REPORT TO THE

UTAH LEGISLATURE

Number 2016-10

A Performance Audit of the University of Utah Athletics Department

November 2016

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah

STATE OF UTAH

Office of the Legislative Auditor General

315 HOUSE BUILDING • PO BOX 145315 • SALT LAKE CITY, UT 84114-5315
(801) 538-1033 • FAX (801) 538-1063

Audit Subcommittee of the Legislative Management Committee
President Wayne L. Niederhauser, Co–Chair • Speaker Gregory H. Hughes, Co–Chair
Senator Gene Davis • Senator Ralph Okerlund • Representative Brian S. King • Representative James A. Dunnigan

JOHN M. SCHAFF, CIA
AUDITOR GENERAL

November 15, 2016

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, **A Performance Audit of the University of Utah Athletics Department** (Report #2016-10). A digest is found on the blue pages located at the front of the report. The objectives and scope of the audit are explained in the Introduction.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

John M. Schaff, CIA
Auditor General

JMS/lm

Digest of
A Performance Audit of the
University of Utah Athletics Department

The University of Utah Athletics Department (Athletics, or the Department) supports 18 team sports and has competed in the Pac-12 conference since 2011 (fiscal year 2012). Some of the team sports are nationally ranked and have competed for conference championships. Athletics employs about 160 administrative and coaching positions and supports over 400 student athletes. In fiscal year 2015, athletics generated about $63.9 million in revenue, the majority of which ($42.3 million) came from the football program. This report provides recommendations to help athletics continue on a path of financial stability and control, better tie performance goals to compensation, improve building security, and emphasize the need for improved inventory and human resource compliance.

Chapter II
Athletics Department Should
Strengthen Its Budget Practices

For Greater Control, Athletics Should Report the Total Cost of Operations to Policymakers. Athletics has not been reporting indirect financial support, which we estimate to have been $1.2 million in fiscal year 2015. This number should be calculated and reported so University policymakers and other stakeholders can understand the total cost of Athletics operations. NCAA guidelines require that indirect financial support be tracked and reported in annual financial reports. A more accurate picture of Department expenses will allow for greater long-term monitoring and control of those funds.

Continued Emphasis on Budget Management Is Crucial as College Sports Spending Escalates. As the cost of intercollegiate athletics has grown, some of the University of Utah's peer Pac-12 athletics departments have overspent their budgets. The department has largely spent within its means, but pressure to increase spending in order to compete and recruit is substantial. Therefore, the Department must maintain proper budgetary balance and control going forward. To aid the University in continued financial control over Athletics, the Department should report key financial data, including athletics fund and reserve account balances, in its annual NCAA financial report and on its website.

A Strategic Plan Can Improve Financial Management and Control. To better analyze and control its finances, the Department can benefit from formalized projections of large capital expenditure needs and more robust analysis of primary cost drivers, like team travel and equipment. A departmental strategic plan will help provide a platform to accomplish these and other goals. The Department has already formulated the foundation of a strategic plan that has yet to be fully developed. That effort was put on hold until the conclusion of this audit.

Partial Payment Received for Cancelled Men's Basketball Game. The men's basketball team cancelled a game with Brigham Young University (BYU) initially scheduled for early December

2016 at a cancellation cost of $80,000. The University reported that the men's head basketball coach was going to repay the cancellation fee out of his own personal funds. The University paid BYU the $80,000 cancellation fee. The coach paid the first installment of $20,000. Those funds have been paid from the coaches' foundation. However, since the funds were paid from a foundation account we could not independently determine if the coach used personal funds or foundation monies from other sources to make the payment. According to University officials the coach has assured the University that the funds came personally from the coach without contributions from donors.

Chapter III
Improvements Needed in Measuring and Rewarding Coaches

Performance Should Have a Tie to Financial Incentives. We found in the past five years that coaching staff in the majority of sports received a significant pay increase (salary and associated benefits), despite most teams not fully meeting performance expectations. This practice can diminish the effectiveness of performance objectives established by the Department. Athletics reports that pay increases were given to compete with a higher average salary in the Pac-12 conference. Going forward, the Department should review the reasonableness of their goals and tie performance goals to a portion of compensation increases.

Athletics Director's Contract Has No Incentives for Smaller Sports. The Department's athletic director can earn bonuses for various performance goals. There are currently six goals, four of which are based on the performance of the men's and women's basketball teams, football, and gymnastics. With the exception of women's basketball and gymnastics, the athletics director is not incentivized on less visible sports that generate revenue insufficient to cover their costs. We found nine schools within the Pac-12 that have some language that incentivizes the athletics director to encourage the on-field success of all sports, not just the revenue generating sports. The University of Utah president and the athletics director should discuss how to appropriately incentivize all sports in the athletic director's contract.

Chapter IV
Stronger Controls Over Inventory and Building Access Are Needed

Accounting for Some Costly Inventory is Inadequate. Athletics has failed to inventory and tag many assets in buildings where Athletics operates, exposing those assets to the risk of theft. Untagged assets include computers and laptops, video production equipment, and large screen televisions. Athletics has also not conducted a University-required audit in several years for assets between $1,000 and $4,999.99. Assets purchased in this price range over the past five years have an estimated value of nearly $2 million. As several cases of theft have been reported by the Department, we are concerned that inventory oversight is insufficient, and the Department may not realize if any untagged items go missing. Athletics should conduct an audit of all departmental non-capital assets

to properly tag and account for existing inventory levels. Going forward, this audit would assist in detecting theft and help in the inventory tracking process.

Stronger Controls Over Building Keys Are Necessary to Control Risk. Adding to the risks associated with unaccounted inventory, the Department also has unsecure access to some Athletics spaces, greatly increasing the risk of theft. Athletics' inadequate tracking of employee access to sports and other facilities, for example, has resulted in the loss of 264 keys, including 15 master keys, over the course of 18 years. The loss of master keys places equipment rooms, arenas, and other campus spaces at a great risk for theft and vandalism. Such spaces have not been rekeyed for several years. Because Athletics has not accounted for all non-capital assets in several years, oversight and controls should be strengthened to reduce these risks.

Chapter V
Stronger Adherence to Human Resources Policy is Needed to Ensure Employee Equity

Hiring Practices Require Stronger Compliance. Athletics needs to improve compliance with some University Human Resources (HR) practices. First, we found cases where Athletics has used a waiver process to avoid competitively recruiting some positions. This practice, when not used appropriately, bypasses the competitive nature of hiring and can give the appearance of preferential treatment. Second, Athletics can improve its record keeping through better coordination with HR. We found that Athletics has hired employees into job codes that do not fit their intended job description and have hired some employees into contract positions without sufficient HR involvement.

Timekeeping Policies Require Stronger Compliance. Athletics has not been tracking hourly employees' compensatory (comp) time hours or recording them in the University's time and attendance system. Instead, Athletics has allowed hourly employees to track their own comp time on off-book spreadsheets that are not approved or entered into the University time and attendance system. Consequently, these employees have been incorrectly compensated for comp time, which could become a financial liability to the University if not corrected. We recommend that all employees and supervisors be trained on proper timekeeping practices, including the accrual and use of comp time, as well as on University HR timekeeping policies and procedures.

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Report No. 2016-10

A Performance Audit of the University of Utah Athletics Department

November 2016

Audit Performed By:

Audit Manager	Kade Minchey
Audit Supervisor	Jesse Martinson
Audit Staff	Jake Dinsdale
	Matthias Boone
	Nicole Luscher

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Chapter 1
Introduction

The University of Utah Athletics Department (Athletics, or the Department) supports 18 teams and has competed in the Pac-12 Conference since 2011 (fiscal year 2012). Some of the team sports are nationally ranked and have competed for conference championships. Athletics employs about 160 administrative and coaching positions and supports over 400 student athletes. In fiscal year 2015 Athletics generated about $63.9 million in revenue, the majority of which ($42.3 million) came from the football program. This report provides recommendations to help Athletics continue on a path of financial stability and control, better tie performance goals to compensation, better tie performance goals to compensation, improve building security, and emphasize the need for improved inventory and human resource compliance.

Athletics generated $63.9 million in revenue in FY 2015.

Athletics Is a Department Within the University of Utah That Houses Several Competitive Sports

Athletics is a revenue-generating subunit within the University of Utah (University). The Department receives revenue from various sources such as ticket sales, merchandise, network revenue, and the University itself. The director of Athletics reports directly to the president of the University and is responsible for the overall health of the program. Athletics oversees men's and women's sports, all of which participate in the Pac-12 Conference. The University joined the Pac-12 in 2011.

Athletics Oversees 18 Teams

According to a University official, National Collegiate Athletic Association (NCAA) rules require university athletics departments to have a minimum of 16 sports programs (men's and women's combined); Utah Athletics has 18. Athletics employs approximately 160 employees, including coaching and administrative staff. There are over 400 student athletes that participate in University sports. Figure 1.1 lists the sports in which the University participates and shows each team's 2015 rostered student-athlete count.

Athletics employs approximately 160 employees and has over 400 student athletes participating in sports.

Figure 1.1 Athletics Oversees 18 Men's and Women's Sports. The Department supports over 400 student athletes.

Sport	Number of Athletes on Roster in 2015
Football	132
W. Basketball	13
M. Basketball	16
Gymnastics	13
W. Volleyball	17
W. Soccer	26
M. Skiing	12
W. Skiing	11
M. Tennis	11
W. Tennis	8
M. Golf	11
W. Swimming*	29
M. Swimming*	33
W. Track	39
Baseball	33
Softball	17

Source: University of Utah Athletics Department
**Swimming teams also include Men's and Women's Diving*

Football has the largest number of student athletes, accounting for almost a third of the total. The level of athletic performance within the conference has varied from team to team as the difficulty of competition has increased since the university joined the Pac-12 in 2011. In Chapter III, we discuss how Athletics measures the performance of the teams and how to improve that process.

