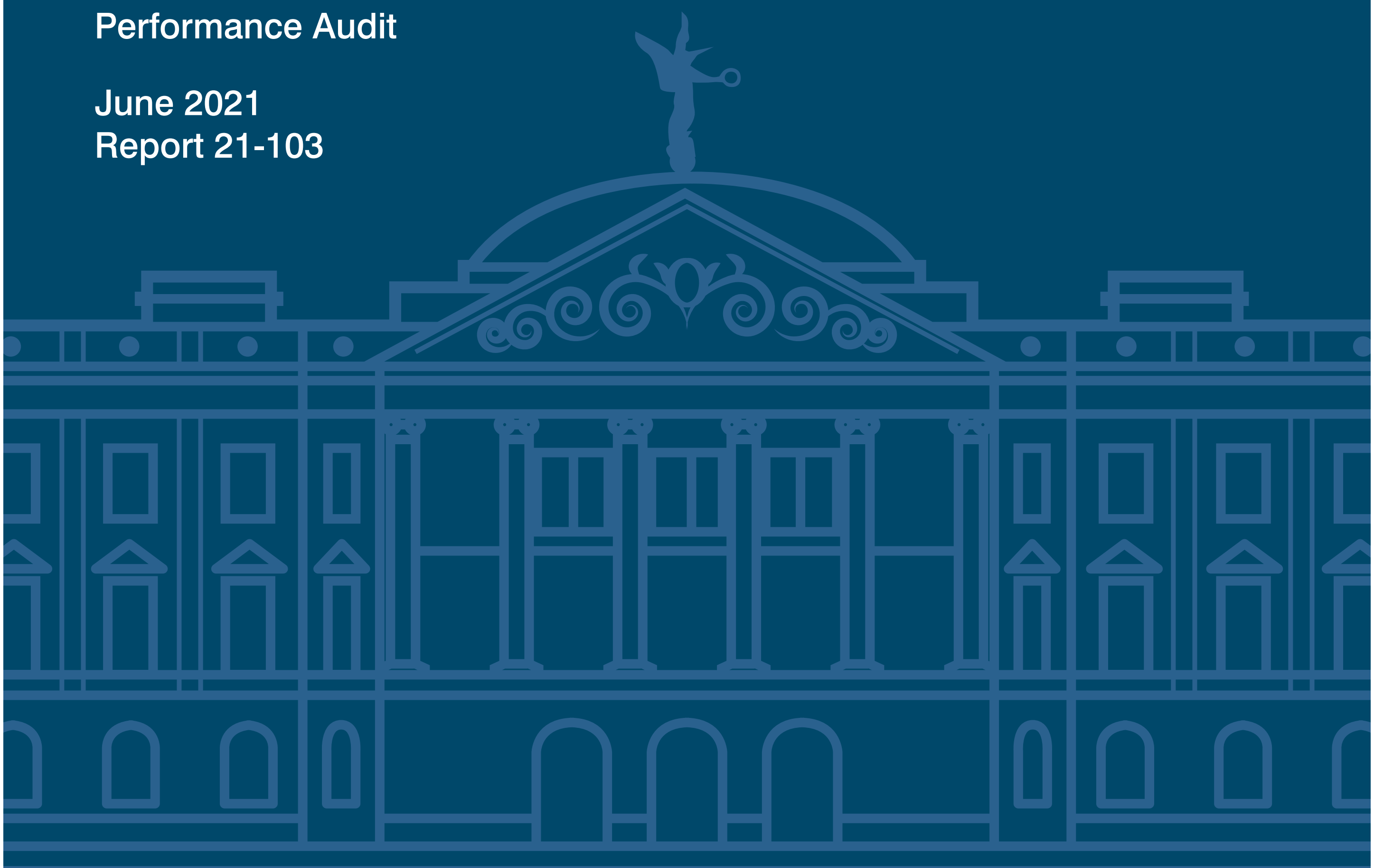
Arizona Board of Regents
University-Affiliated Organizations

Universities have not consistently followed ABOR's guidelines governing university relationships with affiliated organizations, limiting full transparency and accountability for some university resources provided to and the benefits received from these organizations, nor did ABOR regularly receive information on affiliated organization activities

Performance Audit

June 2021
Report 21-103



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

ARIZONA
Auditor General
Making a Positive Difference

The Arizona Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

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Audit Staff

Dale Chapman, Director
Jeff Gove, Manager

Contact Information

Arizona Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018-7271

(602) 553-0333

contact@azauditor.gov

www.azauditor.gov

LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

June 3, 2021

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Mr. John Arnold, Executive Director
Arizona Board of Regents

Transmitted herewith is the Auditor General's report, *A Performance Audit of the Arizona Board of Regents—University-Affiliated Organizations*. This report is in response to a September 19, 2018, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in its response, the Arizona Board of Regents agrees with all the findings and plans to implement all the recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Lindsey A. Perry, CPA, CFE
Auditor General

cc: Arizona Board of Regents members

Report Highlights

Arizona Auditor General
Making a positive difference

Arizona Board of Regents (ABOR)

University-Affiliated Organizations

Universities have not consistently followed ABOR's guidelines governing university relationships with affiliated organizations, limiting full transparency and accountability for some university resources provided to and the benefits received from these organizations, nor did ABOR regularly receive information on affiliated organization activities

Audit purpose

To determine whether ABOR's guidelines governing university-affiliated organizations, such as university foundations and alumni associations, were consistent with recommended practices; the extent to which the universities complied with these guidelines; and whether ABOR's oversight helped ensure university compliance with its guidelines.

Key findings

- ABOR defines affiliated organizations as legally separate nonprofit corporations that hold economic resources and carry out activities primarily in support of the universities; and the State's 3 universities have established relationships with 19 affiliated organizations, including fundraising foundations, real estate organizations, and alumni associations.
- In fiscal year 2019, the universities' affiliated organizations made $253.5 million in payments to benefit the universities for various purposes, including donations and scholarships, and the universities paid $102.8 million to their affiliated organizations for various purposes, including service fees, real estate debt service, and expense reimbursements.
- Universities lacked current agreements and complete documentation and disclosure of some transactions with some of their affiliated organizations, limiting their ability to demonstrate the public purpose of university resources provided to these organizations and hold them accountable for providing expected benefits and agreed-upon services.
- ABOR's affiliated organzation guidelines lack some requirements to ensure full transparency and accountability and ABOR has not explicitly overseen universities' compliance with its guidelines.
- ABOR has not required universities to report information it needs to identify, monitor, and mitigate risks associated with affiliated organization activities such as mismanagement, investment losses, and fraud.

Key recommendations

ABOR should:

- Revise its affiliated organization guidelines and/or policies to require the universities to enter into and periodically review and update written agreements with all affiliated organizations with which they have established relationships.
- Require the universities to document the exchange of public resources provided to affiliated organizations and the benefits and services that the affiliated organizations will provide to the universities and/or the State university system in a written agreement.
- Develop and implement a process to help ensure the universities comply with its affiliated organization guidelines.
- Develop and implement a process and/or use existing processes to regularly obtain information from the universities about affiliated organizations' activities and their associated risks and liabilities to help ensure it can identify and monitor risks and their potential impact to the universities and ABOR.

See Performance Audit Report 21-103, June 2021, at www.azauditor.gov.

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INTRODUCTION

The Arizona Auditor General has released the second in a series of 3 audit reports of the Arizona Board of Regents (ABOR) as part of ABOR's sunset review. This performance audit determined whether ABOR's guidelines governing university-affiliated organizations (affiliated organizations), such as university foundations and alumni associations, were consistent with recommended practices; the extent to which the universities complied with these guidelines; and whether ABOR's oversight helped ensure university compliance with its guidelines. The first performance audit (Report 19-115) assessed ABOR's oversight of commercial real estate developments on its property, and the final audit report will provide responses to the statutory sunset factors.

ABOR is responsible for governing State universities

ABOR is the governing body of the State's 3 universities—Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UArizona)—and consists of 12 members, including the Governor, the Superintendent of Public Instruction, and 10 Governor-appointed members.[1] Arizona Revised Statutes (A.R.S.) §15-1626 authorizes ABOR to exercise the powers necessary for the effective governance and administration of the universities, including adopting and authorizing each university to adopt regulations, policies, rules, or other measures deemed necessary for the universities' administration and governance and authorizes ABOR to delegate any of its administrative and governance authorities to the university presidents or the presidents' designees.

Like colleges and universities in other states, Arizona's universities have established relationships with 19 affiliated organizations to perform functions on their behalf

ABOR defines affiliated organizations as legally separate nonprofit corporations that hold economic resources and carry out activities primarily in support of the universities. According to the Association of Governing Boards of Universities and Colleges (AGB), although some public universities and university systems in the U.S. perform activities such as fundraising and alumni engagement internally, other public colleges and universities have established relationships with legally separate affiliated organizations to conduct these activities, and some universities have relied on affiliated organizations for fundraising for over 100 years.[2] Additionally, according to AGB, because affiliated organizations are separate legal entities, they are also able to perform some functions that would be impractical or less efficient if undertaken by a public university or college, such as real estate transactions or other investment activities.

ASU, NAU, and UArizona have established relationships with 19 legally separate affiliated organizations, including fundraising foundations, real estate organizations, alumni associations, and other organizations, some

[1] Two of the 10 ABOR members are student members. Each year, the Governor designates a university on a rotating basis to submit a list of nominees for student members. The designated university's associated student organization selects 3 nominees through a majority vote of its governing body. The Governor considers the 3 nominees when appointing the student members.

