Affiliation Agreement with the Law College Association

November 2019 FY19 - #01

Submitted to:
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Copies to:
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Issued by: Sara J. Click, CPA, Chief Auditor
Internal Audit Department
Affiliation Agreement with the Law College Association

Summary

Our audit of the Affiliation Agreement with the Law College Association of the University of Arizona (Law Association) was included in the approved Fiscal Year (FY) 2019 Audit Plan. The Law Association provides opportunities for alumni and the greater community to engage with the University of Arizona (Arizona) through programs that contribute to student success as desired by strategic initiatives.

Background: The Law Association was incorporated on November 22, 1967 as a legally separate, tax-exempt, 501(c)(3) nonprofit organization. The Law Association is governed by a Board of Directors and was established to provide support and financial assistance to the University of Arizona James E. Rogers College of Law (College of Law). The Law Association distributed $821,000 to the College of Law during FY 2019 and is considered a discretely presented component unit of Arizona. As such, its financial statements are included with other component units in the Comprehensive Annual Financial Report.

The College of Law oversees the relationship with the Law Association. According to College of Law management, the Law Association provides many valuable benefits to College of Law students, and they place great importance on maintaining this effective and beneficial collaboration.

Audit Objective: To determine compliance with the terms and conditions of the executed agreement between Arizona and the Law Association.

Conclusion: Management was unable to locate a current and comprehensive executed agreement between Arizona and the Law Association. According to College of Law management, knowledge of an executed agreement may have been lost due to the longevity of the relationship.

Although the establishment of the Law Association predates current Arizona policies over agreements with affiliate organizations, we found the College of Law has taken some steps to address related institutional risks absent an agreement. Specifically, written internal procedures address activities performed on behalf of the Law Association, and College of Law management works to identify circumstances that may jeopardize institutional reputation. The Bylaws of the Law Association contain provisions that help mitigate risks associated with donor relationships and interactions with the College of Law. Finally, we obtained representation from College of Law management that no Arizona employees are receiving supplemental compensation, bonuses, or incentive payments directly from the Law Association.

1 Obtained from the State of Arizona Corporation Commission website.
However, we found indications that not all related institutional risks have been addressed. For example, although the College of Law has held preliminary discussions with the Chief Information Security Officer and the Director of the Conflict of Interest Program, risks related to information security, conflicts of commitment, and institutional conflicts of interest have not been addressed. We also found examples of compliant arrangements not being in place to address institutional risks resulting from expenses incurred to support the Law Association and its use of Arizona Licensed Marks. See pages 4 through 6 for further details and our recommendation.

According to the Institute of Internal Auditors International Professional Practices Framework, an organization is expected to establish and maintain effective risk management and control processes. These control processes are expected to ensure, among other things, that:

- The organization’s strategic objectives are achieved;
- Financial and operational information is reliable and possesses integrity;
- Operations are performed efficiently and achieve established objectives;
- Assets are safeguarded; and
- Actions and decisions of the organization are in compliance with laws, regulations, and contracts.

Our assessment of these control objectives as they relate to an agreement between Arizona and the Law Association is on the following page.
### General Control Objectives

<table>
<thead>
<tr>
<th>General Control Objectives</th>
<th>Control Environment</th>
<th>Audit Result</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Achievement of the Organization’s Strategic Objectives</strong></td>
<td></td>
<td></td>
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<tr>
<td>• Supporting programs and opportunities to engage the public and support student success contribute to strategic objectives.</td>
<td>Reasonable to Strong Controls in Place</td>
<td></td>
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<tr>
<td><strong>Reliability and Integrity of Financial and Operational Information</strong></td>
<td>Not Applicable</td>
<td></td>
</tr>
<tr>
<td><strong>Effectiveness and Efficiency of Operations</strong></td>
<td>Not Applicable</td>
<td></td>
</tr>
<tr>
<td><strong>Safeguarding of Assets</strong></td>
<td>Not Applicable</td>
<td></td>
</tr>
<tr>
<td><strong>Compliance with Laws and Regulations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The College of Law complied with applicable policies and procedures.</td>
<td>Opportunity for Improvement</td>
<td>1 4</td>
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</tbody>
</table>

We appreciate the assistance of College of Law representatives during the audit.

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/S/

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Audit Results, Recommendations, and Responses

1. Certain risks relating to relationships with affiliated organizations have not been addressed.

Condition: Although the College of Law has taken steps to address many of the institutional risks that are mitigated by working from a current and comprehensive agreement, we found examples of areas that have not been addressed:

- Arrangements for College of Law administrative staff time and equipment used to support the Law Association;
- The appearance of an Arizona Licensed Mark on Law Association letterhead;
- Disclosure of College of Law administrative staff time allocated to Law Association related activities under Arizona conflict of commitment and institutional conflict of interest policies; and
- Documentation of responsibilities between the College of Law and the Law Association for the ownership of risks over information security and the related impact of public information laws and regulations.

Criteria:

- According to Financial Services Manual Section 6.15 – University Relations with Affiliated Organizations, Effective August 21, 2012:
  - Part 5 states: “All arrangements for services rendered between the University and the affiliated organization shall be memorialized in formal agreements.”
  - Part 10 states: “The use of the University's name and trademarks by an affiliated organization shall be in accordance with the terms of a separate licensing agreement.”