The University of Utah Has Been A Member of the Pac-12 Since 2011

The University of Utah accepted an invitation to be the 12th member of the Pac-12 in June 2010.

On June 7, 2010, the University of Utah accepted an invitation to become the 12th member of what was known as the Pac-10 Conference. The Conference has won more than 390 NCAA titles, which is more than any other conference in the country. The Pac-12 is composed of 10 public universities and 2 private universities (University of Southern California and Stanford University). Since joining the Pac-12 the University of Utah has seen an increase in revenues; this will be discussed in the following section.

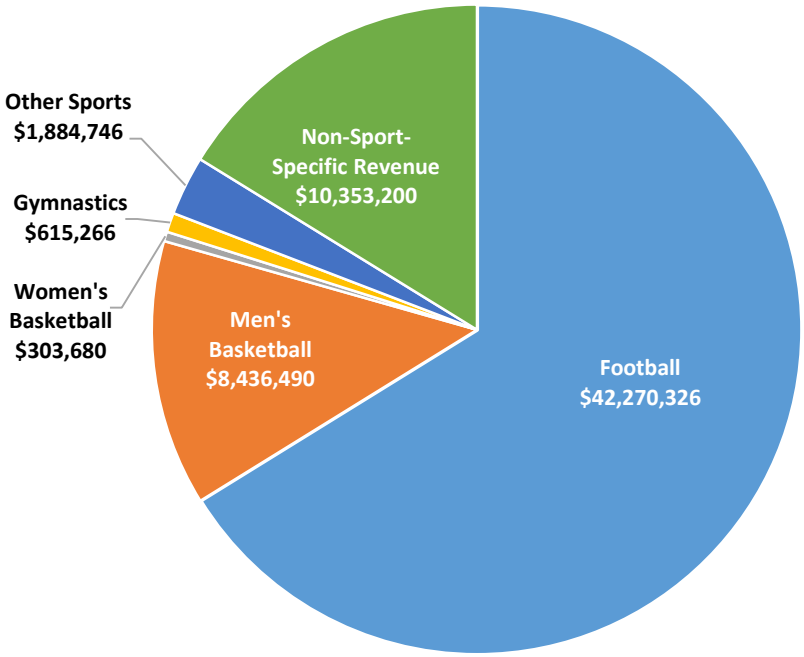
Athletics Revenues and Expenses Have Increased Significantly

Athletics has received large revenue increases since joining the Pac-12. As a result, Athletics is better able to compete with other Pac-12 schools by spending more in the hopes of attracting better recruits. The largest revenue generators are football and men's basketball which account for 80 percent of revenues generated for Athletics. Two categories, football and non-sport-specific expenses, account for more than 60 percent of all expenses for Athletics.

Football Generates the Majority Of the Department's Revenue

Athletics generated revenues of almost $64 million in fiscal year 2015. Figure 1.2 shows a breakdown for fiscal year 2015 in which the majority of Department revenue came from football and men's basketball.

Figure 1.2 Athletics Department 2015 Revenue Breakdown. The Department generated $63.9 million in revenue in fiscal year 2015.



Source: NCAA Agreed-Upon Procedures financial data.

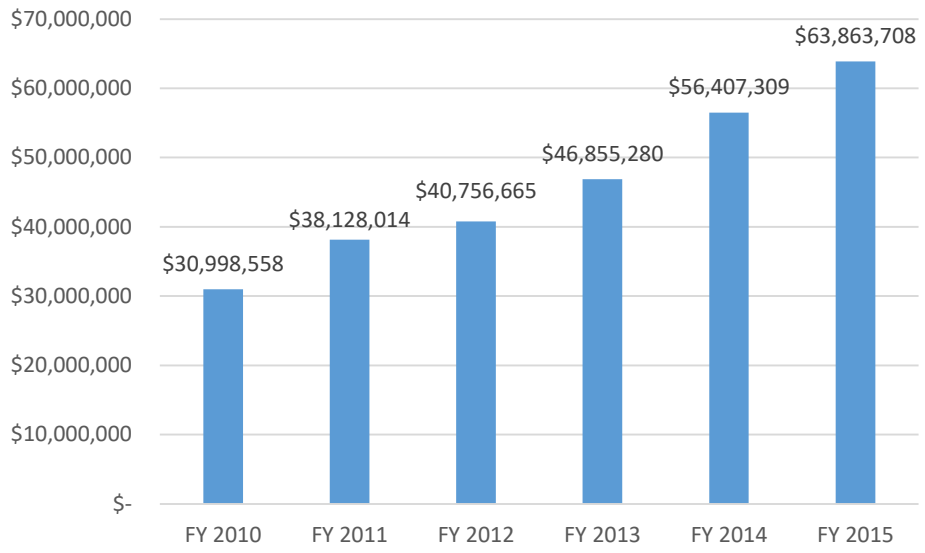
Football generated over $42 million of the $63.9 million total revenue generated in Athletics in 2015.

According to Figure 1.2, football generated approximately 67 percent of Department revenue, followed by men's basketball, which

generated approximately 13 percent, or more than $8 million. Therefore, the two sports generate almost 80 percent of all Athletics revenue.

In fiscal year 2011, the fiscal year prior to joining the Pac-12, Athletics generated approximately $38 million in revenue. Since that time, revenue has grown by nearly 70 percent, as shown in Figure 1.3.

Figure 1.3 Athletics Department 6-Year Revenue Breakdown. The Department has generated a total of $277.1 million in revenue over the past six fiscal years (2010-2015).



Source: NCAA Agreed-Upon Procedures financial data.

Athletics revenue grew from $38 million to $64 million from fiscal year 2011 through 2015.

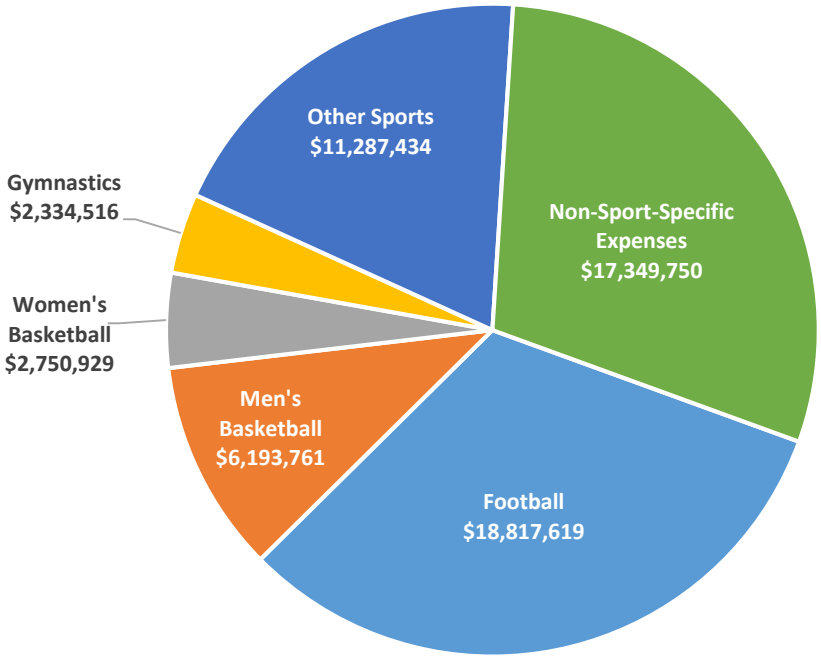
Figure 1.3 shows the significant increase in revenue since joining the Pac-12 in fiscal year 2012. From fiscal year 2011 to 2015, total revenue increased by $25.7 million, which is a 67 percent increase. Some of these increases can be attributed to increased ticket revenue and a new television contract with the Pac-12. However, the television revenue did not occur until 2013 when Athletics received only 50 percent of television revenue shares. That share increased to 75 percent in 2014, and then 100 percent in 2015.

Expenses Have Increased Significantly Since Joining the Pac-12

Since fiscal year 2011, the Department has also increased spending. Expenses have grown dramatically as revenues increased and in an

effort to compete with other Pac-12 schools. Figure 1.4 shows the expense breakdown for fiscal year 2015.

Figure 1.4 Athletics Department 2015 Expense Breakdown. The Department spent a total of $58.7 million in fiscal year 2015.

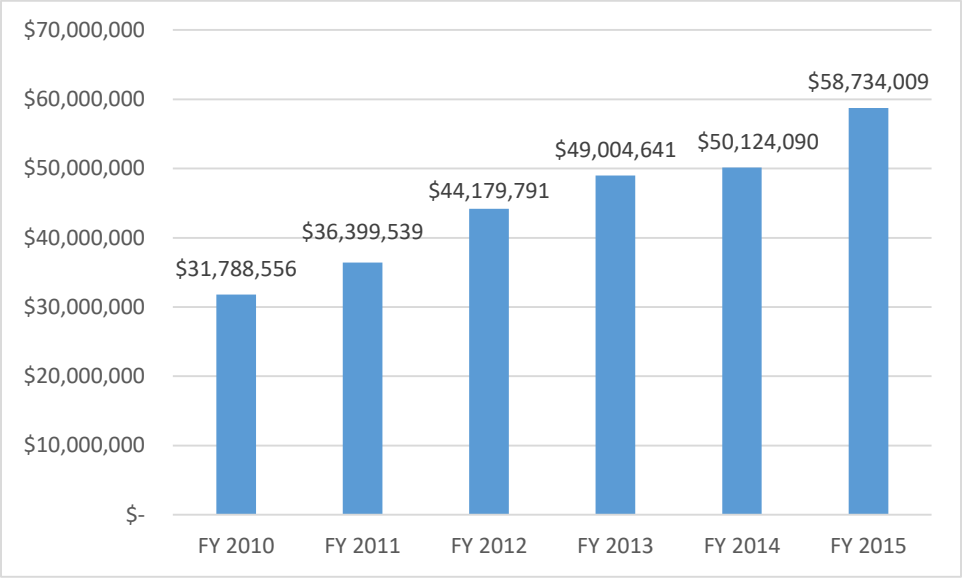


Source: NCAA Agreed-Upon Procedures financial data.

