FY17.** Also, it appears that the other CPB funds expended is very low compared to the funds received. Please provide explanation/reconciliation and the revisions required (if any). **The amount of CPB funds expended should be adjusted by an additional \$9,233 of CPB funds spent in broadcast. The remaining CPB funds will be carried over to the next FY.**

Please reply no later than February 6, 2018.

-

Feel free to contact me if you have any questions.

Thanks



Ken Goulet
Sr. Financial Review Specialist
Corporation for Public Broadcasting
401 Ninth Street, NW
Washington, DC 20004



www.cpb.org

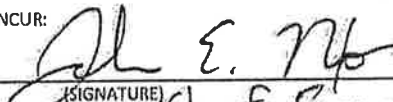
UNIVERSITY OF UTAH
FACILITIES AND ADMINISTRATIVE COST PROPOSAL
FYE JULY 1, 2016 TO FYE JUNE 30, 2019

ORGANIZED RESEARCH								
JULY 1, 2016 THROUGH JUNE 30, 2017			JULY 1, 2017 THROUGH JUNE 30, 2018			JULY 1, 2018 THROUGH JUNE 30, 2019		
	ON-CAMPUS	OFF-CAMPUS		ON-CAMPUS	OFF-CAMPUS		ON-CAMPUS	OFF-CAMPUS
BUILDING	6.0%			6.1%			6.4%	
EQUIPMENT	3.0%			3.1%			3.3%	
OPERATIONS & MAINTENANCE	12.0%			12.1%			12.3%	
INTEREST	2.5%			2.6%			2.7%	
LIBRARY	1.2%			1.3%			1.5%	
UTILITY COST ADJUSTMENT	0.3%			0.3%			0.3%	
GENERAL ADMINISTRATION	4.3%			4.3%			4.3%	
DEPARTMENT ADMINISTRATION	16.4%			16.4%			16.4%	
SPONSORED PROJECTS ADMINISTRATION	5.3%			5.3%			5.3%	
ADMINISTRATION COMPONENTS	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
TOTAL	51.0%	26.0%		51.5%	26.0%		52.5%	26.0%

INSTRUCTION AND DEPARTMENTAL RESEARCH			OTHER SPONSORED ACTIVITIES		
JULY 1, 2016 THROUGH JUNE 30, 2019			JULY 1, 2016 THROUGH JUNE 30, 2019		
	ON-CAMPUS	OFF-CAMPUS		ON-CAMPUS	OFF-CAMPUS
BUILDING	3.8%			1.7%	
EQUIPMENT	1.2%			0.4%	
OPERATIONS & MAINTENANCE	8.8%			3.8%	
INTEREST	1.0%			0.3%	
LIBRARY	6.7%			4.3%	
GENERAL ADMINISTRATION	3.3%			4.3%	
DEPARTMENT ADMINISTRATION	14.1%			16.2%	
SPONSORED PROJECTS ADMINISTRATION	3.9%			5.5%	
STUDENT SERVICES ADMINISTRATION	4.7%				
ADMINISTRATION COMPONENTS	26.0%	26.0%	26.0%	26.0%	26.0%
TOTAL	47.5%	26.0%		36.5%	26.0%

ADMINISTRATIVE COMPONENTS ARE CAPPED AT 26.0% IN ACCORDANCE WITH OMB A-21, DATED JULY 26, 1993.

CONCUR:


 (SIGNATURE) Chief Financial Officer
 TITLE
February 23, 2016
 DATE

COLLEGES AND UNIVERSITIES RATE AGREEMENT

EIN:

DATE: 02/04/2016

ORGANIZATION:

FILING REF.: The preceding
agreement was dated
04/22/2009

University of Utah
201 South Presidents Circle
Room 408
Salt Lake City, UT 84112-9023

The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions in Section III.

SECTION I: Facilities And Administrative Cost Rates

RATE TYPES: FIXED FINAL PROV. (PROVISIONAL) PRED. (PREDETERMINED)

EFFECTIVE PERIOD

TYPE	FROM	TO	RATE(%)	LOCATION	APPLICABLE TO
PRED.	07/01/2016	06/30/2017	51.00	On-Campus	Organized Research
PRED.	07/01/2017	06/30/2018	51.50	On-Campus	Organized Research
PRED.	07/01/2018	06/30/2019	52.50	On-Campus	Organized Research
PRED.	07/01/2016	06/30/2019	26.00	Off-Campus	Organized Research
PRED.	07/01/2016	06/30/2019	47.50	On-Campus	Instruction
PRED.	07/01/2016	06/30/2019	26.00	Off-Campus	Instruction
PRED.	07/01/2016	06/30/2019	36.50	On-Campus	Other Sponsored Activities
PRED.	07/01/2016	06/30/2019	26.00	Off-Campus	Other Sponsored Activities
PROV.	07/01/2019	Until Amended	Use same rates and conditions as those cited for fiscal year ending June 30, 2019.		