[2] Association of Governing Boards of Universities and Colleges (AGB). (2016). *AGB board of directors' statement on institution-foundation partnerships*. Washington, DC. Retrieved 3/2/2020 from https://agb.org/wp-content/uploads/2019/04/statement_2016_institution_foundation_partnerships.pdf. AGB has approximately 40,000 members from more than 2,000 institutions and foundations, and its stated mission is to empower college, university, and foundation boards to govern with knowledge and confidence by providing guidance and thought leadership through expert services and resources.

of which have subsidiary organizations (see Table 1 for information about each of the universities' largest affiliated organizations and their subsidiaries, based on total net assets).[3]

Table 1
Universities' largest affiliated organizations based on net assets
As of June 30, 2019
(Unaudited)

University	Affiliated organization	Purpose	Total net assets as of June 30, 2019
ASU	ASU Enterprise Partners (ASUEP) Subsidiaries include: ASU Foundation ASU Research Enterprise Enterprise Collaboratory at ASU Skysong Innovations, LLC University Realty, LLC	To support ASU by receiving, holding, investing, and administering property and making expenditures to or for the benefit of ASU.	$1,059,510,000
UArizona	The University of Arizona Foundation, Inc. (UA Foundation)	To support and enhance the vision, mission, and values of UArizona through the development and management of private support.	925,622,000
NAU	The Northern Arizona University Foundation, Inc. (NAU Foundation) Subsidiaries include: Northern Arizona Real Estate Holdings, LLC NAU Ventures, LLC	To support NAU by receiving, holding, investing, and administering property and making expenditures to or for the benefit of NAU.	180,611,000

Source: Auditor General staff analysis of affiliated organization information provided by the universities and the affiliated organizations' fiscal year 2019 audited financial statements.

According to the universities and information reported on their affiliated organizations' websites, the affiliated organizations conduct various activities to support and benefit the universities, including:

- Fundraising/development, including managing fundraising campaigns and donor relations.
- Endowment and asset management, such as providing investment services or managing intellectual property.
- Property acquisition and management, such as acquiring commercial and residential real estate to support the universities.
- Alumni engagement, including hosting events for alumni, such as career networking or social activities.
- Research, such as conducting applied research and connecting private industry and federal sponsors with university researchers.
- International operations, including developing partnerships with universities and institutions around the world.
- Capital facilities development, such as residence hall financing, construction, and maintenance.

[3] The universities reported that these 19 affiliated organizations have at least 17 subsidiary organizations.

According to the universities' fiscal year 2019 Comprehensive Annual Financial Reports (financial reports) and as shown in Table 2, the universities' affiliated organizations made $253.5 million in payments to benefit the universities.[4] These payments consisted of the following:

- **ASU—**$146.2 million, including $119.5 million for cash donations, $11.5 million for vendor payments, $9.5 million for scholarships, and $5.7 million for rent payments to ASU.[5]
- **UArizona—**$97.7 million, including $77.1 million in payments made to UArizona and $20.6 million in payments made to third parties on behalf of UArizona.
- **NAU—**$9.6 million for educational purposes, scholarships, facilities, and other university programs.

Table 2
Number of affiliated organizations, affiliated organization net assets, university payments to affiliated organizations, and affiliated organization payments to benefit the universities by university
Fiscal year 2019
(Unaudited)

University	Number of affiliated organizations	Total affiliated organization net assets (in millions)	Value of disclosed in-kind resources provided to affiliated organizations (in millions)	University payments to affiliated organizations (in millions)	Affiliated organization payments to benefit the universities (in millions)
ASU	10	$1,127	$5.5	$93.2	$146.2[1]
UArizona	7	979	1.8	6.9	97.7
NAU	2	178	0.0	2.7	9.6
Total	**19**	**$2,284**	**$7.3**	**$102.8**	**$253.5**

[1] According to ASU, in fiscal year 2019, it received an additional $6.6 million in cash payments that were not included in the $146.2 million of affiliated organization payments to benefit ASU that were reported in ASU's financial report because the affiliated organizations' audited financial statements did not separately report these payments.

Source: Auditor General staff analysis of affiliated organization information provided by the universities, the universities' fiscal year 2019 financial reports, and the affiliated organizations' fiscal year 2019 audited financial statements.

According to transaction information the universities provided, in fiscal year 2019, the universities paid $102.8 million to their affiliated organizations for various purposes, including service fees, real estate debt service, expense reimbursements, and return of unused scholarship monies (for more information on the documentation and disclosure of transactions between the universities and their affiliated organizations, see Finding 1, pages 5 through 9). Additionally, according to the affiliated organizations' audited financial statement disclosures, in fiscal year 2019, the universities provided in-kind resources to their affiliated organizations, such as office space and administrative services, with a fair market value of at least $7.3 million.

As of June 30, 2019, the universities' 19 affiliated organizations reported combined net assets of nearly $2.3 billion.

[4] Each of the universities' financial reports reported affiliated organization payments using different categories.

[5] According to ASU, in fiscal year 2019, it received an additional $6.6 million in cash payments that were not included in the $146.2 million of affiliated organization payments to benefit ASU that were reported in ASU's financial report because the affiliated organizations' audited financial statements did not separately report these payments. As a result, the $253.5 million in payments to benefit the universities that were reported in the universities' financial reports also does not include these payments.

Appendix A, pages a-1 through a-4, provides more information about the 5 affiliated organizations for which we reviewed the universities' written affiliated organization agreements, and Appendix B, pages b-1 through b-7, provides more information about the remaining 14 affiliated organizations.

ABOR has established guidelines governing universities' relationships with affiliated organizations

ABOR has established guidelines governing the universities' relationships with affiliated organizations (guidelines) that delegate responsibility for establishing affiliated organization policies and procedures to the universities and specify several provisions the universities must include in their affiliated organization policies and procedures.[6] For example, these provisions include requirements for the universities to have written agreements with affiliated organizations when the university intends to provide them with university rights and resources and that all transactions between an affiliated organization and the university shall meet the normal tests for ordinary business transactions, including proper documentation and approvals.[7] ABOR's guidelines state that an affiliated organization must be a legally separate nonprofit corporation that holds economic resources for and carries out activities primarily in support of the universities. Additionally, the guidelines require affiliated organizations to formally agree to comply with the universities' affiliated organization policies and procedures (see Finding 1, pages 5 through 9, for more information).

6 During the audit, ABOR's guidelines were included as a separate subsection of its policy manual. In May 2021, ABOR reported it planned to eliminate the guidelines subsection of its policy manual and incorporate its guidelines governing the universities' relationships with affiliated organizations into its policies.

7 According to ABOR's guidelines, university rights refer to the right to use the university's name, logo, and other rights, services, or benefits that the university may authorize.

Universities have not consistently documented and disclosed some affiliated organization transactions, limiting full transparency and accountability, and ABOR has not explicitly overseen university compliance with its guidelines

Universities have not fully documented and disclosed some transactions with affiliated organizations, which are legally separate entities, limiting full transparency and accountability

AGB, a university and college governing board and foundation member organization that provides guidance and thought leadership, recommends that governing boards establish policies and practices that require transactions between institutions and affiliated organizations to be independently conducted and maintained, including having written agreements with affiliated organizations that are periodically reviewed and updated as well as documenting and disclosing exchanges of resources between institutions and affiliated organizations.[8,9] ABOR's guidelines governing university relationships with affiliated organizations reflect many of AGB's recommended practices for ensuring the transparency and accountability of public resources provided to legally separate affiliated organizations. As discussed in the Introduction (see page 4), these guidelines require the universities to have written agreements with affiliated organizations when the university intends to provide them with university rights and resources.[10,11] In addition, the guidelines require that all transactions between an affiliated organization and the university shall meet the normal tests for ordinary business transactions, including proper documentation and approvals.

However, the universities have not consistently followed ABOR's guidelines, which has limited transparency and accountability for some university resources provided to affiliated organizations, such as university monies, staff support, and office space, and the value of the benefits and services provided by affiliated organizations in exchange for these resources. Specifically, we reviewed the universities' affiliated organization written agreements

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[8] Association of Governing Boards of Universities and Colleges (AGB). (2016). *AGB board of directors' statement on institution-foundation partnerships*. Washington, DC. Retrieved 3/2/20 from https://agb.org/wp-content/uploads/2019/04/statement_2016_institution_foundation_partnerships.pdf.

[9] AGB. (2014). *Association of Governing Boards illustrative memorandum of understanding between a public institution or system and an affiliated foundation*. Washington, DC. Retrieved 3/2/2020 from https://agb.org/reports-2/illustrative-memorandum-of-understanding-between-a-public-institution-or-system-and-an-affiliated-foundation.

[10] According to ABOR's guidelines, university rights refer to the right to use the university's name or logo and other rights, services, or benefits that the university may authorize.

