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Summary:

The Restricted Funds - Gifts audit was included in the Arizona State University (ASU) FY 2020 audit plan approved by the Arizona Board of Regents (ABOR) Audit Committee and ASU senior leadership. The audit focused on the design and effectiveness of administrative, operational, and financial controls related to private gifts. This audit is in support of ASU’s mission of effective management of financial resources and focus on efficient operations at all levels of the University.

Background:

The University received almost $98 million in gifts in fiscal year 2019 with gifts used for a variety of purposes to support programs and activities across the University; $83 million in private gifts for other than capital purposes and $15 million in capital private gifts. Gifts are generally received through the Arizona State University Foundation (ASUF), a private, nonprofit organization that raises and invests private contributions to ASU, or through Sun Angel Foundation (SAF), a private, nonprofit organization that receives funds primarily through donations and contributes funds to the University in support of various athletic programs.

Once the University receives the funds from ASUF or SAF, funds are tracked through restricted accounts in Workday, the University’s financial management system. Individual colleges or units are responsible for managing the gift funds including requesting restricted financial accounts, establishing authorized individuals for the accounts, requesting funds from ASUF or SAF, and authorizing expenditures to ensure they are in accordance with the gift purpose. Expenditures made from ASU restricted accounts must adhere to both ASU policies and to the purpose established by the donor(s).

ASU also receives gift-in-kind donations such as artwork, personal libraries, and equipment. The Capital Assets Management (CAM) team determines if the donation will be recorded as a capital asset. If the donation meets the capitalization requirements, CAM will also monitor and track the asset according to the capital asset program.

Audit Objective: The objective of this engagement was to assess controls related to the identification, tracking and monitoring of restricted funds as well as overall compliance with the spending guidelines and restrictions associated with the funds and ASU financial policies. Specifically, the following areas were assessed:

- Verify that ASU gift account purpose aligns with the defined purpose established by ASUF or SAF
- Verify that expenditures align with the gift purpose, had adequate documentation to support the transaction, and were allowable expenditures based on ASU Policy
- Verify that transfers of funds out of gift accounts are aligned with the gift purpose
- Verify that all gift-in-kind donations are capitalized in accordance with ASU policy
- Identify opportunities for improvement

**Scope:** The scope of the audit focused on fiscal year 2019 restricted-other (gift) fund expenditures. Other gift funds, including scholarships and capital projects, were not included in this review. In addition, spending that is facilitated directly through ASU Foundation was not in scope of this review.

It was noted during testing that one unit utilized a general gift account to manage multiple gifts with different purposes and restrictions through the use of Workday worktags and tracking funding/expenditures through manual schedules. As a result, reliance was made on the units’ manual tracking to identify expenditures related to the specific gift account included in the review. Discussions with the unit indicated this practice was discontinued for FY2021.

**Methodology:** Our audit consisted of tests of procedures necessary to provide a reasonable basis for expressing our opinion. Specifically, audit work consisted of interviews with financial services, financial leadership of units, and ASUF as well as review of documented policies and procedures and substantive tests including the following areas:

- Selected a sample of 30 restricted-other accounts (gift accounts) across ten different colleges or units and performed the following:
  - Confirmed ASU’s established gift purpose aligned with ASUF’s defined purpose to ensure the unit accurately captured the purpose of the gift and any related restrictions. In addition, for accounts with underlying gift agreements, reviewed the agreement to ensure that purpose is captured and no additional restrictions on use of funds exist.
  - Verified expenditures recorded to the gift account aligned with the gift purpose, had adequate documentation to support the transaction, and was an allowable expenditure based on ASU Policy. Total expenditures associated with the 30 accounts selected included 12,644 transactions totaling $6,213,394 of which 9,474 (75%) transactions totaling $4,519,704 (73%) were reviewed.

- Selected an additional 66 “transfers out” transactions totaling $14,985,812 from the remaining restricted-other gift accounts and performed analytical procedures
to assess appropriateness based on transfer backup provided with transaction in Workday.

- Selected a sample of 41 gift-in-kind donations received and verified gift was accurately reported as a capital asset based on policy requirements.

**Conclusion:** Overall, controls have been implemented and are operating effectively to ensure that spending complies with both ASU policies and gift purpose. Specifically, we reviewed transactions totaling $4,519,704 (8% of restricted-other expenditures in FY2019) and transactions were generally appropriate based on the defined gift purpose, had adequate supporting documentation and were allowable based on ASU Policy. Exceptions identified were deemed isolated and immaterial.

While adequate processes have been implemented and are generally being followed, it was noted that appropriate documentation to support the expenditure was not always included with the transaction in Workday. We were generally able to obtain the relevant support directly from the unit; however, the support should be included as part of the financial transaction. In addition, it was also noted that enhanced processes were needed in some areas to ensure prepaid items had adequate tracking and monitoring.

All exceptions noted were discussed with the respective units along with any recommendations made.

The control standards University Audit considered during this audit and the status of the related control environment are provided in the following table.

<table>
<thead>
<tr>
<th>General Control Standard</th>
<th>Control Environment</th>
<th>Finding No.</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability and Integrity of Financial and Operational Information</td>
<td></td>
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<tr>
<td>• Restricted gift accounts and recorded expenditures are aligned with gift purpose.</td>
<td>Reasonable to Strong Controls in Place</td>
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<tr>
<td>• Expenditures are allowable based ASU policies.</td>
<td>Reasonable to Strong Controls in Place</td>
<td></td>
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</tr>
<tr>
<td>• Expenditures had adequate documentation to support the transaction and the use of gift funds.</td>
<td>Reasonable to Strong Controls in Place</td>
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</tbody>
</table>
Transfers Out of restricted funds are monitored to ensure use of funds aligns with account purpose. Reasonable to Strong Controls in Place

Gift-in-kind donations are capitalized based on ASU defined thresholds and policy. Reasonable to Strong Controls in Place

Effectiveness and Efficiency of Operations

- Restricted account documented purpose by ASUF and ASU are comparable and for accounts with a gift agreement intent and gift restrictions are accurately captured. Reasonable to Strong Controls in Place

Safeguarding of Assets

Not Applicable N/A N/A

Compliance with Laws and Regulations

Not Applicable N/A N/A

We appreciate the assistance of Financial Services and individual departments/units during the audit.

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