

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

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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

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- 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

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- 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
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- 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

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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 |

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|---|---|-----|-----|
| 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 associat**

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Effect: Not reporting taxable fringe benefits in the year received may result in underpaid

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