Football and men's basketball account for approximately 43% of Athletics' expenses.

Figure 1.4 shows that football spent the most, accounting for about 32 percent of all expenses. Non-sport-specific expenses, the second-highest amount, accounted for approximately 30 percent. Expenses have increased a great deal since fiscal year 2010 as Figure 1.5 shows.

Figure 1.5 Athletics Department 6-Year Expense Breakdown by Sport. The Athletics Department has expended a total of $270.2 million over the past six fiscal years (2010-2015).



Source: NCAA Agreed-Upon Procedures financial data.

Expenses have increased by $22.3 million, a 61% increase, since 2011

Figure 1.5 shows the significant increase in expenses since joining the Pac-12 in fiscal year 2012. From fiscal year 2011 to 2015, total expenses increased by $22.3 million, which is a 61 percent increase. Most of the increases fall into to two categories: football and non-sport-specific expenses. In 2010, football spent about $10.1 million and non-sport-specific expenses accounted for about $9.6 million. Spending in these categories rose to $18.8 million and $17.3 million respectively, in fiscal year 2015, bringing the total combined increase between those two categories to $16.4 million.

Audit Scope and Objectives

We were asked to look at how efficiently and effectively the Athletics Department is operating. We reviewed the following:

- Chapter II: The budget practices and management of the Athletics Department
- Chapter III: The academic and on-field performance of sports teams and the salary increases of coaching staff
- Chapter IV: Inventory control and building access
- Chapter V: Human Resource policies and timekeeping compliance

Chapter II
Athletics Department Should Strengthen Its Budget Practices

Although the University of Utah Athletic Department's finances compare favorably with those of its peers, there are areas in which the Department can improve. First, the total cost of operations, including indirect support, should be reported to University of Utah (U of U, or the University) policymakers and stakeholders to assist the institution in exercising control over the financial activity of the Athletics program. Indirect institutional support, estimated at $1.2 million for fiscal year 2015, has not been calculated or reported for several years.

Second, because of the pressure in collegiate athletics to increase spending, the Department must continue to guard against financial pitfalls. Upon entering the Pac-12 Conference, the Department made the strategic decision to overspend but has since balanced its budget and built an approximately $6.4 million reserve fund. As a result of overspending, the Department accrued a $7.6 million deficit with the University but has paid down $2.9 million of that obligation. The balance of the deficit was $4.7 million at the end of fiscal year 2016. We believe that reporting additional financial information and developing a strategic plan will help the Department maintain proper budgetary control.

Because of spending pressure in collegiate sports, athletics must continue to guard against financial pitfalls.

Finally, we found that the men's basketball head coach, who agreed to personally pay an $80,000 cancellation fee, has not yet paid the full amount. Instead the University paid the cancellation fee and the coach is expected to repay the University in four installments.

For Greater Control, Athletics Should Report The Total Cost of Operations to Policymakers

Athletics has not been reporting indirect financial support, which we estimate to have been $1.2 million in fiscal year 2015. This number should be calculated and reported so university policymakers and other stakeholders can understand the total cost of Athletics operations. NCAA guidelines require that indirect financial support be tracked and reported in annual financial reports. A more accurate

To help policymakers and stakeholders understand the cost of operations, indirect costs should be reported.

picture of Department expenses will allow for greater long-term monitoring and control of those funds.

Athletics Should Disclose All University Support to Provide an Accurate Financial Picture

Financial reports have not included indirect financial support from the University.

NCAA financial reports prepared by the Department for University leadership have not reflected indirect University financial support for Athletics.[1] With this amount excluded from financial reports, the board of trustees and the president (for whom the reports are prepared), as well as any other interested stakeholders are unable to see the total cost of Department operations. We are not expressing an opinion on whether the amount of support the University provides to Athletics is appropriate or not; we are simply recommending that total costs should be clearly and accurately reported.

Indirect costs have been excluded from Department financial reports due to evolving interpretations of agreements with the University and difficulties in calculating exact amounts for services provided. However, regardless of such difficulties, NCAA guidelines direct the Department to work with the University to calculate a reasonable allocation of indirect financial support. The Department has neglected to report any indirect financial support for several years now, despite benefitting from qualifying items.

NCAA guidelines require indirect support to be reported.

The NCAA financial reports are designed to detail both direct[2] and indirect university financial support. In its fiscal year 2015 report, the Department reported $4.3 million in direct financial support and $5.9 million in student fees. Figure 2.1 shows additional detail for these amounts.

[1] Called "Indirect Institutional Support" in the NCAA manual, this is defined by the NCAA as a benefit provided to Athletics for which the Department does not pay.
[2] Called "Direct Institutional Support" in the NCAA manual, this is funding provided by a university directly to its athletics department for the operations of intercollegiate athletics.

Figure 2.1 Utah Athletics Department Reported $10.2 Million in Direct University Financial Support in FY 2015. Total reported University support was divided between institutional support ($4.3 million) and student fees ($5.9 million). Our indirect support estimate is shown in Figure 2.2.

Direct University Support in FY 2015	Amount	
Tuition Waivers	$	2,516,967
Unrestricted Athletic Support		811,988
Rice-Eccles Stadium Rent Support		795,000
Athletics TA Waivers		81,624
Title IX Salary Support		60,000
Ski Team Support		30,500
Total Direct Institutional Support	**$**	**4,296,079**
Student Fees	**$**	**5,926,012**
Total Reported University Support	**$**	**10,222,091**

Source: University of Utah financial records and Athletics' 2015 Agreed-Upon Procedures report

Athletics reported $10.2 million in University financial support in FY 2015.

The $10.2 million of University support in Figure 2.1 was reported by the Department, but it excluded an amount for indirect support. We therefore used NCAA guidelines to estimate the amount of indirect support that should have been reported in fiscal year 2015. University contracts and financial records show approximately $1.2 million of indirect support that was not reported. Figure 2.2 subdivides and summarizes our estimate for indirect financial support in fiscal year 2015.

Figure 2.2 Utah Athletics Department Received Approximately $1.2 Million in Unreported Indirect University Support in FY 2015. This amount was not reported as required by the NCAA.

Indirect University Support in FY 2015	Amount	
Athletics Employee Benefits Paid by University	$	397,637*
Office Space and Utilities at Huntsman Center		359,320
Facilities Services at Huntsman Center		199,126
Huntsman Center Rental Contract Discount		196,333
Total Unreported Indirect University Support	**$**	**1,152,416**

Source: OLAG generated with data provided by multiple University of Utah departments. Appendix A goes into further detail on the specific definition and explanation of the Indirect University Support amounts.
**The Department paid directly for all other employee benefits, totaling $4.7 million in fiscal year 2015.*

$1.2 million of indirect support to the Department was not reported in FY 2015.

The items in Figure 2.2 include funds paid by the University for Athletics employee benefits, as well as three items pertaining to the

interaction between Athletics and U of U Auxiliary Services.[3] Based on NCAA guidelines, we believe these items should be reported as indirect benefits to Athletics in the Department's annual NCAA financial reports.

An alternative approach to an indirect cost estimate is a simple proportional allocation of university general and administrative costs as is done for other NCAA athletics departments. Depending on how that amount complements or overlaps the $1.2 million shown in Figure 2.2, it could make sense to add both amounts or to select some hybrid that captures but does not double count the total cost in order to determine an appropriate amount of athletics-related indirect costs.

An accurate amount of indirect costs should be calculated and reported in collaboration with the University.

Regardless of the method selected, athletic stakeholders at the University should collaborate to calculate an accurate amount of indirect institutional support and disclose it in the Department's NCAA agreed-upon procedures report. As mentioned earlier, accurate reporting of total financial support will more fully inform future finanical decisions.

By comparison, four of the other nine Pac-12 schools for which data is available[4] report some level of indirect university support. However, this is so because most other Pac-12 athletics departments pay for their own overhead costs and would therefore have no indirect support to claim. For example, utility and maintenance costs for the Department's offices in the Huntsman Center are currently covered by U of U Auxiliary Services. Other Pac-12 athletics departments pay directly for these costs.

Pac-12 and other in-state athletics departments pay for or report indirect support.

Within the state of Utah, Utah State University, Utah Valley University, Weber State University, and Southern Utah University (SUU) all report indirect university financial support in their NCAA financial reports. However, the State Auditor's Office only began requiring SUU to report the amount as of fiscal year 2015 despite SUU having calculated its indirect support for multiple years prior to that point. By not reporting its indirect financial support, the U of U athletic department is not in line with the majority of institutions

[3] Appendix A gives a more detailed explanation of these items.
[4] Data for Pac-12 athletic departments is limited to the 10 public universities (including Utah) in the Conference. Financial data for Stanford and USC were unavailable.

which account for both direct and indirect university support, both in the state and in the Pac-12.

Athletics Also Generates Benefits for the University. Although we did not perform an impact analysis, Athletics provides benefits to the University in both tangible and intangible ways. Oregon State University is currently working with its athletics department in an attempt to articulate such benefits. Although this is not an amount to be reported in any formal way, a similar effort at the U of U could be illuminating for policymakers. Athletics should collaborate with the University to ensure a fair and accurate amount is calculated.

Reporting Indirect Institutional Support Will Accurately Reflect Total Subsidy

As mentioned earlier in this chapter, the Department reported $4.3 million in direct institutional support or 7 percent of its $63.9 million operating revenues. If our estimate of $1.2 million for unreported indirect institutional support is added to that amount, it would increase institutional support to $5.4 million, or 9 percent of operating revenues. The overall university subsidy, including student fees, would increase from $10.2 million to $11.4 million, or from 16 percent to 18 percent. Figure 2.3 compares these rates to those of the U of U's Pac-12 peers and other athletic departments in the state of Utah.

Reporting indirect support will more accurately reflect the total subsidy rate.