[11] During the audit, ABOR's guidelines were included as a separate subsection of its policy manual. In May 2021, ABOR reported it planned to eliminate the guidelines subsection of its policy manual and incorporate its guidelines governing the universities' relationships with affiliated organizations into its policies.

for a judgmental sample of 5 of 19 affiliated organizations and other university and affiliated organization documentation and found:[12]

- **Universities lacked current agreements with some affiliated organizations to which they provided university resources, limiting the universities' ability to demonstrate the public purpose of university resources provided to affiliated organizations and hold the affiliated organizations legally accountable for providing expected benefits—**All 3 universities had at least 1 expired or outdated agreement or lacked a formal agreement with an affiliated organization to which they provided university resources. For example, UArizona has never had a written agreement with the Law College Association of the University of Arizona (Law College Association) but reported that it provided the Law College Association with administrative and program support, such as administrative staff time and equipment, during fiscal year 2019 (for more information about the Law College Association, see Appendix B, page b-6). Absent an agreement between UArizona and the Law College Association, as required by ABOR's guidelines, the purpose of UArizona's provision of university resources in return for benefits and services from the Law College Association is not documented and transparent. Additionally, without a formal agreement, UArizona's ability to hold the Law College Association legally accountable for providing expected benefits is limited.[13]

- **Universities lacked complete documentation and disclosure of some transactions with the legally separate affiliated organizations, limiting their ability to demonstrate the amount and public purpose of providing university resources to affiliated organizations and to hold them accountable for providing agreed upon services—**Inconsistent with ABOR's requirement that university-affiliated organization transactions meet the normal tests for ordinary business transactions, the universities did not fully document or disclose the value and purpose of some university resources provided to affiliated organizations and/or the services/benefits expected in return for these resources, as would be expected for business transactions between legally separate entities. Specifically:

    - **Universities lacked complete documentation and disclosure of the value and/or purpose of university in-kind resources provided to at least 1 of each of their affiliated organizations—**For at least 3 affiliated organizations, including the ASU Alumni Association, the NAU Foundation, and the UA Foundation, the value and/or purpose of university in-kind resources each university provided to these organizations, such as the value of university office space the affiliated organization uses, was not fully documented or disclosed in a written agreement, university financial documentation, or other university reporting (for more information about the ASU Alumni Association, see Appendix A, page a-2; for the NAU Foundation, see Appendix A, page a-3; and for the UA Foundation, see Appendix A, pages a-3 through a-4). For example, according to the ASU Alumni Association's fiscal year 2019 audited financial statements, ASU provided the ASU Alumni Association more than $1.1 million of in-kind resources in fiscal year 2019 (see Appendix A, page a-2), but ASU did not document this provision of in-kind resources in its agreement with the ASU Alumni Association. Additionally, the ASU Alumni Association's fiscal year 2019 audited financial statements reported the value of these resources and described the resources as office space and data processing/administrative support services. It did not report that these in-kind resources included 13 ASU staff positions that, according to ASU, provided support for alumni-related activities for both ASU and the ASU Alumni Association. As a result, the purpose of ASU's provision of these in-kind resources was not fully documented and disclosed. Similarly, NAU did not disclose that it provided the NAU Foundation with subsidized rent for the office space the NAU Foundation used in fiscal year 2019. As a result, the amount and public purpose of providing university resources to this affiliated organization and any associated benefits NAU received was not publicly disclosed.

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[12] We selected our sample from the 19 affiliated organizations with which the universities had established relationships, as of May 2020. The 5 affiliated organizations in our sample included ASUEP, the ASU Alumni Association, the NAU Foundation, the University of Arizona Alumni Association, and the UA Foundation.

[13] UArizona's fiscal year 2019 internal audit of the Law College Association reported its lack of an agreement as a finding, and UArizona reported that as of April 2021, an affiliation agreement has been drafted and is pending review and approval by the Law College Association's board of directors.

- **ASU and UArizona lacked documentation of the services received in exchange for fees they paid to some affiliated organizations—**ASU and UArizona have entered and annually updated supplemental service fee agreements (fee agreements) with ASUEP and the UA Foundation, respectively, in which each university has agreed to annually pay a fee to its respective affiliated organization for fundraising and other related services. Specifically, for fiscal year 2019, ASU agreed to pay a service fee of approximately $23 million to ASUEP in exchange for various services, including research and management services, international projects, and technology transfer and intellectual property management. Similarly, UArizona agreed to pay a service fee of $8.2 million to the UA Foundation in exchange for various services, including fundraising, donor development, and endowment asset management.

  However, ASU and UArizona lacked documentation of the services and benefits received in exchange for these fees. Specifically, ASU's fiscal year 2019 ASUEP fee agreement did not include information to demonstrate the benefits ASU expected to receive in exchange for the fee, such as specific deliverables, performance measures, or other metrics related to the agreed upon services or the cost and quantity of any specific services that should be provided. Additionally, although UArizona's agreement with the UA Foundation requires the UA Foundation to annually establish metrics for its development activities and report on these metrics to UArizona quarterly, UArizona reported it did not have any of these reports. Further, neither ASU nor UArizona provided us with detailed documentation or explanations for how the annual service fee amounts were determined, such as documentation demonstrating the affiliated organizations' anticipated costs for providing the agreed upon services. Finally, we reviewed invoices and other supporting documentation for 1 monthly fee agreement payment ASU made to ASUEP and 2 quarterly fee agreement payments UArizona made to the UA Foundation, respectively, but found that the invoices and supporting documentation did not provide any further details about the services and benefits that were actually provided in exchange for the payments and only specified the billing period and total amount due.[14]

  Because of this lack of documentation, ASU and UArizona could not demonstrate that their transactions with these 2 affiliated organizations were independently documented and conducted as required by ABOR's guidelines.[15] Additionally, ASU and UArizona may lack evidence of the value of the benefits they received in return for the service fees they paid, increasing the risk they could face difficulties demonstrating their compliance with the Arizona Constitution's gift clause requiring that the payment of public monies is for a public purpose and the value to be received by the public is not far exceeded by the consideration being paid by the public.[16] Further, ASU and UArizona limited their abilities to hold ASUEP and the UA Foundation accountable for the services expected to be provided in exchange for the service fees paid.

ABOR's guidelines lack some requirements to ensure full transparency and accountability and ABOR has not explicitly overseen universities' compliance with its guidelines

We identified 2 factors that contributed to the universities not fully documenting and disclosing transactions with their legally separate affiliated organizations. Specifically:

- **ABOR's guidelines align with much of AGB's guidance but do not explicitly include some of AGB's recommended practices for independently conducting and maintaining transactions with affiliated**

[14] We reviewed 1 of 30 financial transactions ASU executed with ASUEP and 2 of 4 financial transactions UArizona executed with the UA Foundation in fiscal year 2019.

[15] We requested that ASU and UArizona obtain any accounting records or other documentation maintained by ASUEP and the UA Foundation, respectively, demonstrating how they used the university monies provided to them. However, as of November 2020, neither ASU nor UArizona had provided the requested documentation or explained why it was not provided.

[16] Arizona Constitution, Art. IX, §7. See also *Wistuber v. Paradise Valley Unified School Dist.*, 141 Ariz. 346, 687 P.2d 354 (1984), *Turken v. Gordon*, 223 Ariz. 342, 224 P.3d 158 (2010), and *Schires v. Carlat*, 250 Ariz. 371, 480 P.3d 639 (2021).

organizations—Although ABOR's guidelines require all transactions between an affiliated organization and the university to meet the normal tests for ordinary business transactions, the guidelines:

- ○ **Do not require affiliated organization agreements to be periodically reviewed or updated—** ABOR's guidelines do not require any existing agreements between a university and an affiliated organization to be periodically reviewed and updated, as recommended by AGB.

- ○ **Do not require all resource exchanges between affiliated organizations and the universities to be specified in written agreements—**AGB recommends that universities have agreements with affiliated organizations that outline any services and resources an affiliated organization will provide to a university in addition to any university resources that will be provided to an affiliated organization. Although ABOR's guidelines require written agreements between the universities and affiliated organizations when the university intends to provide an affiliated organization with university rights and resources, they do not similarly require the university to outline in an agreement any services or resources an affiliated organization intends to provide to the university, as recommended by AGB.

- **ABOR has not explicitly overseen the universities' compliance with its guidelines governing university relationships with affiliated organizations—**Although ABOR has established mechanisms for overseeing the universities' compliance with some of its other policies and guidelines, such as internal audits overseen by ABOR's audit committee and direct reporting to ABOR committees for some university functions, ABOR has not explicitly incorporated oversight of the universities' compliance with its guidelines related to affiliated organizations into these existing processes. For example:

  - ○ **ABOR has not required periodic internal audits or reviews of the universities' agreements with affiliated organizations—**As a result, although UArizona has included affiliated organization agreements in its annual audit plans, NAU and ASU have not. In contrast, in response to a prior Auditor General audit, ABOR requires each university's annual internal audit plan to include an IT security component, such as audits of specific IT security controls or processes.[17]

  - ○ **ABOR's guidelines do not specify any required reporting to ABOR or its committees, which ABOR has established to help it oversee the universities—**For example, although AGB states that higher education governing boards have a responsibility to oversee affiliated organizations, ABOR's guidelines do not require the universities to explicitly document and report to ABOR on their resource exchanges with affiliated organizations.[18] University system governing boards in other states have adopted policies that promote transparency and accountability by requiring university agreements with affiliated organizations to document the exchange of resources and benefits and that require universities to submit annual reports that compare the costs and benefits of universities' affiliated organization activities (see textbox on page 9 for examples of other university system policies). These types of policies could provide ABOR with a consistent mechanism to gather similar information from the universities on their relationships with their affiliated organizations and their compliance with ABOR's guidelines.

[17] See Auditor General Report 18-104 *Arizona's Universities—Information Technology Security—Universities have implemented several information technology (IT) security practices and can further improve IT security, policies, procedures, and practices*.

[18] AGB, 2016.

Examples of university system policies that require resource exchange documentation

Minnesota State System—This system requires each of its college's and university's foundations to annually submit to the institution a report for the prior fiscal year that states the dollar value of administrative support the foundation received from the college or university and the dollar value of any benefits returned to the college, university, or the system and/or its students. The Minnesota State System's governing board policy also states that the system chancellor shall report this information annually to the governing board.

University of Wisconsin (UW) System—The UW System's affiliated organization policies require agreements with affiliated organizations to document the exchange of services and resources between the affiliated organization and institution and promote transparency by requiring colleges or universities to annually compare the administrative support provided and benefits received from each affiliated organization to the UW System.[1] The UW System Administration receives and synthesizes this information to provide an annual summary of this exchange of resources and a high-level overview of the system's affiliated organizations to the UW System Board of Regents.

