

**Arizona State University
Office of University Audits
Coaching Contracts
12/7/2021**

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Coaching Contracts
12/07/2021

Summary: The Coaching Contracts audit was included in the Arizona State University (ASU) FY 2022 audit plan approved by the Arizona Board of Regents Audit Committee and ASU Senior Leadership. The audit focused on the administrative, operational and financial controls related to coaching contracts. This audit is in support of ASU's mission of effective management of financial resources and Sun Devil Athletics' vision to serve as a model among FBS-level athletics programs.

Background: Head coaches for ASU Sun Devil Athletics (SDA) are employed utilizing multiple-year contracts. ABOR policy 6-1001, Multiple-Year Appointments of Head Coaches and Intercollegiate Athletics Directors, defines specific requirements related to the multi-year contracts including contract approval, disclosure to the Board of key contractual terms such as duties, salary, incentives, buyouts and termination, compliance with NCAA and Conference Legislation, and Title IX.

SDA utilizes a standard format for the multi-year contracts. Contracts are drafted with support from the Office of the General Counsel (OGC) and are approved by the SDA Athletic Director as well as the University President. In addition, as required by ABOR policy 6-1001, contracts related to Football, Basketball and Baseball are approved by the Arizona Board of Regents.

SDA Human Resources is primarily responsible for management of these contracts including maintaining the contract repository, ensuring amendments are executed as necessary, and initiating and approving all compensation related transactions. SDA HR works closely with other business units to track various components that impact head coach compensation including the Office of Student-Athlete Development (OSAD) which tracks the academic success of student-athletes and SDA Finance which manages various operational programs. SDA has also partnered with the Business and Finance Shared Services department to support transactional accounting functions including performing the bi-weekly and monthly payroll reconciliations for SDA.

Audit Objective: The objective of this engagement was to assess the design and operating effectiveness of controls related to compliance and fiscal oversight of coaching contracts. Specifically, the following areas were assessed:

- Ensure compliance with ABOR Policy 6-1001, Multiple-Year Appointments of Head Coaches and Intercollegiate Athletics Directors
- Ensure compliance with NCAA & PAC 12 requirements, limitations and restrictions on head coaches related to compensation, benefits, and participation in coaching activities within two years of committing certain NCAA bylaw infractions
- Validate compliance with contractual terms related to salary, supplemental compensation, fringe benefits, and termination payouts

Arizona State University
Coaching Contracts
12/07/2021

- Ensure payroll reconciliations are performed in a complete and timely manner
- Identify opportunities for improvement

Scope: The scope of the audit focused on active agreements for head coaches as well as fiscal, hiring, and operating controls in place during fiscal years 2020 and 2021. This consisted of assessing contracts for 21 individuals. Overall expenses validated as part of this review included the following:

	Base and Additional	Supplemental Compensation	Fringe Benefits	Total
FY2020	8,987,447	1,150,156	354,022	10,491,625
FY2021	9,971,383	813,500	566,555	11,351,438

Controls and processes associated with the standard payroll and human resource processes managed through PeopleSoft were not reviewed as part of this audit. In addition, expenditures processed through Sun Angel Foundation were not in scope of this review.

It was noted as part of this review that head coaches generally do not comply with ASU leave policies related to vacation (SPP702-01) or health leave (SPP701-01). Specifically, exception time is generally not submitted potentially impacting termination or retirement payments for accumulated time. Analysis performed in this area indicated that further review is warranted overall and will be addressed outside of the Coaching Contract audit.