*BASE

Modified total direct costs, consisting of all salaries and wages, fringe benefits, materials, supplies, services, travel and subgrants and subcontracts up to the first \$25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract). Modified total direct costs shall exclude equipment, capital expenditures, charges for patient care, tuition remission, rental costs of off-site facilities, scholarships and fellowships, participant support costs, as well as the portion of each subgrant and subcontract in excess of \$25,000.

INSTITUTION:
University of Utah

AGREEMENT DATE: February 4, 2016

SECTION II: SPECIAL REMARKS

TREATMENT OF FRINGE BENEFITS:

This organization charges the actual costs of each fringe benefit direct to Federal projects. However, it uses a fringe benefit rate which is applied to salaries and wages in budgeting fringe benefit costs under project proposals. The fringe benefits listed below are treated as direct costs.

TREATMENT OF PAID ABSENCES

Vacation, holiday, sick leave pay and other paid absences are included in salaries and wages and are claimed on grants, contracts and other agreements as part of the normal cost for salaries and wages. Separate claims for the costs of these paid absences are not made.

DEFINITION OF EQUIPMENT

Equipment is defined as tangible nonexpendable personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.

DEFINITION OF ON/OFF CAMPUS

The On-Campus rate includes activities conducted at University of Utah owned facilities and rental facilities in Research Park.

The Off-Campus activities are defined as activities not listed above as on-campus or any activity conducted at a field location for a period of longer than 120 days. The distinction between on and off campus activities will be made in accordance with the proposal and based on actual cost incurred at the selected locations (on and off campus).

The 120 days off-campus definition does not apply to welfare training conducted by the University for the State of Utah. On-Campus course preparation and actual off-campus costs of instruction will be separately identified. The on-campus costs of instruction will be separately identified. The on-campus instruction rate will only be applied to the on-campus costs. The off-campus rate should be applied to the off-campus costs exclusive of facility rental costs regardless of who pays these costs.

The following fringe benefits are treated as direct costs: FICA, WORKERS COMPENSATION, UNEMPLOYMENT, LONG-TERM DISABILITY, HEALTH/DENTAL/LIFE INSURANCE, AND RETIREMENT.

NEXT PROPOSAL DUE DATE

A Facilities and Administrative proposal based on actual costs for fiscal year ending June 30, 2018 will be due no later than December 31, 2018.

INSTITUTION:
University of Utah

AGREEMENT DATE: February 4, 2016

SECTION III: GENERAL

A. LIMITATIONS:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its facilities and administrative cost pools as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as facilities and administrative costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government.

B. ACCOUNTING CHANGES:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from facilities and administrative to direct. Failure to obtain approval may result in cost disallowances.

C. FIXED RATES:

If a fixed rate is in this Agreement, it is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined, an adjustment will be made to a rate of a future year(s) to compensate for the difference between the costs used to establish the fixed rate and actual costs.

D. USE BY OTHER FEDERAL AGENCIES:

The rates in this Agreement were approved in accordance with the authority in Title 2 of the Code of Federal Regulations, Part 200 (2 CFR 200), and should be applied to grants, contracts and other agreements covered by 2 CFR 200, subject to any limitations in A above. The organization may provide copies of the Agreement to other Federal Agencies to give them early notification of the Agreement.

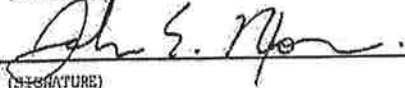
E. OTHER:

If any Federal contract, grant or other agreement is reimbursing facilities and administrative costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of facilities and administrative costs allocable to these programs.

BY THE INSTITUTION:

University of Utah

(INSTITUTION)



(SIGNATURE)

John E. Nixon

(NAME)

Chief Financial Officer

(TITLE)

February 23, 2016

(DATE)

ON BEHALF OF THE FEDERAL GOVERNMENT:

DEPARTMENT OF HEALTH AND HUMAN SERVICES

AGENCY)

Arif M. Karim

(SIGNATURE)

Arif Karim

(NAME)

Director, Cost Allocation Services

(TITLE)

2/4/2016

(DATE) 1103

HHS REPRESENTATIVE:

Helen Fung

Telephone:

(415) 437-7820

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