- Res-100 – Conflict of Commitment Policy, Effective May 2, 2014, Part A, states, “Covered Individuals must request written approval as provided in this Policy prior to engaging in Outside Professional Commitments that occur at any time during the calendar year while the individual’s status is that of a Full-time University Employee.”
Affiliation Agreement with the Law College Association

- According to Res-102 – Institutional Conflict of Interest Policy, Effective January 6, 2015, Part A1, “…an Institutional Conflict of Interest exists whenever Institutional Financial Interests (as defined above) influence, or may reasonably appear to influence, (a) the Conduct of Research; or (b) business or administrative decisions made by University Administrators on behalf of the University that are related to the University’s Missions…” Part B3 goes on to state, “The Conflict of Interest Program will maintain a record of disclosures made by each University Administrator and by the directors and department heads of administrative units affected by this Policy.”

- ISO-1500 – Vendor and Contract Security Policy, Effective May 7, 2019, states, “ISO shall produce and maintain a listing of the minimum information security standards that ensure the protection of University Information, including any information entrusted to the University by a third party… Information Owners and Information System Owners are responsible for implementing processes and procedures designed to provide assurance of compliance with the minimum standards, as defined by ISO…”

**Cause:** According to College of Law management, institutional knowledge about the existence of an executed agreement may have been lost due to multiple instances of employee turnover.

**Effect:** Potential exposure to institutional risks surrounding third-party affiliate relationships that are mitigated by working from a current and comprehensive agreement, and a possible loss of business continuity.

**Recommendation:** The College of Law should work with the Office of General Counsel to develop a comprehensive affiliation or similar-type agreement between Arizona and the Law Association. The agreement should also include mechanisms to monitor for ongoing compliance with its terms and conditions.

**Management Response:** Target Implementation Date: May 2020.

The College of Law will work to develop an affiliation agreement between the University of Arizona and the Law Association as recommended in the Auditor’s Draft Report, dated November 26, 2019. The College of Law will also establish a mechanism to monitor for on-going compliance with the agreement’s terms and conditions.

We started the agreement development process and met an Associate with the Office of General Counsel (OGC), on January 16, 2020. All pertinent and available information was provided and OGC has produced a draft which we are in the process of reviewing. We will continue to work with OGC.
The table below is a list of items to address in conjunction with creating the affiliation agreement with the targeted completion dates. It covers the items that were identified as needing to be addressed in the Auditor’s Recommendations. The timeline will be adjusted according to the campus partners’ schedules as necessary. We will add items which may not be included in this list as the affiliation agreement requires.

<table>
<thead>
<tr>
<th>No.</th>
<th>Areas to Address</th>
<th>Working With</th>
<th>Target Completion Date</th>
</tr>
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<tbody>
<tr>
<td>1.</td>
<td><strong>Affiliation Agreement</strong></td>
<td></td>
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<tr>
<td>a.</td>
<td>Develop affiliation agreement</td>
<td>Office of General Counsel</td>
<td>2/28/2020</td>
</tr>
<tr>
<td>b.</td>
<td>Inform Law Association Board of affiliation agreement adoption and its effect on Law Association operations (Board of Trustee Voting)</td>
<td>Law Association Board</td>
<td>3/8/2020</td>
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<tr>
<td>2.</td>
<td><strong>Arizona Trademarks</strong></td>
<td></td>
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<tr>
<td></td>
<td>Establish arrangement for Law Association to use the University of Arizona's Licensed Marks</td>
<td>Trademarks &amp; Licensing</td>
<td>4/30/2020</td>
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<td>3.</td>
<td><strong>Arizona Resources</strong></td>
<td></td>
<td></td>
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<tr>
<td>a.</td>
<td>Establish Law Association Administrator</td>
<td>Human Resources</td>
<td>3/8/2020</td>
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<tr>
<td>b.</td>
<td>Analyze university resources (e.g., space/equipment/supplies) used by the Law Association and develop arrangement</td>
<td>Law Association Administrator</td>
<td>5/31/2020</td>
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<td>4.</td>
<td><strong>Conflict of Interest and Conflict of Commitment</strong></td>
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<td></td>
<td>Develop conflict of interest and conflict of commitment policies related to the Law Association and disclosure procedures</td>
<td>Research, Innovation &amp; Impact</td>
<td>4/30/2020</td>
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<td>5.</td>
<td><strong>Information Security</strong></td>
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<td></td>
<td>Create Information Security Policies addressing information handled by the Law Association</td>
<td>UITS Information Security Office</td>
<td>4/15/2020</td>
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<td>6.</td>
<td><strong>Communications</strong></td>
<td></td>
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<td></td>
<td>Establish appropriate communication methods and frequency that meet affiliate agreement requirements</td>
<td>Financial Services &amp; Others as Appropriate</td>
<td>3/31/2020</td>
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<tr>
<td>7.</td>
<td><strong>Implementation</strong></td>
<td></td>
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<tr>
<td>a.</td>
<td>Implement above mentioned policies and procedures</td>
<td>N/A</td>
<td>Effective once applicable policies are set</td>
</tr>
<tr>
<td>b.</td>
<td>Update Law Association operating procedures according to the affiliated agreement</td>
<td>N/A</td>
<td>5/31/2020</td>
</tr>
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