Methodology: The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors and accordingly consisted of tests of procedures necessary to provide a reasonable basis for expressing our opinion. Specifically, audit work consisted of: interviews with appropriate leadership and staff of SDA in addition to other departments includes OGC, Tax, and Shared Services; review of work processes, documented policies and procedures, and; substantive tests including the following:

- Assessing compliance with ABOR policy 6-1001 by reviewing all multi-year contracts and amendments for the head coaches employed in the scope period;
 - Verifying that the contracts for the head coach positions for baseball, basketball and football were approved by ABOR
 - Verifying that contracts, amendments and extensions for head coaches are fully executed by the coach and ASU leadership
 - Verifying the executed contracts include applicable NCAA bylaws and other compliance elements

Arizona State University
Coaching Contracts
12/07/2021

- Verifying contracts comply with the compensation and administration constraints defined by the NCAA
- For head coaches hired during the review period, performed validation to identify any NCAA infractions that resulted in temporary or permanent suspension of coaching related duties within the two years prior to appointment
- Validating head coaches have completed the fingerprint check by confirming fingerprint clearance with the Office of Human Resources
- Verifying the accuracy of regular compensation by tracing FY2020 and FY2021 compensation as reported through PeopleSoft to the contract agreements to ensure compensation was supported and increases met the defined contractual requirements
- Verifying the accuracy of supplemental compensation for performance milestones by tracing FY2020 and FY2021 incentive payments as reported through PeopleSoft to the contract agreements to ensure incentive compensation was supported and verifying the performance milestone associated with the payment was met
- Verifying the accuracy of supplemental compensation related to academic performance achievement incentive payments by tracing FY2020 and FY2021 incentive payments as reported through PeopleSoft to the contract agreement to ensure incentive compensation was supported and validating performance results back to OSAD reporting. In addition, for a sample of 63 student-athletes, validating results from OSAD reporting to PeopleSoft academic records to ensure OSAD reporting was accurate
- Verifying other compensation items were appropriate by performing the following:
 - Verifying the Taxable Fringe Benefits (TFB) received were stated as part of the employment contract
 - Verifying the accuracy of car stipends paid
 - Verifying the TFB associated with a courtesy car was supported by quarterly attestation forms submitted by the coach
 - Verifying the TFB associated with golf privileges/Team shop were supported by approved transactions and did not exceed the amount stated per contract
 - Verifying complimentary season tickets were properly processed for TFB by tracing complimentary season tickets issued through Ticketmaster to the TFB earnings recorded
 - Verifying moving expenses were accurately paid according to the employment contract
 - Verifying country club memberships or related stipend were accurate according to the employment contract
- Verifying the two terminations that occurred during the review period were accurately calculated according to contractual terms

Arizona State University
Coaching Contracts
12/07/2021

- Assessing the accuracy of the payroll reconciliation process by reviewing five bi-weekly on-cycle payroll reconciliations and one monthly reconciliation to ensure variances of |\$50| were adequately explained and that reconciliations were performed and communicated in a timely manner

Conclusion: Overall, SDA has generally implemented effective controls to ensure multiple-year appointments of head coaches comply with ABOR policy 6-1001. Specifically, contracts contain the required provisions and have the required approval when applicable although there were three instances where amendments were not executed related to the additional NCAA Compliance and Title IX language incorporated into the standard agreement and one instance where a country club membership was not included as part of the defined fringe benefits. In addition, it was noted that isolated additional fringe benefit items were paid that were not included in the respective executed contracts including child tuition payments, travel for immediate family for away games, and annual travel for in-laws. Although not included in the contract, all instances had SDA leadership approval.

Regular and supplemental compensation for the two fiscal years assessed was accurate and according to contractual terms with isolated exceptions. Exceptions included one \$1,500 overpayment related to incentive payments, multiple contractual supplemental payments totaling \$102,000 that were paid in FY2020 based on anticipated finishes due to seasons being cancelled as a result of the Covid-19 pandemic, and one supplemental payment of \$20,000 that was negotiated as part of a termination payout although contractually the individual was not eligible to receive the payment. These incidents are considered isolated or specific circumstances where there was adequate approval and visibility to the deviation from the contract and are not considered process related issues.

Improvement is needed to ensure other fringe benefits are appropriately and timely processed through payroll as taxable earnings. Exceptions in this area included TFB not being processed to employee earnings in the year the benefit was received, benefits received not being processed as earnings, complimentary season tickets not be treated as taxable outside of football and men's basketball, and courtesy car benefits being paid without the quarterly attestation form being received with updated information. While this review focused on transactions associated with head coaches, several of the underlying process issues related to taxable fringe benefits apply overall to SDA employees.