[1] Per policy, UW institutions must have a memorandum of understanding with their primary fundraising foundation, and an agreement is required for other affiliated organizations if the UW institution annually provides administrative support valued at $100,000 or more to that organization. Policy also states that on an annual basis, the UW System or institution shall provide an accounting of administrative support when the total administrative support provided to the primary fundraising foundations or other affiliated organization is valued at $100,000 or greater.

Source: Auditor General staff analysis of the Minnesota State System and UW System policies and procedures.

Recommendations

ABOR should:

1. Revise its affiliated organization guidelines and/or policies to:

   a. Require the universities to enter into and periodically review and update written agreements with all affiliated organizations with which they have established relationships to hold economic resources and carry out activities primarily in support of the universities.

   b. Require the universities to document the exchange of public resources provided to affiliated organizations and the benefits and services that the affiliated organizations will provide to the universities and/or the State university system in a written agreement.

2. Develop and implement a process to help ensure the universities comply with its affiliated organization guidelines, including:

   a. Establishing reporting or internal audit requirements related to the universities' implementation of ABOR's guidelines. At a minimum, these requirements should include assessing whether the universities:

      - Enter into and periodically review and update written agreements with their affiliated organizations.
      - Document and fully disclose the value of university resources provided to affiliated organizations, including but not limited to university monies, personnel, office space, and other in-kind resources.
      - Document the receipt of services and benefits provided by affiliated organizations in exchange for university resources and how resource exchanges with affiliated organizations are determined.

   b. Requiring the universities to document and report to ABOR on their resource exchanges with affiliated organizations.

ABOR response: As outlined in its response, ABOR agrees with the finding and will implement the recommendations.

FINDING 2

ABOR has not required universities to report information it needs to identify, monitor, and mitigate risks associated with affiliated organization activities

ABOR did not regularly receive information on affiliated organization activities, limiting its ability to identify, monitor, and mitigate risks related to these activities, such as risk of mismanagement, investment losses, and fraud

AGB recommends that governing boards should establish policies and practices to help ensure they are well-informed about risks or liabilities related to affiliated organizations' activities that could impact the finances or reputation of the institutions. Additionally, AGB recommends that university administrators and governing boards collaborate closely with affiliated organizations to carefully assess risks when considering, planning, and executing entrepreneurial ventures that affiliated organizations will undertake.[19]

Although ABOR reported that its existing processes allow it to be well-informed about the scope of the universities' affiliated organizations' relationships with the universities and their activities, these processes are not specifically designed to provide sufficient detail about the risks and liabilities and potential impacts of affiliated organizations' activities. Specifically:

- **ABOR requested presentations from each university foundation's president, but these presentations did not include consistent information about investment activities or other activities—**At the request of ABOR members, the 3 universities' foundation (ASU Foundation, NAU Foundation, and UA Foundation) presidents presented at ABOR meetings between June 2019 and February 2020. All 3 presentations included information about the mission, purpose, and business structure of each foundation. However, the information presented about investment activities, which AGB indicates are higher risk, varied between the presentations. For example, the ASU Foundation's presentation did not discuss investment activities and/or risks. Conversely, the NAU Foundation's presentation provided an overview of high-level risks facing the NAU foundation, such as potential challenges related to one of its third-party license agreements that may affect its revenue stream. Additionally, ABOR did not request presentations from other affiliated organizations, including those that are engaged in activities that also pose reputational and financial risks. For example, all the universities have an affiliated organization or affiliated organization subsidiary that engages in real estate activities, but the foundation presidents' presentations did not include details about these affiliated organizations or their activities.

[19] Association of Governing Boards of Universities and Colleges (AGB). (2016). *AGB board of directors' statement on institution-foundation partnerships*. Washington, DC. Retrieved 3/2/20 from https://agb.org/wp-content/uploads/2019/04/statement_2016_institution_foundation_partnerships.pdf.

- **ABOR annually receives universities' financial reports, but the financial reports are not designed/required to provide comprehensive information on the risks, liabilities, and potential impacts of affiliated organizations' activities—**ABOR reported that it reviews the universities' financial reports for identified financial risks related to affiliated organizations and to determine if it should take additional actions to address those risks. Although the universities' financial reports provide required historical information, such as financial statements and related disclosures that provide an overview of the affiliated organizations' financial positions, they offer only limited information regarding affiliated organizations' activities, related risks and liabilities, and their potential impact on the universities. For example, the universities' fiscal year 2019 financial reports included some detailed information on investments, accounting policies, and endowments. This included information on the universities' exposure to specific types of financial investment risks—such as risks related to interest rate fluctuations—that is required by accounting standards. However, the universities' financial reports are not required to and therefore do not generally include information about affiliated organizations' and their subsidiaries' international and real estate activities and the risks associated with those activities. For example, although the Campus Research Corporation (CRC)—a UArizona affiliated organization—is planning to develop a 175-acre mixed-use development on ABOR property that will include residential, retail, commercial, and hotel uses, UArizona's fiscal year 2019 financial report did not include any information about this project and any associated risks. Further, although ASU's fiscal year 2019 service agreement with ASUEP states that ASUEP will conduct entrepreneurial development of real estate projects near ASU campuses, ASU's fiscal year 2019 financial report did not include any information on ASUEP's real estate development activities or any risks associated with these activities.

The lack of affiliated organization information that ABOR receives limits its ability to be informed about the risks and liabilities associated with their activities. As a result, ABOR may not be able to identify, monitor, and mitigate potential financial, operational, and reputational risks to itself and the universities related to affiliated organization activities. For example, the CRC's and ASUEP's real estate development activities could pose financial and reputational risks to the universities and ABOR, such as risks that project management decisions or external factors, such as changing economic conditions, cause a project to generate less revenue than anticipated and create financial liability for the affiliated organization that could in turn impact ABOR and the universities.

Examples of affiliated organization activities that have negatively impacted universities in other states include mismanagement, underperforming investments—such as real estate and endowments—and illegal transfers of university funds. For example, from 2010 to 2014, University of Wisconsin-Oshkosh officials made $11 million in illegal financial transfers to the University of Wisconsin-Oshkosh Foundation (UWO Foundation) related to 5 real estate projects, and did not properly record these transfers in the university's accounting records.[20] Financial audits of the UWO Foundation also did not reveal any real estate risks, such as investing in a hotel. Additionally, university officials executed illegal guarantees pledging the university's financial support for the UWO Foundation's bank loans related to these real-estate projects. Ultimately, the UWO Foundation went bankrupt because of the real estate projects, creating $15 million in debt for the UW System and the State of Wisconsin of which they negotiated to pay $6.3 million in December 2018. At the time these inappropriate transactions occurred, the UW System Board of Regents and Administration did not have a policy governing the relationships between UW System institutions and their affiliated organizations.

ABOR lacks a process to help ensure it is well informed about risks associated with affiliated organization activities

ABOR has not established a process to help ensure it is well informed about affiliated organizations' activities and their associated risks and liabilities. For example, although ABOR has established governance processes through which it receives some information from the universities on significant risks that could negatively impact their strategic missions and reputation, such as annual presentations from the universities and regular reporting to ABOR and its committees, it has not explicitly required the universities to provide information about affiliated

[20] We obtained this information primarily from an audit of the University of Wisconsin System, court records related to investigations, and reports on the audit and investigations.

organizations' risks and liabilities through these processes. However, these existing processes would provide ABOR with opportunities to obtain information about the universities' affiliated organizations' activities and the associated risks. Additionally, ABOR's guidelines lack requirements and/or expectations for the information the universities should receive from affiliated organizations and provide to ABOR to help ensure ABOR receives consistent information about the affiliated organizations' activities and associated risks and liabilities.[21]

Recommendations

ABOR should:

3. Develop and implement a process and/or use existing processes to regularly obtain information from the universities about affiliated organizations' activities and their associated risks and liabilities to help ensure it can identify and monitor risks and their potential impact to the universities and ABOR.

4. Revise its guidelines and/or policies to include requirements and/or expectations for the information the universities should receive from affiliated organizations and provide to ABOR to help ensure ABOR receives consistent information about the affiliated organizations' activities and associated risks and liabilities.

ABOR response: As outlined in its **response**, ABOR agrees with the finding and will implement the recommendations.

[21] During the audit, ABOR's guidelines were included as a separate subsection of its policy manual. In May 2021, ABOR reported it planned to eliminate the guidelines subsection of its policy manual and incorporate its guidelines governing the universities' relationships with affiliated organizations into its policies.

SUMMARY OF RECOMMENDATIONS

Auditor General makes 4 recommendations to ABOR

ABOR should:

1. Revise its affiliated organization guidelines and/or policies to:

    a. Require the universities to enter into and periodically review and update written agreements with all affiliated organizations with which they have established relationships to hold economic resources and carry out activities primarily in support of the universities.

    b. Require the universities to document the exchange of public resources provided to affiliated organizations and the benefits and services that the affiliated organizations will provide to the universities and/or the State university system in a written agreement (see Finding 1, pages 5 through 9, for more information).

2. Develop and implement a process to help ensure the universities comply with its affiliated organization guidelines, including:

    a. Establishing reporting or internal audit requirements related to the universities' implementation of ABOR's guidelines. At a minimum, these requirements should include assessing whether the universities:

        - Enter into and periodically review and update written agreements with their affiliated organizations.
        - Document and fully disclose the value of university resources provided to affiliated organizations, including but not limited to university monies, personnel, office space, and other in-kind resources.
        - Document the receipt of services and benefits provided by affiliated organizations in exchange for university resources and how resource exchanges with affiliated organizations are determined.

    b. Requiring the universities to document and report to ABOR on their resource exchanges with affiliated organizations (see Finding 1, pages 5 through 9, for more information).