Figure 2.3 Utah's FY 2015 Rate of University Subsidy is Fifth Highest in Pac-12 Without Student Fees and Third Highest With Fees. In contrast, even with the additional indirect subsidy amount, the University of Utah's rate of institutional support is well below that of other Utah universities.

Institution	% University Subsidy (without student fees)	% University Subsidy (including student fees)
Pac-12 Universities*		
Arizona State	11.2%	23.0%
Colorado	15.7%	18.0%
Utah	8.5%	17.8%
Washington State	9.2%	11.3%
Arizona	10.3%	10.3%
Oregon State	6.2%	10.0%
Washington	3.8%	3.8%
UCLA	0.1%	2.8%
California – Berkeley	0.0%	1.5%
Oregon	0.0%	1.5%
Other Utah Universities		
Southern Utah	62.2%	73.7%
Utah State	49.0%	62.8%
Utah Valley	48.7%	86.7%
Weber State	48.9%	66.4%

Source: NCAA Agreed-Upon Procedures data.
"University subsidy" in this usage includes direct institutional support (which captures tuition waivers) plus indirect institutional support less any transfers to the institution. The number excludes or includes student fees in the figure as indicated above.
**Data for Pac-12 athletics departments is limited to the 10 public universities in the Conference. Financial data for Stanford and USC were unavailable.*

With student fees, Utah's subsidy rate is the third highest in Pac-12 but the lowest compared to other Utah institutions.

Figure 2.3 shows that after adding our estimate for indirect institutional support, Utah's rate of total university subsidy ranks fifth highest among Pac-12 peers if student fees are excluded and third highest if fees are included. In contrast, compared to other institutions in Utah, the U of U receives far less university support as a percentage of total athletics revenue.

Continued Emphasis on Budget Management Is Crucial as College Sports Spending Escalates

Utah must maintain proper control in the face of pressure to increase spending.

As the cost of intercollegiate athletics has grown, some of the U of U's peer Pac-12 athletics departments have overspent their budgets. The Department has largely spent within its means, but pressure to increase spending in order to compete and recruit is substantial.

Therefore, the Department must maintain proper budgetary balance and control going forward. To aid the University in continued financial control over Athletics, the Department should report key financial data, including athletics fund and reserve account balances, in its annual NCAA financial report and on its website.

The U of U Has a Deficit but is in a Better Position than Some Pac-12 Peers

In recent years, some of the U of U's peer Pac-12 athletics departments have found themselves in difficult financial positions. Upon entering the Pac-12 Conference, the Department made the strategic decision to overspend but has since balanced its budget and built an approximately $6.4 million reserve fund. As a result of overspending, the Department accrued a $7.6 million deficit with the University but has paid down $2.9 million of that obligation. The balance of the deficit was $4.7 million at the end of fiscal year 2016. Information about accumulated deficits and reserve funds is very meaningful in understanding the true financial position of an athletics department. Despite this, such information is not often reported publicly by college athletics departments.

Utah ended FY 2016 with a $4.7 million deficit and $6.4 million in reserves.

If a department runs an annual operating deficit, its university must make up that deficit with university funds either by transferring money to the athletics department or by holding its athletic fund at a negative balance (i.e., showing that the athletics department owes money to the university). Running multiple operating deficits from year to year can cause the negative balance of the athletics fund to accumulate, creating an obligation that must eventually be satisfied by either the university or the athletics department. Because of this, it is imperative that budget management and communication with the university be robust and transparent to avoid unexpected future financial obligations.

As a general trend, there has been significant pressure to spend increasing amounts on budget items like coaching salaries, athletics facilities, scholarships, food, and student athletes' cost of attendance. This pressure has led some universities to significantly overspend budgets in recent years. Figure 2.4 shows Pac-12 athletics departments' accumulated athletic fund deficits and reserve funds as of the end of fiscal year 2016. The deficit and reserve numbers were reported directly to us from each athletic department. Some amounts are approximations.

There has been significant pressure to spend increasing amounts on certain budget items.

Figure 2.4 Some Pac-12 Athletics Departments Carry Large Deficits in Their Athletic Funds. Deficit amounts must eventually be satisfied either by the university or the athletics department. Amounts are reported here as of the end of fiscal year 2016.

Pac-12 Universities*	Dept. Reserves (Amounts in Millions)	Athletics Fund Deficit (Amounts in Millions)
Washington State	$ 0	$ (50)
Oregon State	0	(30)
California – Berkeley	0	(25)
Colorado	3.5	(20)
Utah	6.4	(4.7)
Arizona State	0	0
UCLA	0	0
Oregon	N/A**	0
Arizona	9	0
Washington	$ 24.5	$ 0

Source: Direct report from each athletics departments' chief financial officer.
** Data for Pac-12 athletics departments is limited to the 10 public universities in the conference. Financial data for Stanford and USC were unavailable.*
***Oregon's reserves are held in a foundation, the balances of which are not subject to public disclosure.*

Utah Athletics compares well to other Pac-12 departments with large athletic fund deficits.

Figure 2.4 reveals an alarming perspective about the true financial positions of certain athletics departments. For example, the University of Colorado Boulder passed through difficult financial years that involved a significant penalty for leaving its prior athletic conference, large severance payments, and facility expenditures. Payment of these expenses required the use of all department reserves and an approximately $20 million "loan" from the university which the department is expected to pay back over time. Since those difficult years, the department has built up an approximately $3.5 million financial reserve but has yet to address the deficit.

Information about deficits and reserves shows athletics' financial position.

Some athletics departments face very large, long-term bond payments that have severely impacted their budgets and will be a significant burden for years to come. Others have faced large operating deficits in recent fiscal years, which were paid for with university funds, thus creating the significant athletics fund deficits shown in the figure. It is now up to each respective university's administration to determine how and when their athletics departments will repay that amount.

As mentioned previously, the U of U Athletics Department passed through two budget deficit years in fiscal years 2012 and 2013 as it

entered the Pac-12, resulting in an athletics fund deficit of $4.68 million as of the year ending June 30, 2016. This amount is currently being paid off each year. The deficits in those years reflect a strategic decision to invest in Athletics operations while the Department awaited a full share of Pac-12 Conference revenue. Figure 2.5 shows a brief history of the U of U's athletics fund balance.

Figure 2.5 Utah Athletics Fund Balance at 2016 Fiscal Year End. Athletics has paid back $2.9 million since the deficit's peak in 2013. The Department entered the Pac-12 in FY 2012.

Fiscal Year	Year-End Athletic Fund Balance
2005	$ 2,948,272
2006	1,985,915
2007	1,691,946
2008	1,407,511
2009	2,200,532
2010	1,340,083
2011	2,734,403
2012	(2,962,838)
2013	(7,585,278)
2014	(6,399,121)
2015	(4,976,969)
2016	$ (4,678,030)

Source: University of Utah financial records
The red line denotes the entrance of the Department into the Pac-12 Conference.

Utah's deficit grew to $7.6 million, but has been reduced to $4.6 million.

With operating surpluses in fiscal years 2014-2016, the Department could have entirely eliminated the negative fund balance but, in cooperation with University administration, it has instead decided to set money aside in strategic reserve accounts to protect against future expense volatility. Current reserve amounts total approximately $6.4 million, which is among the highest in the Pac-12.

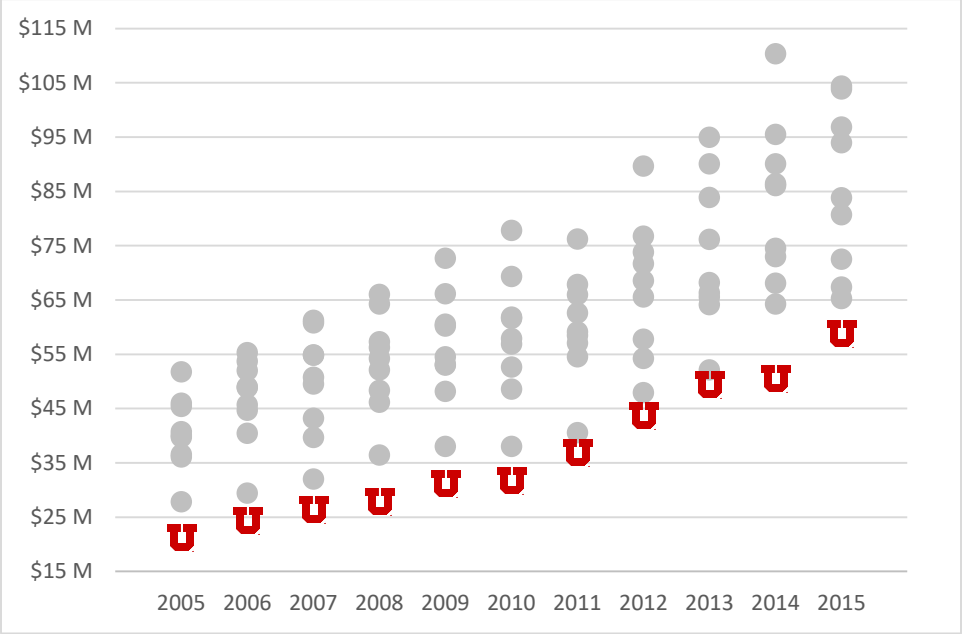
In cooperation with the University, Athletics built reserves instead of repaying the deficit more quickly.

Utah Athletics' Expenses Are Lower than Those of Its Peers

As compared to its Pac-12 peers, the U of U's total athletics expenses (both before and since entering the Conference) have consistently been the lowest. The Department's low expenses can be partially attributed to having one of the Conference's lowest revenue streams. Figure 2.6 compares total expenses for the 10 public Pac-12 athletic departments from fiscal years 2005-2015.

Utah has lower revenues and expenses than most Pac-12 peers.

Figure 2.6 Total Expenses for the 10 Public Pac-12 Athletics Programs from Fiscal Years 2005-2015. The U of U spent less than all other institutions both before and since joining the Conference in fiscal year 2012.