As part of this review, SDA leadership communicated they had identified duplicate payments for one head coach related to a country club membership. Specifically, payments have been made on behalf of the coach for a country club membership since March 2020; however, the multi-year agreement for this coach had been modified in July

Arizona State University
Coaching Contracts
12/07/2021

2018 to replace the membership fees with a monthly stipend. The overpayment is estimated at \$31,059. SDA leadership is currently determining appropriate steps to address the duplicate payments in addition to establishing the process to be followed going forward.

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

General Control Standard	Control Environment	Finding No.	Page No.
Reliability and Integrity of Financial and Operational Information			
<ul style="list-style-type: none"> • Head coach base salary and additional compensation is paid in accordance with contractual terms 	Reasonable to Strong Controls in Place.	N/A	N/A
<ul style="list-style-type: none"> • Head coach supplemental compensation is paid in accordance with contractual terms 	Reasonable to Strong Controls in Place.	N/A	N/A
<ul style="list-style-type: none"> • Fringe benefits are provided in accordance with contractual terms 	Reasonable to Strong Controls in Place.	N/A	N/A
<ul style="list-style-type: none"> • Fringe benefits are recorded to earnings in the year the benefit is received 	Opportunity for Improvement	1	8
<ul style="list-style-type: none"> • Contract buyouts and early terminations for head coaches are processed in accordance with contract terms and applicable policies 	Reasonable to Strong Controls in Place.	NA	N/A
<ul style="list-style-type: none"> • The accuracy of contract compensation payments is monitored through the (bi-weekly & monthly) performance of payroll reconciliations 	Reasonable to Strong Controls in Place.	N/A	N/A
Effectiveness and Efficiency of Operations			
<ul style="list-style-type: none"> • Multiple-year head coach contracts comply with applicable ABOR requirements including approvals 	Reasonable to Strong Controls in Place.	N/A	N/A
<ul style="list-style-type: none"> • Amendments to multiple-year head coach contracts are processed in a timely manner 	Opportunity for Improvement	2	9
<ul style="list-style-type: none"> • Pre-employment due-diligence is conducted prior to executing multi-year contracts in compliance with applicable ABOR requirements 	Reasonable to Strong Controls in Place.	N/A	N/A
<ul style="list-style-type: none"> • Head coaches are fingerprint checked at time of hire 	Reasonable to Strong Controls in Place.	N/A	N/A

Arizona State University
 Coaching Contracts
 12/07/2021

Safeguarding of Assets	N/A	N/A	N/A
Compliance with Laws and Regulations			
<ul style="list-style-type: none"> Contract terms for head coaches comply with applicable NCAA requirements and limitations related to compensation and benefits 	Reasonable to Strong Controls in Place.	N/A	N/A

We appreciate the assistance of the SDA Administration team during the audit.

Lisa Grace, Executive Director, University Audit and Advisory Services
 Corinne Austin, Senior Auditor, University Audit and Advisory Services

Audit Results, Recommendations, and Responses

1. Controls over processing and monitoring fringe benefits require improvement to ensure earnings associated with the benefit are complete, accurate, and recorded in a timely manner.

Condition: Earnings associated with fringe benefits received by SDA employees are not processed in a timely and complete manner resulting in earning being recorded in a subsequent tax year than the benefit was received or not at all. Testing identified the following exceptions:

- Personal expenses at the ASU golf course and team shop are not processed in a timely manner. In addition, testing identified approximately \$32,222 in transactions that were not processed in the appropriate tax year
- Multiple instances were noted where personal expenses at the ASU golf course and team shop were not processed as a TFB related to the time period of July 2019-September 2019 totaling \$3,389
- Complementary season tickets issued to sports other than football and men's basketball have not been processed as a taxable benefit. Estimated TFB value for these tickets was \$11,966
- One instance of 22 complementary season tickets issued for a football suite that was not processed as a taxable benefit. Estimated TFB value for these tickets was \$18,000
- Courtesy car quarterly attestation forms are required by SDA on a quarterly basis; however, forms were not collected during FY2021. In addition, forms are not consistently submitted or processed in a timely manner. In these instances, the calculated TFB continued based on the value from the last submitted form.