3. Develop and implement a process and/or use existing processes to regularly obtain information from the universities about affiliated organizations' activities and their associated risks and liabilities to help ensure it can identify and monitor risks and their potential impact to the universities and ABOR (see Finding 2, pages 10 through 12, for more information).

4. Revise its guidelines and/or policies to include requirements and/or expectations for the information the universities should receive from affiliated organizations and provide to ABOR to help ensure ABOR receives consistent information about the affiliated organizations' activities and associated risks and liabilities (see Finding 2, pages 10 through 12, for more information).

APPENDIX A

Characteristics of university-affiliated organization relationships for the 5 sampled affiliated organizations

As discussed in Finding 1 (see pages 5 through 9), we reviewed the universities' affiliated organization written agreements for a judgmental sample of 5 of 19 affiliated organizations and other university and affiliated organization documentation. The sample included each university's largest affiliated organization based on its net assets. Table 3 presents characteristics of the universities' relationships with these 5 affiliated organizations as provided by the universities and supplemented with our review of the following information: the universities' affiliated organization agreements, the universities' financial reports, and affiliated organizations' audited financial statements. See Finding 1 regarding the universities not fully documenting and disclosing some transactions with affiliated organizations, which has limited full transparency and accountability for some university resources provided to affiliated organizations, such as university monies, staff support, and office space, and the value of the benefits and services provided by affiliated organizations in exchange for these resources.

Table 3

Characteristics of university-affiliated organization relationships for 5 sampled affiliated organizations, by university and organization, as reported by each university[1]

As of March 2021

(Unaudited)

ASU's affiliated organizations	
ASU Enterprise Partners (ASUEP)	
Subsidiaries:	According to ASU's fiscal year 2019 financial reports, ASUEP subsidiaries include: • ASU Foundation. • ASU Research Enterprise. • ASUEP Holdings, LLC. • Enterprise Collaboratory at ASU. • Skysong Innovations, LLC. • University Realty, LLC.
Tax-exempt status:	Internal Revenue Code (I.R.C.) §501(c)(3) Organization operated for the benefits of a college or university.
Purpose:	To support ASU by receiving, holding, investing, and administering property and making expenditures to or for the benefit of ASU as ASUEP's independent Board of Directors deems suitable and appropriate. ASUEP disburses resources at the discretion of its Board of Directors, in accordance with donor directions and its policy. The majority of assets held by ASUEP are endowments restricted for donor specified programs and purposes, the principal of which may not be spent.
Services provided to ASU:	Fundraising/Donor Development. Research and Management Support. International Projects. Technology Transfer and Intellectual Property Management. Real Estate Investment Support. Strategic Development.

Table 3 continued

Services/resources provided by ASU (i.e., university employee support, office space, other university assets) in fiscal year 2019:	ASU did not provide in-kind services or resources to ASUEP or its subsidiaries.
Total ASU payments made to ASUEP in fiscal year 2019:	According to transaction information provided by ASU, ASU paid ASUEP and its subsidiaries $33,626,407 in fiscal year 2019. These payments included: • $22,901,108 for services outlined in the 2019 statement of work for the ASU/ASUEP Master Services Agreement (see below). These included the following services: fundraising/donor development, research and management, international projects, technology transfer and intellectual property management, real estate investment administration and research, and strategic planning. • $9,058,507 for lease, debt service, maintenance, and other associated payments for ASU's use of property owned, managed, and/or financed by ASUEP. • $1,296,571 for charitable grants management service fees. • $125,000 for faculty/student access to the Rennard Strickland Art Collection.[2] • $75,000 for Global Consortium for Sustainability Outcomes (GCSO) membership dues.[3] • $70,000 for support for The MILO Space Science Institute.[4] • $100,222 for other items including the return of a duplicate disbursement to the ASU Foundation, a grant subaward payment, lecture series and conference registration costs, and various expense reimbursements totaling $57,840, such as $30,424 for ASU's share of storage, security, and insurance costs for the American West Collection and $7,027 for employee travel costs related to the MILO Space Science Institute.[5]
Total net assets reported in fiscal year 2019:	According to ASUEP's fiscal year 2019 audited financial statements, ASUEP's total net assets were $1,059,509,730.
Agreement(s) reviewed:	Master Services Agreement, dated July 2017, including statements of work (fee agreements) for fiscal years 2018, 2019, and 2020.
ASU Alumni Association	
Subsidiaries:	According to ASU's fiscal year 2019 financial report, no subsidiaries reported.
Tax-exempt status:	I.R.C. §501(c)(3) Public Support Charity.
Purpose:	To receive funds through donations and other means and contribute funds to ASU for the support and welfare of various ASU programs and its alumni.
Services provided to ASU:	The ASU Alumni Association, in conjunction with ASU, sponsors events, student scholarships, recognition programs, alumni leadership development, and other activities.
Services/resources provided by ASU (i.e., university employee support, office space, and other university assets) in fiscal year 2019:	According to the ASU Alumni Association's fiscal year 2019 audited financial statements, ASU provided in-kind resources and services with an estimated fair value of $1,143,674. These resources and services included data processing, administrative support services, and office space. According to ASU, 13 ASU staff positions were also included in the $1,143,674 estimated fair value of services/resources that ASU provided to the ASU Alumni Association. ASU reported that these 13 ASU staff worked at the direction of ASU to build strong alumni relationships and provide support for alumni related activities for ASU and the ASU Alumni Association that further the mission of ASU.
Total ASU payments made to the ASU Alumni Association in fiscal year 2019:	According to transaction information provided by ASU, ASU paid the ASU Alumni Association $22,569 in fiscal year 2019, including $21,035 for registration fees for ASU employees to attend ASU Alumni Association hosted events and various expense reimbursements totaling $1,534, such as $1,134 for Sun Devil lunch event food costs.
Total net assets reported in fiscal year 2019:	According to the ASU Alumni Association's fiscal year 2019 audited financial statements, ASU Alumni Association's total net assets were $19,640,515.
Agreement(s) reviewed:	Affiliated Agreement with the ASU Alumni Association expired in December 2018, which ASU reported it is in the process of extending.

Table 3 continued

NAU's affiliated organization	
The Northern Arizona University Foundation, Inc. (NAU Foundation)	
Subsidiaries:	According to NAU's fiscal year 2019 financial report, the NAU Foundation's subsidiaries include: • Northern Arizona Real Estate Holdings, LLC (NAREH). • NAU Ventures, LLC.
Tax-exempt status:	I.R.C. §501(c)(3) Organization operated for the benefits of a college or university.
Purpose:	To support NAU by receiving, holding, investing, and administering property and making expenditures to or for the benefit of NAU as the NAU Foundation's independent Board of Directors deems suitable and appropriate. The NAU Foundation disburses resources at the discretion of its Board of Directors, in accordance with donor directions and its policy. The majority of assets held by the NAU Foundation are endowments restricted for donor specified programs and purposes, the principal of which may not be spent.
Services provided to NAU:	Fundraising/Donor Development. Real Estate Financing Administration. Strategic and Business Development.
Services/resources provided by NAU (i.e., university employee support, office space, other university assets) in fiscal year 2019:	19 NAU employees worked for the NAU Foundation. The NAU Foundation reimbursed NAU $2.2 million for salary and fringe benefit costs for these employees. The NAU Foundation used and paid for institutional office space on the Flagstaff campus as well as at NAU's North Valley location (Phoenix area). The Flagstaff campus rent is set and paid for in accordance with the lease. The North Valley rent is based on the percentage of square footage use, which can vary based on the NAU Foundation's needs, relative to the overall rental cost. NAU pays for other expenses such as utilities for the NAU Foundation.
Total NAU payments made to the NAU Foundation in fiscal year 2019:	According to transaction information provided by NAU, NAU paid the NAU Foundation $2,661,341 in fiscal year 2019. These payments included: • $2,429,722 for debt service/interest to NAREH. • $171,361 for return of unused scholarship monies. • $31,968 for transfer of donations/fundraising of donated monies. • $28,290 for sponsored project administrative fees, posting error corrections, and expense reimbursements totaling $1,252, such as an insurance fee for intellectual property services.
Total net assets reported in fiscal year 2019:	According to the NAU Foundation's fiscal year 2019 audited financial statements, the NAU Foundation's total net assets were $180,610,621.
Agreement(s) reviewed:	Memorandum of Understanding, dated August 2010.
UArizona's affiliated organizations	
The University of Arizona Foundation, Inc. (UA Foundation)	
Subsidiaries:	UArizona's fiscal year 2019 financial report does not report any UA Foundation subsidiaries.
Tax-exempt status:	I.R.C. §501(c)(3) managed by UA Foundation employees and supported by both UA Foundation employees and UArizona employees.
Purpose:	To support and enhance the vision, mission, and values of UArizona through the development and management of private support for UArizona. Incorporated in 1958, the UA Foundation provides assistance to UArizona in 2 areas: fundraising and asset management.
Services provided to UArizona:	Fundraising/Donor Development. Endowment and Security Asset Management.
Services/resources provided by UArizona (i.e., university employee support, office space, other university assets) in fiscal year 2019:	Rent, parking, utilities, and other maintenance expenses. Neither UArizona's fiscal year 2019 financial report nor the UA Foundation's fiscal year 2019 audited financial statements reported the value of these resources.