Source: NCAA financial data via USA Today; Financial data for Stanford and USC were unavailable.

Even after adjustment, the U of U spends less than its conference peers.

Even if we include an adjustment for indirect institutional support as discussed earlier in this chapter, Utah would still rank last in total expenses during these years. Coaches and administrators frequently told us that, to remain competitive, college sports departments are under significant pressure to spend more money. Therefore, questions of how best to maintain proper budgetary balance going forward while remaining competitive should remain at the forefront of Utah's budget management efforts. The Department has thus far been able to field several successful sporting teams while maintaining the lowest budget in the Pac-12.

Remaining both competitive and fiscally responsible should continue to be primary focus.

To Bolster Control, the Department Should Report More Financial Information

Utah should expand its reporting to include deficit and reserve fund balances.

To show a more complete picture and facilitate public review of its finances, the Department should expand its annual financial reports, as allowed by NCAA guidelines, to include information about both its athletics fund and reserve fund balances. We believe that this will better fulfill the primary purpose of these reports, which is to assist the University in exercising control over the financial activity of Athletics.

In addition, the Department should create a repository of current and historical financial information on the Athletics website. Other Pac-12 athletic departments have already made key financial information readily available on their websites.

The University of Oregon athletics department has a finance webpage with a long list of reports and financial information. Items listed on Oregon's website include its NCAA financial reports, internal reviews and analysis, annual budget summaries, athletics board reports, on-campus memoranda of understanding, and historical comparative analysis. The University of California, Berkeley's athletics website lists audited statements of revenues and expenses from 2002-2015, recently including its athletics fund balance, and a number of details pertaining to facilities financing. Washington State University's athletics department lists NCAA financial reports from 2013-2015.

In comparison, the U of U Athletics Department only lists fiscal year 2016 budget information on its website. Its historical NCAA financial reports going back to fiscal year 2012 are also publicly available; however, those are only available through the State Auditor's website.

Given the budgetary pressures in college athletics, we believe a higher level of budgetary transparency can help stakeholders review and control the Department's financial activity. Also, with the high level of emphasis placed on transparency in government financial reporting in the state of Utah, we feel that the Department would do well to report a more complete picture of its financial position.

Current and historical financial information should be on Athletics' website.

A Strategic Plan Can Improve Financial Management and Control

To better analyze and control its finances, the Department can benefit from formalized projections of large capital expenditure needs and more robust analysis of primary cost drivers, like team travel and equipment. A departmental strategic plan will help provide a platform to accomplish these and other goals.

In light of the large increases in revenues and expenses in recent years, the Department has already formulated the foundation of a strategic plan that has yet to be fully developed. That effort was put on hold until the conclusion of this audit. The intent of that plan, as

stated by Department administration, is to more fully align Athletics with the core missions of the University and to improve academic, athletic, and financial performance. We feel that this strategic plan should also be used as a control framework to prevent future overspending that could put the University at financial risk.

The Department has already formulated the foundation of a strategic plan.

The Department has already made efforts to analyze large cost drivers to help reduce costs and increase control. However, we see additional areas that could potentially benefit from more robust analysis and controls. For example, travel and equipment costs have often run over budget since the U of U entered the Pac-12, and costs in these areas could likely be better understood and controlled. Figure 2.7 shows how these two categories have performed relative to their budgets from 2012-2016.

Figure 2.7 Travel and Equipment Illustrate Areas of Potential Budget Improvement. Better analysis and coordination could reduce these variances going forward.

	2012	2013	2014	2015	2016
Team Travel	$ (841,500)	51,600	7,990	(657,300)	$ (1,039,400)
Equipment	$ (716,000)	(386,600)	563,200	(700)	$ (426,700)

Source: University of Utah Athletics Department financial records

Additional analysis could reduce budget variability.

Figure 2.7 shows an opportunity for more accurate budgeting in two large budget sub-categories. Despite the variances shown, it is important to note that Athletics balanced its overall department budget from 2014-2016.

Additionally, a formalized plan for the maintenance and renovation of athletics facilities could serve to keep the University aware of both its current obligations and long-term needs before additional projects are undertaken. For example, a future project that would warrant a feasibility study is the south end zone renovation project at Rice-Eccles Stadium. As mentioned previously in this chapter, facilities-related expenses have taken a large toll on many athletics departments.

Expensive facility needs should be formally projected and tracked with input from Athletics stakeholders.

A strategic plan, in this context, should be tailored to protect the future financial viability of Athletics and, by extension, the University. It should also be crafted to maximize its value and utility for U of U's unique department. The University of Colorado Boulder recently created a strategic plan that, according to Colorado athletics' CFO, has been very helpful in orienting the entire department toward common

goals. Colorado's plan contains broad strategic objectives and more specific metrics and targets designed to guide ongoing activity toward the accomplishment of larger objectives.

Partial Payment Received for Cancelled Men's Basketball Game

The men's basketball team cancelled a game with Brigham Young University (BYU) initially scheduled for early December 2016 at a cancellation cost of $80,000. The University reported that the men's head basketball coach was going to repay the cancellation fee out of his own personal funds. However, the University paid BYU the $80,000 cancellation fee.

The men's basketball coach agreed to pay, with personal funds, the cancellation cost of the BYU basketball game. This has not yet been fully accomplished.

University officials reported that the men's basketball coach will repay the University the cancellation fee in four installments over four years. The coach has paid the first installment of $20,000. Those funds have been paid from the coaches' foundation (the Krystko Foundation). However, since the funds were paid from a foundation account we could not independently determine if the coach used personal funds or foundation monies from other sources to make the payment. According to University officials, the coach has assured the University that the funds came personally from him without contributions from donors.

Recommendations

1. We recommend the University of Utah Athletics Department work with senior administration at the University to calculate and report an accurate amount of indirect institutional support and disclose it in the Department's NCAA agreed-upon procedures reports.

2. We recommend the University of Utah Athletics Department expand its NCAA agreed-upon procedures reports, as allowed by NCAA guidelines, to include information about both its athletics fund and reserve fund balances.

3. We recommend the University of Utah Athletic Department include current and historical financial information on its

website including NCAA reports, athletic fund balance, and reserve funds.

4. We recommend the University of Utah Athletic Department continue its effort to formulate and adopt a departmental strategic plan with a clear focus on financial analysis and control.

Chapter III
Improvements Needed For Measuring And Rewarding Coaches

The University of Utah Athletics Department (Athletics or the Department) has general performance objectives for all but one of their team sports. These goals outline the competitive expectations the Department has for each individual sport. Currently, the goals are not collaboratively reached with coaches, in fact in most cases the goals are never shared with the coaches.

Also, many coaches received significant salary increases, regardless of whether goals were met. In other words, most sports did not meet their goals, but all sports saw significant pay increases. Department officials report that coach raises given in the past five years were necessary due to the higher pay averages and coaching salaries in the Pac-12 Conference. We understand this justification, but going forward, the Department should collaborate with coaches to develop performance metrics that are challenging, yet reasonable, and are used as a basis for compensation increases. Another way the Department could encourage greater success is by incentivizing the director of athletics for achievement in all sports, including those that are less visible and that generate revenue insufficient to cover their costs.

Going forward, Athletics should develop performance metrics that can be used as a basis for compensation increases.

Financial Incentives Should Be Tied to Performance

Over the past five years, coaching staff in the majority of sports received significant pay increases (salary and associated benefits), despite most teams not fully meeting performance expectations. This practice can diminish the effectiveness of Department-established performance goals. Many of the sports teams, including the more visible sports, have performed very well in the past five years. However, hardly any of the sports reached the goals set by the Department from 2011 through 2015. Going forward the Department should review the reasonableness of its goals and then tie a portion of compensation increases to the achievement of performance goals.

Most teams did not reach the performance goals set by the Department for all five years.

"On-field" performance is not the only criteria used to determine the success of a program; the academic progress of the student-athletes can be additional criteria used to measure success. The Department is one of the best academically in the Pac-12. This is a significant achievement, and should also be tied to a financial incentive.

The University's Teams Excel Academically

The U of U has one of the highest APRs in the Pac-12.

While we believe the Department can improve the administration of its on-field performance goals, the department has performed well in its academic mission. According to the NCAA, the Academic Progress Rate (APR) "holds institutions accountable for the… eligibility and retention of each student-athlete for each academic term." The APR is a calculated rate that factors in points for staying in school and being academically eligible, which is averaged over a four-year period. If a team does not earn a yearly average of 930 (out of a possible 1000), it is ineligible to participate in the NCAA championships. The Department has exceeded these requirements since joining the Pac-12.

The U of U has one of the highest APRs in the Pac-12. All sports have averaged well above the minimum 930 APR required by the NCAA. Figure 3.1 shows the APR average from 2011 through 2015.

Figure 3.1 Utah Athletics' APR Average from 2011 through 2015. The Department has one of the highest APRs in the Pac-12.

Sport	Utah APR Average 2011- 2015	Pac-12 APR Average 2011- 2015
Football	971	956
W. Basketball	977	976
M. Basketball	982	965
Gymnastics	997	992
W. Volleyball	986	983
W. Soccer	971	987
M. Skiing*	975	N/A
W. Skiing*	983	N/A
M. Tennis	993	983
W. Tennis	986	991
M. Golf	991	980
W. Swimming**	985	987
M. Swimming**	960	975
W. Track	992	983
Baseball	984	974
Softball	973	985

**No other Pac-12 Teams have ski teams*
***The diving teams are included in men's and women's swim teams*
Source: University of Utah Athletics Department

As Figure 3.1 shows, all of the sports have had relatively high APRs over the past five years. Coaches and administrative staff have done a remarkable job maintaining high APRs for their respective sports. While comparable on-field success is necessary, academic success should also compare favorably. For example, even though men's swimming, softball, and women's soccer have APRs well above the required amount they are still below the Pac-12 average.