While testing in this audit was limited to head coaches, the process related items referenced are relevant to SDA overall.

Criteria: ASU must record the value of other fringe benefits as part of the employee's earnings in the year the benefit is received. It is SDA's responsibility to ensure taxable fringe benefits are recorded in the calendar year the benefit is received to ensure that proper tax withholdings occur both from the employee as well as ASU as the employer.

Cause: The existing processes to identify and track fringe benefits are manual in nature and vary based on the specific benefit resulting in amounts being processed inconsistently, untimely or not at all.

Arizona State University
Coaching Contracts
12/07/2021

Effect: Not reporting taxable fringe benefits in the year received may result in underpaid taxes both by the employee as well as ASU as the employer. This may result in potential penalties for failing to withhold the employment taxes and report the employees' taxable income.

Recommendation: SDA has already started utilizing ARMS (automated work flow system) as a more consistent way to manage tracking and reporting fringe benefits for SDA employees. It is recommended that this continue to be implemented combined with timelier processing. Additional controls should also be implemented to ensure reporting related to season tickets includes all complimentary season tickets issued to employees for TFB purposes.

In addition to addressing the process related issues noted, SDA will need to work with the tax department to assess the full amount not reported as TFB in error to determine next steps related to underreported earnings and related tax to both the employee as well as ASU.

Management Response: Due to a variety of factors including employee turnover, timeliness of receipt of statements from vendors and staff response time to statements, SDA has had problems with the process and workflows related to taxation creating some delayed or missed taxations. Much of this has already been addressed and improved in the current fiscal year. SDA will identify the appropriate individuals to initiate and manage the TFB workflows within ARMS and will implement procedures to internally audit them to ensure timely processing. SDA will reinforce to the SDA employees receiving TFBs the importance of identifying business-related expenses promptly. In FY22, a new vendor began managing the team shop and we anticipate better reporting, which will assist with timelier TFB processing.

SDA ticketing is aware of the need to include tickets related to football suites in the TFB process. In addition, all season tickets provided to coaches/staff will be considered taxable going forward. SDA will continue to expand the use of ARMS to more effectively manage this entire process.

SDA will work with ASU Tax to identify how to rectify any underreported TFB earnings.

2. The contracts for three head coaches were missing executed amendments related to additional language implemented addressing NCAA or conference legislation violations and/or Title IX requirements in addition to one instance where a country club membership was not included as part of the defined additional fringe benefits (exhibit B).

Condition: Three head coaches were missing executed amendments related to additional language addressing NCAA or conference legislation violations and/or Title IX requirements. In addition, one contract omitted a country club membership from the defined fringe benefits (Exhibit B) although it was provided to the coach.

Criteria: Additional language related to NCAA or conference legislation violations and Title IX requirements was implemented into the standard agreement template. Amendments were executed for existing coaches to incorporate into active agreements.

Cause: Amendments were not executed for three coaches. The initial intent was to incorporate into the next amendment being processed for the specific coach; however two of the coaches have not had a subsequent amendment. The remaining instance was missed even though there had been a subsequent amendment.

Effect: For three coaches, the existing contracts did not include all required contractual provisions. In addition, for one coach, the other fringe benefit attachment was incomplete.

Recommendation: Execute amendments to incorporate the additional language implemented as part of the standard agreement for the two head coaches in addition to amending the one contract that was missing the defined fringe benefit.

Management Response: Both amendments are in the process of being signed. Note that the additional language required by the NCAA Bylaw change applies to the coaches by virtue of their employment at an NCAA member institution regardless of whether the language appears in an amendment to the coach's contract. Nevertheless, SDA agrees that the NCAA Bylaw requires inclusion of the language.

SDA was aware of the error on the fringe benefit item and is updating the contract in a current extension to correct and include this item. SDA HR/Finance and the Sun Angel Foundation now have appropriate communication on the fringe benefit items and therefore will avoid errors like this moving forward.

Arizona State University
Coaching Contracts
12/07/2021

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