Table 3 continued

Total UArizona payments made to the UA Foundation in fiscal year 2019:	According to transaction information provided by UArizona, UArizona paid the UA Foundation $5,385,934 in fiscal year 2019. Payments included: • $5,100,000 for services outlined in the 2019 Development Services and Asset Management Agreement (see below), including fundraising/donor development and investment management. • $170,461 in payroll withholding for UArizona employee charitable contributions to the UA Foundation. • $107,284 for refund of unused/erroneously deposited monies. • $8,188 for other items such as costs for UArizona employees to attend events hosted by the UA Foundation and for lease and lease-related expenses.
Total net assets reported in fiscal year 2019:	According to the UA Foundation's fiscal year 2019 audited financial statements, its total net assets were $925,622,000.
Agreement(s) reviewed:	Development Services and Asset Management Agreement extended through fiscal year 2020, including service fee agreements for fiscal years 2018, 2019, and 2020.
University of Arizona Alumni Association (UA Alumni Association)	
Subsidiaries:	According to UArizona's fiscal year 2019 financial report, no subsidiaries reported.
Tax-exempt status:	I.R.C. §501(c)(3), Type 1 supporting organization. Supported by UArizona staff.
Purpose:	To serve UArizona and its graduates, former students, and friends by attracting, organizing, and encouraging them to advance the UArizona's missions.
Services provided to UArizona:	The UA Alumni Association maintains an alumni database and provides data, metrics, and reports.
Service/resources provided by UArizona (i.e., university employee support, office space, other university assets) in fiscal year 2019:	According to the UA Alumni Association's fiscal year 2019 audited financial statements, UArizona provided the UA Alumni Association with financial support valued at $1,741,528 for services, supplies, and staff, and in-kind rent for office space valued at $103,302.
UArizona payments made to the UA Alumni Association in fiscal year 2019:	According to transaction information provided by UArizona, UArizona paid the UA Alumni Association $115,378 in fiscal year 2019 for University of Arizona BookStores' advertising and merchandise sold through UA Alumni Association marketing promotions.
Total net assets reported in fiscal year 2019:	According to the UA Alumni Association's fiscal year 2019 audited financial statements, its total net assets were $7,650,099.
Agreement(s) reviewed:	Services Agreement, dated May 2016.

[1] Information presented in this table was provided by the universities unless otherwise noted.

[2] According to ASU, the ASU Foundation is co-owner with the nonprofit Scottsdale Museum of the West of the Rennard Strickland Collection and ASU's payment provides privileged access for ASU faculty and students to the collection for teaching, research, and display in perpetuity.

[3] According to the GCSO's website, the GCSO is a global network of educational and other institutions that advances solutions to sustainability problems through research, development, and capacity building.

[4] According to The MILO Space Science Institute's website, the MILO Space Science Institute is a nonprofit research collaborative led by Arizona State University, with support from Lockheed Martin. According to the website, the MILO Space Science Institute is dedicated to making deep space science missions affordable and accessible and providing workforce development through experiential education supported by technology development, workshops, and distance learning.

[5] According to ASU, the ASU Foundation accepted a gift that places it as co-owner of a 5,000-item collection of film, media, posters, and other items of historical and cultural significance related to the American West Collection with Scottsdale Museum of the West. This collection is a resource for students and faculty of ASU, including in the Film and Media Studies Program and the School of Historical, Philosophical and Religious Studies. ASU has an agreement with the ASU Foundation to cover one-half of the shared costs.

Source: Auditor General staff analysis of affiliated organization information provided by the universities, the universities' fiscal year 2019 financial reports, and the affiliated organizations' fiscal year 2019 audited financial statements.

APPENDIX B

Characteristics of university-affiliated organization relationships for affiliated organizations not included in our sample

Table 4 presents characteristics of the universities' relationships with the 14 affiliated organizations not included in the sample we reviewed (see Appendix A, pages a-1 through a-4, for more information on the 5 affiliated organizations included in our sample). These characteristics were provided by the universities and supplemented with our review of the universities' financial reports and affiliated organizations' audited financial statements.

Table 4
Characteristics of university-affiliated organization relationships for 14 affiliated organizations not included in the sample, by university and organization, as reported by each university[1]
As of March 2021
(Unaudited)

ASU's affiliated organizations	
Arizona Capital Facilities Finance Corporation (ACFFC)	
Subsidiaries:	Arizona State University Energy Center LLC. Arizona State University Energy Services, LLC. Arizona State University Nanotechnology LLC. McAllister Academic Village LLC, doing business as Hassayampa Academic Village. Sun Devil Energy Center LLC, doing business as Combined Heat and Power.
Tax-exempt status:	I.R.C. §501(c)(4) Civic Organization.
Purpose:	To assist public institutions of higher learning in Maricopa County by developing, acquiring, constructing, equipping, and/or operating capital facilities on their behalf.
Services provided to ASU:	Residence hall finance, construction, and maintenance. Energy projects finance, construction, and maintenance.
Services/resources provided by ASU (i.e., university employee support, office space, and other university assets) in fiscal year 2019:	ASU did not provide in-kind services or resources to the ACFFC or its subsidiaries.
Total ASU payments made to the ACFFC in fiscal year 2019:	According to transaction information provided by ASU, ASU paid the ACFFC $37,507,539 in fiscal year 2019. These payments included: • $20,970,946 for power generation facilities' debt service, management, and operations. • $16,529,985 for student housing and research facilities' debt service and operations. • $6,607 for reimbursement of the ACFFC's administrative expenses related to the student housing facilities.
Total net assets reported in fiscal year 2019:	According to the ACFFC's fiscal year 2019 audited financial statements, its total net assets were $(49,853,380).
Agreement(s):	Co-generation service agreements and amendments.
ASU Athletic Facilities District	
Subsidiaries:	None.
Tax-exempt status:	University Athletic Facilities District per A.R.S Title 48, Ch. 26.

Table 4 continued

Purpose:	To impose and collect assessments from prime commercial lessees within the ASU Athletic Facilities District to fund construction, reconstruction, furnishing, maintenance, and improvement of ASU's intercollegiate athletic facilities.
Services provided to ASU:	None.
Service/resources provided by ASU (i.e., university employee support, office space, other university assets) in fiscal year 2019:	ASU paid for insurance coverage and legal representation on behalf of the ASU Athletic Facilities District.
Total ASU payments made to the ASU Athletic Facilities District in fiscal year 2019:	None.
Total net assets reported in fiscal year 2019:	No assets for fiscal year 2019, as reported by ASU. Additionally, the ASU Athletic Facilities District did not require an audit in fiscal year 2019 since it did not have financial activity.
Agreement(s):	Two intergovernmental agreements as required by statute—one between Maricopa County and ASU and the second between ASU and the ASU Athletic Facilities District.[2]
ASU Preparatory Academy	
Subsidiaries:	ASU Prep Global Academy, doing business as Prep Digital.
Tax-exempt status:	I.R.C. §501(c)(3) School described under I.R.C. §170(b)(1)(A)(ii).[3]
Purpose:	To prepare Arizona K-12 students for success by using a university-embedded academic program that empowers them to complete college, compete globally, and contribute to their communities.
Services provided to ASU:	None.
Service/resources provided by ASU (i.e., university employee support, office space, other university assets) in fiscal year 2019:	According to ASU Preparatory Academy's fiscal year 2019 audited financial statements, ASU provided ASU Preparatory Academy professional services and in-kind rent of $3,388,006. ASU reported that the professional services included 4 ASU positions that supported education and instruction-related activities at ASU Preparatory Academy that furthered the mission of ASU and the in-kind rent included office space for certain ASU Preparatory Academy administrative and finance employees for which no reimbursement to ASU was made.
Total ASU payments made to ASU Preparatory Academy in fiscal year 2019:	According to transaction information provided by ASU, ASU paid ASU Preparatory Academy $12,807,278 in fiscal year 2019. These payments included: • $12,750,000 for services outlined in the affiliation agreement. These services supported ASU's efforts to conduct and participate in cutting-edge educational research, teaching methods, and applications related to pre-K-12 education, pre-K-20 student integration, and college preparedness as requested by ASU. • $57,278 for various expense reimbursements, such as $27,500 to purchase a social and emotional learning course for the GEAR UP grant that focuses on improving the academic skills of all students.
Total net assets reported in fiscal year 2019:	According to ASU Preparatory Academy's fiscal year 2019 audited financial statements, its total net assets were $9,619,071.
Agreement(s):	Affiliation Agreement.
ASU Research Park, Inc. (ASURP)	
Subsidiaries:	None.
Tax-exempt status:	I.R.C. §501(c)(3) Organization operated solely to benefit publicly supported entity under I.R.C. §509(a)(2).[4]
Purpose:	To develop and manage a research park and promote and support research activities in coordination with ASU.
Services provided to ASU:	None.
Services/resources provided by ASU (i.e., university employee support, office space, other university assets) in fiscal year 2019:	ASU did not provide in-kind services or resources to ASURP.