We recommend that teams should make APRs comparable to or higher than other Pac-12 schools in order for increases in compensation to be given.

Both academic and on-field performance should be used when financially rewarding coaching staff.

Coaches Received Pay Increases Despite Not Meeting Expectations

Performance goals are not meaningful if they are not used to improve performance.

Since joining the Pac-12, most of the Department's teams have not met full performance expectations. Despite this, almost all coaches have received significant increases in salary and associated benefits. The Department indicated that the increases were intended to bring the coaches' salaries somewhat in-line with those offered at middle of the tier Pac-12 schools, and we understand that salaries in the Pac-12 are higher than what they were in the Mountain West Conference. However, performance goals are not meaningful if they are not used to incentivize performance. Figure 3.2 shows the increases in salaries and benefits for coaches from 2011 through 2015.

Figure 3.2 Athletics Salary and Benefits for Coaching Staff.
Salaries have significantly increased during the five year period from 2011 through 2015.

Sport*	% Salary/Benefit Increase from 2011- 2015
Football	89%
M. Basketball	84%
Gymnastics	70%
W. Volleyball	67%
W. Soccer	18%
W. Tennis	39%
W. Track	45%
Baseball	112%
Softball	40%
M/W. Skiing	73%

Source: University of Utah Athletics Department
**Figure does not include men's tennis, swimming (diving included in swimming), and women's basketball due to new coach hires from 2011-2015. Golf was not included because financial information was not available.*

Salary Increases were given to be in line with other Pac-12 institutions, but were not connected to on-field achievement.

As Figure 3.2 shows, most coaches received significant pay increases between 2011 and 2015. According to Athletics officials, pay raises were given to be competitive with salaries paid by institutions in the middle of the Pac-12, thus, pay raises were not connected to on-field achievement but to market factors. We found that most teams did not fully meet expectations as will be shown in Figure 3.3. Understandably, partial completion of goals may warrant some increase, but as stated previously, pay raises were not connected to meeting performance goals. Going forward, increases should have some tie to on-field performance.

Figure 3.3 Performance Expectations for Sports from 2011-2015. The Department has on-field goals which are determined without input from coaches for each sport.

Sport*	Met Full Performance Expectations 2011- 2015
Football	No
M. Basketball	No
Gymnastics	Yes
W. Volleyball	No
W. Soccer	No
W. Tennis	No
W. Track	No
Baseball	No
Softball	No
M/W. Skiing	Yes

Source: University of Utah Athletics Department
**Figure does not include men's tennis, swimming (diving included in swimming), and women's basketball due to new coach hires from 2011-2015. Golf was not included because no performance expectations were given.*

Examples of performance expectations include goals such as: participating in NCAA post-conference play three out of every five years, winning more than half of all games, or reaching a certain placement in post-conference play. Figure 3.3 shows that most sports did not meet full performance expectations.

Teams had varying degrees of goal completion; some teams partially met their expectations, while others did not meet them at all. For example, one team's expectation was to participate in the NCAA tournament three out of five years and another post-season invitational during other years. There was also a goal to obtain a certain placement in post-season play. This team met the goal of reaching the post-season placement, but it did not reach the other goals. As mentioned previously, the substantial increase in the salaries and benefits for the coaching staff was linked to competitive factors resulting from joining the Pac-12. We found another example in which a team had consistently finished last in the Conference, yet the staff received raises every year, including a substantial raise in 2015 after finishing last for the fourth year in a row. In the future, salary and benefit increases should have a tie to performance expectations.

In the future salary and benefits should be linked to meeting performance expectations.

It is up to the discretion of the Athletics administration to determine performance measures, but the effectiveness of the measures could be greatly strengthened if they were incentivized through financial means. Again, we accept that raises in the past five years were

Refining the expectations to align with the level of competition could enhance the reasonableness of performance goals.

primarily given because of joining the Pac-12 and normalizing pay to that conference; however, future pay raises should have a stronger tie to performance. The level of competition has increased since the U. of U. belonged to the Mountain West Conference, which would explain why some of the teams struggle with being consistently competitive and are unable to meet performance measures. We were unable to determine if the expectations were updated from year-to-year because it appeared they remained relatively unchanged since joining the Pac-12. Therefore, the Department should refine these expectations to make them more realistic and reflect the current level of competition. However, the goals should also be challenging enough to foster performance improvement.

Performance Expectations Should Be Reasonable And Reviewed with Coaches

In addition to not adequately tying compensation to performance goals, Department administrators have not included coaches when making these goals. In fact, we found that coaches did not even know what goals had been set for their teams. We reviewed the win-loss records of the teams that did not fully meet expectations and found that some have trended upwards over the past five years and the others remained relatively the same or did not improve. Figure 3.4 shows which teams improved and which teams did not.

Figure 3.4 Recent Athletics Performance Trends. Some teams have shown recent improvements while others are still struggling to compete within the Pac-12.

Sport	Trends 2011 - 2015
Football	Won 9 games and qualified for a bowl game in 2015, which improved from only winning 5 games the prior season.
M. Basketball	Has increased win total every year since joining Pac-12, made it to the Sweet 16 in 2015.
Gymnastics	Has finished either 1st or 2nd place in Regionals and took 2nd place in the NCAAs in 2015.
W. Volleyball	Has increased win totals since joining the Pac-12.
W. Soccer	Finished 3rd in Pac-12 in 2014 and qualified for NCAA Tournament, finished 11th in 2015.
M. Tennis	Finished 5th in 2014, best finish since joining the Pac-12. Finished 7th in 2015.
W. Tennis	Has finished 6th place or lower since joining the Pac-12.
Golf	Has finished 12th in the conference every year since 2012.
W. Track	Cross Country Conference finish has decreased every year since 2013.
Baseball	Has finished in last place in the Pac 12 every year.
Softball	Has increased win total since 2013. Had best record and made the NCAA tournament in 2015.
M/W. Skiing	Has finished in top 5 in the NCAA every year since 2011.
M/W. Swimming	Has had at least one All American since 2013.
W. Basketball	Conference finish has decreased since 2013, when they finished 6th. Finished 12th in the Pac-12 in 2015.

Source: University of Utah Athletics

It must be noted that the timeframe we looked at was from 2011-2015; however, after that period the baseball team captured the Pac-12 championship, which is a considerable improvement over prior years. Some teams have improved, such as men's basketball, women's volleyball, and softball, but still did not meet total performance expectations. Others, such as women's soccer and men's tennis, have not shown a consistent upward trend; they improve one year and fall back the next year. Finally, some teams have not shown any noticeable improvement since joining the Pac-12, such as women's tennis, women's track, and women's basketball.

Going forward, coaching staff should receive only minimal increases until coaches and administration agree upon goals and acknowledge expectations. By discussing on-field performance measures with coaches, administrators can empower the teams to meet realistic, yet challenging, goals.

Athletics Director's Contract Has No Incentives for Smaller Sports

The U of U athletics director's contract does not incentivize high performance in all sports.

The Department's director can earn additional bonuses (one month of salary for the achievement of each goal) for achieving various performance goals. There are currently six goals, but there is an annual cap of four bonus opportunities. Of the six goals, four are based on the performance of the men's and women's basketball teams, football, and gymnastics. These are the only high profile programs that generate significant revenues and expenses. The remaining two are based on the APR for each sports program and the Graduate Success Rate for all student-athletes. Except for women's basketball and gymnastics, the athletics director is not incentivized on sports that generate revenue insufficient to cover their costs. Most athletics directors in the Pac-12 have additional compensation linked to overall performance, including these less visible sports. Incentivizing less visible sports can potentially contribute to improved on-field performance for all sporting programs, not just those with higher profiles that generate significant revenues and expenses.

We found nine universities within the Pac-12 that offer incentives to the athletics director based on success in all sports, not just the significant revenue-generating ones. These nine schools are Arizona, Arizona State, Cal-Berkeley, Colorado, Oregon, Oregon State, UCLA, Washington, and Washington State. For example, one university pays a bonus if the "athletic success of the men's and women's teams result in a ranking of the [sports] program in the top 20 of Division I National Associate of Collegiate Directors of Athletics."

The University of Utah president and the Athletics director should discuss how to appropriately incentivize all sports in the athletics director's contract.

Recommendations

1. We recommend that the University of Utah Athletics Department properly incentivize performance when goals have been met.

2. We recommend that the University of Utah Athletics Department review and determine if current strategic goals are

adequate and sufficiently measuring desired performance outcomes.

3. We recommend that the University of Utah Athletics Department include coaches in determining on-field performance measures.

4. We recommend that the University of Utah president with the Athletics Department director, consider changing compensation measures to incentivize all non-revenue sports.

Chapter IV
Stronger Controls Over Inventory and Building Access Are Needed

The University of Utah Athletics Department (Athletics, or the Department) has not adequately accounted for many costly assets, thus placing the University in the position of not knowing the extent of fraud and theft in the Department. Specifically, we found many assets that have not been properly tagged or added to the inventory. The Department has purchased $2 million in inventory over the last five years but failed to conduct a biennial inventory audit as required by University policy. As several cases of theft have been reported by the Department, we are concerned that inventory oversight is insufficient, and the Department may not realize if any untagged items go missing.

Because Athletics has not accounted for many costly assets, the Department should strengthen controls over inventory greater than $1,000.

Additionally, Athletics has not properly accounted for hundreds of keys, including masters, over a span of 18 years—the last time many locks were rekeyed. Unsecure access, coupled with inventory that has not been accounted for, places the Department at significant risk. Athletics should establish stronger accountability and controls to avoid future risk of theft. The Department should especially consider replacing locks with electronic card readers in vulnerable spaces.

Athletics' records show several keys have been reported missing over the span of 18 years, causing concerns about theft.