Table 4 continued

Total ASU payments made to ASURP in fiscal year 2019:	According to transaction information provided by ASU, ASU paid ASURP $137,756 in fiscal year 2019 for building common area maintenance. According to ASU, it paid for common area maintenance for the MacroTechnology Works facility, an electronics and solar technology research and fabrication facility in the ASU Research Park. ASU reported it leases the MacroTechnology Works facility as a tenant.
Total net assets reported in fiscal year 2019:	According to ASURP's fiscal year 2019 audited financial statements, its total net assets were $33,057,919.
Agreement(s):	Affiliation Agreement. Ground Lease.
The Gary K. Herberger Young Scholars Academy (Herberger Academy)	
Subsidiaries:	None.
Tax-exempt status:	I.R.C. §501(c)(3).
Purpose:	To provide profoundly gifted students in grades 7 through 12 advanced educational opportunities in a highly engaging learning environment designed for gifted students.
Services provided to ASU:	None.
Service/resources provided by ASU (i.e., university employee support, office space, other university assets) in fiscal year 2019:	ASU employees operate the Herberger Academy under a services agreement with costs reimbursed from the Herberger Academy student tuition and charitable donations from third parties to support the school. This operation furthers the mission of ASU by offering opportunities for joint research and development, ASU staff and student participation in curriculum development, ASU student teaching and practicum placements, and a pipeline of future ASU students. The school is located at an ASU facility on the West campus, which was constructed with Herberger Academy gifts.
Total ASU payments made to the Herberger Academy in fiscal year 2019:	None.
Total net assets reported in fiscal year 2019:	$27,374, as reported by ASU. The Herberger Academy was a subsidiary of ASU Preparatory Academy through June 30, 2019, and its net assets were previously included in ASU Preparatory Academy's total net assets amount of $9,619,071. As of July 1, 2019, The Herberger Academy is a stand-alone nonprofit corporation and no longer a subsidiary of ASU Preparatory Academy.
Agreement(s):	Services and Affiliation Agreement
Sun Angel Foundation	
Subsidiaries:	None.
Tax-exempt status:	I.R.C. §501(c)(3) Public Support Charity.
Purpose:	To assist ASU in the accomplishment of its athletic and educational objectives. Funding is received primarily through donations that are used to support various ASU athletic programs.
Services provided to ASU:	None.
Services/resources provided by ASU (i.e., university employee support, office space, other university assets) in fiscal year 2019:	According to the Sun Angel Foundation's fiscal year 2019 audited financial statements, ASU provided data processing and certain other administrative services to the Foundation at no charge. The estimated fair values of these services were $1,011,728 for 2019 and the services were charged directly to general and administrative and fundraising expenses on the statement of activities and change in net assets based upon the nature of the services received. According to ASU, the $1,011,728 estimated fair value of services included 10 ASU positions that supported fundraising related activities that further the mission of ASU.
Total ASU payments made to the Sun Angel Foundation in fiscal year 2019:	According to transaction information provided by ASU, ASU paid the Sun Angel Foundation $9,063,241 in fiscal year 2019. These payments included: • $9,062,660 for pass-through of donations to the Sun Angel Foundation collected by ASU. • $581 for ASU employees to attend Sun Angel Foundation hosted events.

Table 4 continued

Total net assets reported in fiscal year 2019:	According to the Sun Angel Foundation's fiscal year 2019 audited financial statements, its total net assets were $37,455,410.
Agreement(s):	Affiliation Agreement.
Thunderbird School of Global Management	
Subsidiaries:	Center for Business Skills Development Educational Institute. Thunderbird Europe SARL. Thunderbirds International FZ-LLC. Thunderbird Worldwide Kazakhstan Limited Partnership.
Tax-exempt status:	I.R.C. §501(c)(3) Public Support Charity.
Purpose:	To educate global leaders by offering nondegree executive education and international programs and providing a framework for global education programming for ASU.
Services provided to ASU:	None.
Service/resources provided by ASU (i.e., university employee support, office space, other university assets) in fiscal year 2019:	ASU provides programmatic and administrative support to the Thunderbird School of Global Management, the costs of which are reimbursed to ASU.
Total ASU payments made to the Thunderbird School of Global Management in fiscal year 2019:	None.
Total net assets reported in fiscal year 2019:	According to the Thunderbird School of Global Management's fiscal year 2019 audited financial statements, its total net assets were $16,588,000.
Agreement(s):	Transition Services Agreement.
Zocalo Public Square	
Subsidiaries:	None.
Tax-exempt status:	I.R.C. §501(c)(3) Public Support Charity.
Purpose:	To connect people to ideas by convening events and publishing ideas in journalism in support of the ASU Knowledge Enterprise.
Services provided to ASU:	None.
Service/resources provided by ASU (i.e., university employee support, office space, other university assets) in fiscal year 2019:	9 ASU positions supported ideas journalism and related events for ASU and Zocalo Public Square that further the mission of ASU.[5]
Total ASU payments made to Zocalo Public Square in fiscal year 2019:	None.
Total net assets reported in fiscal year 2019:	According to Zocalo Public Square's fiscal year 2018 audited financial statements, its total net assets were $915,591 as of December 31, 2018. Zocalo Public Square reports its financial activity as of the end of the calendar year.
Agreement(s):	ASU reported that it had an agreement with Zocalo Public Square, but this agreement expired in December 2019 and ASU is in the process of re-establishing the agreement.
NAU's affiliated organization	
Northern Arizona Capital Facilities Finance Corporation (NACFFC)	
Subsidiaries:	None.
Tax-exempt status:	I.R.C. §501(c)(4) Civic Organization.
Purpose:	To develop, construct, and/or equip operating capital facilities on behalf of NAU.
Services provided to NAU:	Residence Hall financing and construction. Student Academic Support facilities financing and construction.
Service/resources provided by NAU (i.e., university employee support, office space, other university assets) in FY 2019:	Bookkeeping by NAU accounting staff.

Table 4 continued

Total NAU payments made to the NACFFC in fiscal year 2019:	According to transaction information provided by NAU, NAU paid the NACFFC $40,430 in fiscal year 2019 for expense reimbursements such as an annual financial audit and a trustee fee.
Total net assets reported in fiscal year 2019:	According to the NACFFC's fiscal year 2019 audited financial statements, its total net assets were $(2,131,276).
Agreement(s):	Articles and bylaws. Project agreements and amendments.
UArizona's affiliated organizations	
Campus Research Corporation (CRC)	
Subsidiaries:	None.
Tax-exempt status:	I.R.C. §501(c)(3), Type 2 supporting organization.
Purpose:	To assist UArizona in the acquisition, improvement, and operation of the University of Arizona Science and Technology Park (Tech Park) and related properties.
Services provided to UArizona:	Operate, manage, and develop UArizona's research parks—the UA Tech Park at Rita Road and the UA Tech Park at The Bridges.
Service/resources provided by UArizona (i.e., university employee support, office space, other university assets) in fiscal year 2019:	De minimis: "Hoteling" office space provided to Tech Park administrators who are meeting or working on main campus. The CRC fully reimburses UArizona for all salary and employee-related expenses for UArizona-employed personnel. The CRC pays for meeting spaces, equipment, catering, etc. for on-campus activities.
Total UArizona payments made to the CRC in fiscal year 2019:	According to transaction information provided by UArizona, UArizona paid the CRC $15,781 in fiscal year 2019. These payments included: • $12,500 for Sun Corridor membership dues.[6] • $2,545 for lease and common area maintenance charges and expense reimbursements totaling $736 for cleaning expenses the CRC paid on UArizona's behalf.
Total net assets reported in fiscal year 2019:	According to the CRC's fiscal year 2019 audited financial statements, its total net assets were $32,325,385.
Agreement(s):	Lease. ABOR, Lessor to the CRC, Lessee (Rita Road - Inside the Project). Lease. ABOR, Lessor to the CRC, Lessee (Rita Road - Outside the Project). Lease. ABOR, Lessor to Rita Road Campus Corporation, Lessee (Bridges).
Eller Executive Education (EEE)	
Subsidiaries:	None.
Tax-exempt status:	I.R.C. §501(c)(3).
Purpose:	To support the nondegree executive education program offered through the Eller College of Management at UArizona through noncredit, nondegree programs for business, government, and nonprofit leaders.
Services provided to UArizona:	May develop specific, noncredit courses related to the Eller College of Management or other UArizona colleges. Outreach and faculty development.
Service/resources provided by UArizona (i.e., university employee support, office space, other university assets) in fiscal year 2019:	Administrative and faculty support, office space, classrooms, and event space as needed. EEE is managed by UArizona Assistant Dean for Executive Education, who reports to Eller College of Management Dean. EEE reimburses UArizona for staff support provided by UArizona.
Total UArizona payments made to EEE in fiscal year 2019:	None.
Total net assets reported in fiscal year 2019:	According to EEE's fiscal year 2019 audited financial statements, its total net assets were $75,689.
Agreement(s):	Affiliation Agreement effective July 1, 2018.

Table 4 continued

Law College Association of the University of Arizona (Law College Association)	
Subsidiaries:	None.
Tax-exempt status:	I.R.C. §501(c)(3).
Purpose:	To provide support and financial assistance to the College of Law at UArizona, including endowed student scholarships, named faculty professorships, and support for various academic programs.
Services provided to UArizona:	Supports the acquisition and stewardship of donations and other funds for the College of Law's benefit.
Service/resources provided by UArizona (i.e., university employee support, office space, other university assets) in fiscal year 2019:	Administrative support services and program support, including support by UArizona staff.
Total UArizona payments made to the Law College Association in fiscal year 2019:	According to transaction information provided by UArizona, UArizona paid the Law College Association $3,812 in fiscal year 2019 for program support, participant support, and supplies.
Total net assets reported in fiscal year 2019:	According to the Law College Association's fiscal year 2019 audited financial statements, its total net assets were $12,900,116.
Agreement(s):	None. See Finding 1, page 6, for more information.
UA Global Operations, Inc.	
Subsidiaries:	None.
Tax-exempt status:	Arizona nonprofit corporation, I.R.C. §501(c)(3) Type 1 supporting organization.
Purpose:	To support UArizona's global operations, and presence required to achieve UArizona's global vision.
Services provided to UArizona:	Global operations research, planning, structuring, and operations.
Service/resources provided by UArizona (i.e., university employee support, office space, other university assets) in fiscal year 2019:	Business services, information technology services, and office space.
Total UArizona payments made to UA Global Operations, Inc. in fiscal year 2019:	None.
Total net assets reported in fiscal year 2019:	Not included in UArizona's fiscal year 2019 financial report—activity began in fiscal year 2020, as reported by UArizona.
Agreement(s):	Affiliation Agreement.
University of Arizona Applied Research Corporation	
Subsidiaries:	None.
Tax-exempt status:	Arizona nonprofit corporation. I.R.C. §501(c)(3) application submitted and status pending.
Purpose:	To further the educational, research, and development objectives of UArizona by conducting applied multidisciplinary research and development and reducing such research to practical application for the benefit of industry and government.
Services provided to UArizona:	Research services, including opportunity identification, bid and proposal activities, and project management support.
Service/resources provided by UArizona (i.e., university employee support, office space, other university assets) in fiscal year 2019:	Business services, information technology support, and office space.
Total UArizona payments made to the University of Arizona Applied Research Corporation in fiscal year 2019:	According to transaction information provided by UArizona, UArizona paid the University of Arizona Applied Research Corporation $1,384,789 in fiscal year 2019 for services outlined in the affiliation agreement. This payment assisted with start-up costs.

Table 4 continued

Total net assets reported in fiscal year 2019:	According to the University of Arizona Applied Research Corporation's fiscal year 2019 audited financial statements, its total net assets were $667,557.
Agreement(s):	Affiliation Agreement. Business and Administrative Services Agreement. Master Teaming Agreement. Research Collaboration & Intellectual Property Agreement.

[1] Information presented in this table was provided by the universities unless otherwise noted.

[2] A.R.S. §§48-4202(F) and 48-4204(E).

[3] I.R.C. §170(b)(1)(A)(ii) refers to educational organizations.

[4] I.R.C. §509(a)(2) excludes certain types of broadly based publicly supported organizations from private foundation status.

[5] According to Zocalo Public Square's website, Zocalo Public Square connects people to ideas and to each other by examining essential questions in an accessible, broad-minded, and democratic spirit.

[6] The Sun Corridor Network connects Arizona's 3 state universities and other educational research partners through networking services.

Source: Auditor General staff analysis of affiliated organization information provided by the universities, the universities' fiscal year 2019 financial reports, and the affiliated organizations' fiscal year 2019 audited financial statements.

Scope and methodology

The Arizona Auditor General has conducted this performance audit of ABOR guidelines governing the universities' relationships with affiliated organizations and university compliance with these guidelines pursuant to a September 19, 2018, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq.

We used various methods to study the issues in this performance audit of ABOR. These methods included reviewing applicable statutes; reviewing information on ABOR's and the universities' websites, including policies and guidelines, meeting agendas and minutes, and reports; and interviewing ABOR and university staff. In addition, we used the following specific methods to meet the audit objectives:

- To determine whether ABOR's guidelines governing the universities' relationships with affiliated organizations were consistent with recommended practices, we compared ABOR's guidelines and each university's corresponding affiliated organization policies with practices recommended by AGB.[22] We also determined the extent to which the universities complied with these guidelines and whether ABOR's oversight practices helped ensure university compliance with its guidelines by:
    - Judgmentally selecting and reviewing written agreements between the universities and 5 of 19 affiliated organizations with which the universities had established relationships, as of May 2020, including the NAU Foundation, ASUEP, the ASU Alumni Association, the University of Arizona Alumni Association, and the UA Foundation, and assessing the universities' compliance with the terms of the agreements.
    - Reviewing the universities' fiscal year 2019 financial reports and the affiliated organizations' fiscal year 2019 audited financial statements.
    - Reviewing documentation for a judgmentally selected sample of 28 of 84 financial transactions the universities executed with 3 of their affiliated organizations in fiscal year 2019, including 1 of 30 financial transactions ASU executed with ASUEP, 2 of 4 financial transactions UArizona executed with the UA Foundation, and 25 of 50 financial transactions NAU executed with the NAU Foundation.
    - Reviewing presentation material and meeting minutes of the 3 universities' foundation (ASU Foundation, NAU Foundation, and UA Foundation) presidents' presentations at ABOR meetings held between June 2019 and February 2020.

  Additionally, we interviewed staff and reviewed affiliated organization policies from 7 public higher education systems in other states, including the Board of Regents for the State of Iowa, the Minnesota State Colleges

[22] Association of Governing Boards of Universities and Colleges (AGB). (2016). *AGB board of directors' statement on institution-foundation partnerships*. Washington, DC. Retrieved 3/2/2020 from https://agb.org/wp-content/uploads/2019/04/statement_2016_institution_foundation_partnerships.pdf; AGB. (2014). *Association of Governing Boards illustrative memorandum of understanding between a public institution or system and an affiliated foundation*. Washington, DC. Retrieved 3/5/2020 from https://agb.org/reports-2/illustrative-memorandum-of-understanding-between-a-public-institution-or-system-and-an-affiliated-foundation/.

and Universities System, the State System of Florida, the University of North Carolina System, the University of Texas System, the University of Wisconsin System, and the Utah System of Higher Education.[23,24]

- To obtain additional information for the Introduction, we reviewed AGB publications regarding affiliated organizations.[25]

- Our work on internal controls included reviewing ABOR's and the universities' policies and procedures and, where applicable, testing ABOR's and the universities' compliance with these policies and procedures, testing the universities' compliance with contractual requirements, and interviewing ABOR and university staff. Our work included reviewing the following components and associated principles of internal controls:

  - Control environment, including ABOR's oversight of the universities' internal control systems related to affiliated organizations and enforcement of accountability for university management performing their internal control responsibilities.

  - Risk assessment, including identifying, analyzing, and responding to risks related to affiliated organizations that could affect the objectives of the State university system.

  - Control activities, including the design of control activities to fulfill defined responsibilities and address identified risks and appropriate documentation of transactions related to affiliated organizations.

  - Information and communication related to the use of quality information.

  We reported our conclusions on applicable internal controls in Findings 1 and 2 (see pages 5 through 12).

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

We conducted this performance audit of ABOR in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to ABOR, ABOR's Executive Director and staff, and university staff for their cooperation and assistance throughout the audit.

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[23] To select these higher education systems, we identified 19 public higher education systems in other states with governance structures similar to ABOR's using a publication from the Education Commission of the States (see Footnote 24 and selected 4 systems that ABOR considers peer systems—the Board of Regents for the State of Iowa, the State System of Florida, the University of North Carolina System, and the Utah System of Higher Education. We judgmentally selected 3 additional higher education systems—the Minnesota State Colleges and Universities System, the University of Texas System, and the University of Wisconsin System—based on their affiliated organization oversight practices.

[24] Fulton, M. (2019). *An analysis of state postsecondary governance structures*. Denver, CO: Education Commission of the States. Retrieved 7/19/20 from https://www.ecs.org/an-analysis-of-state-postsecondary-governance-structures/.

[25] AGB, 2016; AGB, 2014.

ABOR RESPONSE

ARIZONA BOARD OF
REGENTS
ASU ◆ NAU ◆ UA

June 1, 2021

Lindsey Perry
Auditor General
2910 N. 44th Street
Phoenix, AZ 85018

Re: Arizona Board of Regents – University-Affiliated Organizations

Dear General Perry:

On behalf of the Arizona Board of Regents, I am pleased to respond to the audit report, Arizona Board of Regents – University-Affiliated Organizations. We appreciate your audit team for their utmost professionalism and integrity in reviewing our practices. The findings are thoughtful and represent months of collaborative work.

The findings are agreed to, and the audit recommendations will be implemented.

As the regents work to implement the findings, we look forward to the upcoming review process. We are constantly looking for ways to improve and appreciate your help in that endeavor.

Sincerely,

John Arnold

2700 N. CENTRAL AVENUE, SUITE 400 | PHOENIX, ARIZONA 85004
602.229.2500 | AZREGENTS.EDU

Finding 1: Universities have not consistently documented and disclosed some affiliated organization transactions, limiting full transparency and accountability, and ABOR has not explicitly overseen university compliance with its guidelines

Recommendation 1: ABOR should revise its affiliated organization guidelines and/or policies to:

Recommendation 1a: Require the universities to enter into and periodically review and update written agreements with all affiliated organizations with which they have established relationships to hold economic resources and carry out activities primarily in support of the universities.

ABOR response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 1b: Require the universities to document the exchange of public resources provided to affiliated organizations and the benefits and services that the affiliated organizations will provide to the universities and/or the State university system in a written agreement.

ABOR response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 2: ABOR should develop and implement a process to help ensure the universities comply with its affiliated organization guidelines, including:

Recommendation 2a: Establishing reporting or internal audit requirements related to the universities' implementation of ABOR's guidelines. At a minimum, these requirements should include assessing whether the universities:

- Enter into and periodically review and update written agreements with their affiliated organizations.
- Document and fully disclose the value of university resources provided to affiliated organizations, including but not limited to university monies, personnel, office space, and other in-kind resources.
- Document the receipt of services and benefits provided by affiliated organizations in exchange for university resources and how resource exchanges with affiliated organizations are determined.

ABOR response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 2b: Requiring the universities to document and report to ABOR on their resource exchanges with affiliated organizations.

ABOR response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Finding 2: ABOR has not required universities to report information it needs to identify, monitor, and mitigate risks associated with affiliated organization activities

Recommendation 3: ABOR should develop and implement a process and/or use existing processes to regularly obtain information from the universities about affiliated organizations' activities and their associated risks and liabilities to help ensure it can identify and monitor risks and their potential impact to the universities and ABOR.

ABOR response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 4: ABOR should revise its guidelines and/or policies to include requirements and/or expectations for the information the universities should receive from affiliated organizations and provide to ABOR to help ensure ABOR receives consistent information about the affiliated organizations' activities and associated risks and liabilities.

ABOR response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

ARIZONA
Auditor General
Making a Positive Difference