Accounting for Some Costly Inventory Is Inadequate

The Department has failed to inventory and tag several assets in buildings where Athletics operates, exposing those assets to the risk of theft. Untagged assets include computers and laptops, video production equipment, and large screen televisions. Because the Department has had recent reports of fraud and theft, we are concerned that untagged items could be stolen without anyone's knowledge. Athletics has also failed to conduct a University-required inventory audit of non-capital assets (items valued between $1,000 and $4,999.99) for several years. Assets purchased in this price range over the past five years have an estimated value of nearly $2 million. Athletics should conduct an audit of all departmental non-capital assets to properly tag and account for existing inventory. Going forward, this audit would detect theft and help in the inventory tracking process.

Costly Assets Have Not Been Inventoried by Athletics

Untagged equipment in Athletics includes laptops, video processing equipment, and large-screen televisions.

Athletics has assets that have not been tagged or inventoried in accordance with University policy. For example, items in computer and video production rooms, laptop and desktop computers, and televisions in multiple buildings are missing proper asset tags. Interestingly, we observed that while servers in locked and isolated spaces have individual inventory stickers, more portable and theft-prone types of equipment such as cameras, computers, and laptops (as demonstrated in Figure 4.1), do not have University asset tags. Inventory shared among different sports has also gone untagged.

Figure 4.1 Observation of Athletics Equipment Shows Examples of Some Items Not Tagged or Inventoried. We question Athletics' ability to know of missing assets if items have not been appropriately tagged.

Source: OLAG photographs taken while observing equipment in various athletics facilities

New equipment in recently constructed facilities has not been added to Athletics' inventory list.

A great number of the untagged items we observed were found in the newly constructed Spence and Cleone Eccles Football Center (completed in 2013) and in the Jon M. and Karen Huntsman Basketball Facility (completed in 2015). Apple computers, laptops, and large-screen televisions were among the items not tagged and recorded on the inventory list. We reviewed the estimated cost of some untagged items in these facilities and found that many of these

items were quite costly. For example, the combined estimated value of large televisions in the basketball and football facilities alone was $53,000 and $75,000, respectively. The cost of other untagged inventory falling in the non-capital asset range could be significantly higher. Although unsure why these items were never tagged, an Athletics official suggested that the Department may not have immediately accounted for these items because they were purchased in bulk and individual asset tags were not assigned. Another suggested explanation was that the problem lies in a weak tracking process for non-capital assets at the time they are purchased. Athletics should review past and future bulk purchases to ensure proper accounting is made of all assets, especially those over $1,000.

Proper accounting and inventorying are important because, since 2011, Athletics has submitted 10 claims of theft and vandalism, totaling $27,000, to the University's Risk and Insurance Management Department. Though stolen items were not the result of a single control weakness, such as lost departmental keys, we were told that items were reported stolen after coaches or other Athletics staff noticed the missing items. Additionally, in 2015 the University of Utah Department of Internal Audit reported two instances of potential fraud in Athletics where employees either took home inventory or purchased it with departmental funds and had it shipped to an off-campus location for personal use. These employees no longer work for the department. Without proper controls even more inventory may be lost without the Department knowing about it. Athletics should reduce risks by strengthening control processes over the tagging, inventorying, and tracking of non-capital assets. By better accounting for its inventory, Athletics may find that other items were stolen, and may be alerted to future cases of fraud.

Proper accounting and inventorying are important because theft and fraud have recently occurred and need to be controlled.

Inventory Audits over Some Athletic Equipment Have Not Been Conducted in Years

To account for the presence, location, and condition of University property, University policy requires all assets with a value greater than $5,000 (designated by the University as capital assets) to be annually audited by each department. Departments are also required to biennially audit all non-capital assets, as shown in Figure 4.2.

Figure 4.2 University Policy on Non-Capital Assets. Athletics has not followed University policy, which requires auditing of assets between $1,000 and $4,999, for several years.

> "Noncapital Equipment . . . has an acquisition value between $1,000.00 and $4,999.99, is freestanding, and has a normal life expectancy of one year or more. Noncapital equipment must have a yellow property tag affixed when the item is put into service . . . [and] an inventory of noncapital equipment should be conducted at least biennially. Noncapital assets must be disposed of according to University Procedures."

Source: University of Utah Policy

Although required in University policy, Athletics has not performed inventory audits on some costly equipment.

Athletics has properly accounted for some inventory levels by conducting audits of items valued over $5,000 (capital assets) over the last several years; however, no audit of items in the $1,000 to $4,999.99 (non-capital assets) have been performed. In fact, the Department does not remember the last time these items were reviewed or personally observed.

Based on University records, the Department has purchased about $1.92 million in non-capital assets over the last five years. The University's Property Accounting Office is concerned that loss may occur when audits of non-capital assets are not performed.

According to Property Accounting, two other University entities, Ophthalmology and the Huntsman Cancer Center, both of which have a high inventory like Athletics, have done well at tracking non-capital assets. Property Accounting suggests Athletics consider an electronic scanner system, used by other departments across campus, to expedite the process for tracking and auditing University assets. As an inventory audit is more of a reactionary control and does not appropriately detect theft when it occurs, stronger proactive controls are also needed to protect the Department.

Athletics should strengthen both proactive and reactive controls to protect the Department from future loss.

Regardless of whether electronic scanners are implemented, Athletics should strengthen reactionary controls by biennially conducting non-capital asset audits, as required by University policy. The Department should also strengthen proactive controls by ensuring that all qualifying assets are properly tagged and added to Athletics inventory in an effort to protect Department assets.

Stronger Controls over Building Keys Are Necessary to Control Risk

Adding to the risks associated with unaccounted inventory, the Department also has unsecure access to some Athletics spaces, greatly increasing the risk of theft. Athletics' inadequate tracking of employee access to sports and other facilities has resulted in the loss of 264 keys, including 15 master keys, over the course of 18 years. The loss of master keys places equipment rooms, arenas, and other campus spaces at a great risk for theft and vandalism. Such spaces have not been rekeyed for several years. Because Athletics has not accounted for all non-capital assets in several years, oversight and controls should be strengthened to reduce these risks.

Master Keys Reported Missing, Locks Not Rekeyed in 18 Years

Athletics operates 18 team sports that utilize several facilities across campus, including sporting arenas, training rooms, rehabilitation rooms, and office and storage space. However, the Department can no longer account for 264 keys to these spaces, including 15 master and sub-master keys.[5] Missing keys, especially master keys, pose security risks to Athletics, including theft, vandalism, the inability to know and control who enters what spaces and when, and potential insurance liability issues.

Over the last 18 years 264 keys have been reported missing. This is a concern because theft and vandalism have occurred.

The Department only knows when four of the 264 keys were reported lost. Therefore, it is uncertain how long the remaining keys have been missing. Further, several doors with missing keys have not been rekeyed in 18 years. The Building Access Office (Building Access) is the University office in charge of issuing department keys. According to Building Access records, more than 100 keys to the Huntsman Center alone have been reported missing since the last time each space was rekeyed as shown in Figure 4.3.

[5] A master key activates all door locks in a building for spaces assigned to a specific department; whereas a sub-master key typically activates the locks to more than one door, but not all doors, in spaces assigned to a specific department.

The Huntsman Center alone has reported 103 missing keys.

Figure 4.3 Record of Huntsman Center Missing Keys. Records indicate that 103 keys to the Huntsman Center alone have been reported missing in 18 years.

Key and Space Type	# Keys Missing	Last Rekey
Master Key	1	12/1998
Sub-Master Key	2	12/1998
Office Space	37	12/1999
Entrances	25	12/1998
Arena	13	12/1998
Ticket Office (2 Sub-Master)	7	01/2000
Recruiting Room	7	12/1998
Tunnels	3	04/2002
Maintenance Room	3	06/2003
Crimson Club, Marketing, Hall Closets	3	12/1998
Team Locker Room	2	12/1998
Total	***103***	

Source: Auditor analysis of Athletics and Building Access records

The lost keys place the Department at added risk of theft. Over the last five years, Athletics reported more than $19,000 worth of stolen inventory that may have been the result of unsecured access or because of a missing key. As previously discussed, the theft could be worse than what was reported due to poor inventory controls. Stolen items include computers, phones, ski equipment, a television, and a golf cart.

Recently, $10,000 of inventory was stolen from the Huntsman Center by an outsider with a master key.

One claim filed with the University's Risk and Insurance Management department stated that a stolen master key, not belonging to Athletics, assisted in the theft of more than $10,000 of Athletics inventory. The suspect was later caught and charged after allegedly stealing computers, monitors, projectors, iPads, and various sporting gear from the Huntsman Center. One key in their possession was reportedly identified as a master key to the Huntsman Center. Although missing keys are reportedly a problem campus-wide, a Building Access employee stated that Athletics has the largest problem with unreturned and missing keys and believes Athletics requests more replacement keys than any other department. Athletics should develop stronger controls to assist in accounting for keys to all their spaces.

Athletics Should Rekey Spaces or Consider Electronic Key Readers

Athletics could mitigate risks to departmental assets by installing electronic card readers in their most vulnerable facilities, a technology already in use in some Athletics spaces. Rice-Eccles Stadium and the Burbidge Academic Center, for example, both have electronic card reader accessibility which provides instant removal of terminated employee access, and can restrict employee afterhours access. Electronic card readers can easily be reprogrammed, making them a good alternative to rekeying spaces if locks are compromised. If this technology is not adopted, Athletics should work with Building Access to rekey spaces that have missing keys.

To mitigate the future risk of theft, the Department needs to either adopt electronic key reader technology or rekey locks to spaces and equipment left vulnerable due to lost keys.

We also recommend that Athletics work collaboratively with Building Access to review the access granted to all Department employees to determine if it is still appropriate and then audit the locations of all current Athletics keys.

Recommendations

1. We recommend the University of Utah Athletics Department conduct an audit, as required by University policy, of all non-capital assets, provide tags, and inventory all assets currently in the Department's possession.

2. We recommend the University of Utah Athletics Department provide greater oversight of tracking Athletics inventory and keeping their records current.

3. We recommend the University of Utah Athletics Department rekey locks for or add electronic card readers in spaces where keys have been lost.

4. We recommend the University of Utah Athletics Department, in collaboration with the Building Access Office, provide proper oversight of keys or electronic cards and keep their records current.

5. We recommend the University of Utah Athletics Department work with the Building Access Office to review which employees can access Athletics facilities to determine if such access is still required.

Chapter V
Stronger Adherence to Human Resources Policy is Needed to Ensure Employee Equity

The University of Utah Athletics Department (Athletics, or the Department) needs to improve compliance with some University Human Resources (HR) practices. First, in a few cases, Athletics has used a waiver process to bypass University job posting requirements. This practice, when not used appropriately, bypasses the competitive nature of hiring and can give the appearance of preferential treatment. Second, Athletics can improve its record keeping through better coordination with HR. We found that Athletics has hired employees into job codes that do not fit their intended job descriptions and have hired some employees into contract positions without sufficient HR involvement.

Athletics should also improve its adherence to HR policy to ensure the proper treatment of Department employees and to increase compliance with federal and University regulations. Athletics supervisors have not been pre-approving employee compensatory[6] (comp) time before its accrual, and they are not ensuring that the hours earned are accurate or correctly reflected on the University's time and attendance system. Additionally, Athletics may have incorrectly compensated nonexempt hourly employees for excess time worked above 40 hours in one workweek. Because of inadequate timekeeping controls, the University could be responsible for retroactively reimbursing all eligible employees.

Hiring Practices Require Stronger Compliance

Athletics needs to improve compliance with some University HR practices, including improved collaboration with HR. First, we found cases where Athletics has used a waiver process to avoid competitively

[6] Compensatory hours will, in this report, be referred to as "comp" hours, and are those hours worked in excess of 40 per week that are permitted to either be used or paid out at a rate of time and one half.

recruiting some positions. We understand there are cases in which a waiver process can be appropriate, but we found three cases that appear questionable. For example, the Department used the waiver process to temporarily hire an employee for a specified five-month period; however, that employee still works for the department three years after the waiver was issued without ever having gone through the competitive hiring process. Second, Athletics can improve its record keeping through better coordination with HR. We found that Athletics has hired employees into incorrect job codes that do not fit their intended job description and have hired some employees into contract positions without sufficient HR involvement.

Lack of compliance with some HR practices has, at times, led Athletics to bypass hiring practices.

Whether or not it was the intention of Athletics to purposefully bypass HR rules, failing to strictly follow the rules gives that appearance. We recommend the Department work with HR to review Athletics hiring practices to ensure they adequately conform with University HR policy.

Waivers Should Not Be Used to Unnecessarily Bypass Competitive Recruitment

We reviewed eight instances where Athletics used a waiver to hire an employee. The waiver process is allowed by HR, but University policy states that they should only be used in "exceptional circumstances." Of the eight uses of the waiver, we found three that appear questionable.

Waivers we reviewed with HR indicate University policy was not followed in order to hire specific people to the Department.

The normal hiring process typically consists of notifying HR of a job vacancy and posting the position for a minimum of seven days. Waivers to this process are allowed in exceptional circumstances. We reviewed the conditions of eight athletics waivers with University HR. After our meeting we believe three waivers appear to have bypassed the intent for which they are permitted and allowed the Department to unnecessarily avoid job posting requirements.

In these three instances, the waivers were used to hire for positions that typically go through a competitive hiring process. One of these waivers was issued to temporarily hire an employee for a specified five-month period. This employee was hired and continues to work as a full-time regular employee nearly three years after the waiver was issued, without ever having had to apply or go through a competitive hiring process.

We recommend Athletics work with HR to review the appropriate use of waivers, and that HR provide training where needed. We also recommend that Athletics review all hiring practices to ensure they are competitive, where applicable, and in compliance with HR policy.

Athletics Maintains Some Inaccurate Records, Better Tracking of Contract Employees is Needed

Athletics can improve its compliance with some HR practices. First, we found that Athletics has maintained records of hires that we found to be inaccurate. Second, HR has also been unaware of which Athletics employees have been placed on a contract, making it difficult for HR to know which employees need HR training. Going forward, the Department should work with HR to ensure employees are hired correctly and that important information is shared among the two departments.

Through improved collaboration with HR, Athletics can correct some inaccurate record keeping practices.

Athletics can improve its record keeping through better coordination with HR. We found that Athletics has hired employees into job codes[7] that do not fit their intended job descriptions. Also, as a way to expedite the hiring process, one Athletics employee reportedly avoided some recruitment procedures and hired several individuals into one job code though their job titles were distinctly different. As a result, there is an appearance that Athletics was attempting to bypass HR hiring practices. One concern for Athletics is that they have positions not found in other departments on campus, making it difficult for them to correctly classify employees. We recommend that Athletics work with HR on the creation of job codes specific to the Athletics Department.

Athletics can also improve collaboration on the hire of contract employees.

Athletics can also improve its tracking of contract employees. Typically, it is the decision of each department to determine which employees they wish to place on a contract, but Athletics should work with HR on hiring these employees, including providing useful training. However, we found that Athletics has hired several employees on contract without sufficient HR involvement. Consequently, HR has not known which employees to offer needed

[7] Job Codes are university-created codes used to classify job positions by job type, function, and pay.

training to. Going forward, the Department should work with HR to ensure improved compliance with HR practices.

Athletics has started working closely with HR to establish lasting compliance with University policy.

The Department reported that work is already underway to strengthen some control weaknesses. HR officials have also reported that their collaboration with Athletics has improved, especially with the use of an embedded HR representative in the Department. We believe Athletics could continue to benefit from HR interactions as they strengthen compliance with human resources laws and policies.

Timekeeping Policies Require Stronger Compliance

Athletics should strengthen timekeeping controls by properly tracking comp hours worked.

Athletics has not been tracking hourly employees' comp time hours or recording them in the University's time and attendance system. Instead, Athletics has allowed hourly employees to track their own comp time on off-book spreadsheets that are not approved or entered into the University time and attendance system. In addition, these employees have been incorrectly compensated for comp time, which could become a financial liability to the University if not corrected. We recommend that all employees and supervisors be trained on proper timekeeping practices, including the accrual and use of comp time, as well as on University HR timekeeping policies and procedures.

Head Coaches and Supervisors Need to Provide Verification and Control Over Timecards

Supervisors have not provided strong enough oversight of comp hours.

Supervisors have not been approving hourly employees' comp time either before or after accrual. This lack of supervisorial control could put the University at financial risk, as incorrect hours could be accrued and paid out. We found examples where nonexempt employees entered a full day of work into the University's time and attendance system while personally using leave time; one employee was actually on vacation. In the cases we reviewed, the employees marked comp time used on their personal tracking sheets to account for the vacation and leave time. Our concern is that the approved, official time sheet shows no indication of time off, thus creating an inaccurate record, and is not recorded in the University's system for time and attendance.

We found some instances where employees would submit their personal comp time balance sheets to their supervisors, but we found

no record showing that these informal sheets were ever approved by the supervisor before or after the comp time was earned. The lack of supervisorial control over time worked is a concern. For state employees, Utah Administrative Code R477-8-8(4) states:

> A Supervisor who directs an employee to submit an inaccurate time record or knowingly approves an inaccurate time record may be disciplined.

In the cases we reviewed, the accrual and use of comp time remained undocumented in the University's payroll system even with supervisorial review and approval of the employees' timesheets.

University HR recommends payroll trainings for all supervisors and managers who are viewing, modifying, and approving employee timecards. Over the previous two fiscal years, HR records indicate that only one current Athletics employee has attended a University HR payroll training covering comp time. To improve time sheet approval practices, we recommend that all Athletics supervisors be required to attend these trainings.

In the past two years, only one current Athletics employee has attended HR payroll training for comp time.

Athletics has taken these issues seriously and has already made steps toward bolstering HR compliance. Prior to this audit, an HR specialist had recently been embedded within the Department; as a result, it appears that many issues, including compliance with HR policy have improved. It may be in the best interest of other University departments that do not have embedded HR specialists to consider the same type of HR representation.

Due to Weak Comp Time Controls, Some Employees Received Incorrect Compensation

Because comp time was not accurately or properly tracked, some employees were not fully compensated for the excess hours they worked. Comp hours accrued by nonexempt employees should be paid at time and one-half. However, Athletics has only been reimbursing these employees for straight time. This practice must be corrected to ensure employees are receiving correct payment for comp hours worked, consistent with federal and University HR policies.

The Department did not properly account comp time at the appropriate rate for hourly employees.

In Athletics, 14 hourly nonexempt employees were identified as having the greatest potential of working more than 40 hours in one workweek. Several employees were found to be recording, accruing, and using one hour of comp time for one hour of leave time. However, since comp hours were not properly tracked and approved, we could not determine whether employees had actually worked the self-reported comp hours. Going forward, Athletics should ensure employees' hours are properly tracked and paid.

We recommend that Athletics comply with University time and attendance policy by logging and tracking all hours worked within the University's HR-designated payroll system.

Compensation Procedures for Comp Time Accrual Should Be Reviewed with Employees

Comp time should be pre-approved by supervisors.

University policy requires all nonexempt employees to obtain prior approval for the accrual and use of comp time as shown in Figure 5.1. To ensure compliance, supervisors should preapprove all comp time. Additionally, supervisors should monitor comp time more closely to effectively control the comp hours an employee can accrue.

Figure 5.1 HR Comp Time Accrual Procedures. A compensatory time agreement must be signed for employees to receive comp time.

> A supervisor may offer compensatory time off in lieu of overtime pay. However, the employee has the right to accept or decline compensatory time and receive pay at time and one-half. If compensatory time is acceptable to the employee, then the supervisor must ask the employee to sign a Compensatory Time Agreement.

Source: University Human Resources Policy

It is the responsibility of the Department head, dean, director, and supervisor to discuss the accrual and use of comp time with the employee. However, we found no record that Compensatory Time Agreements were signed or that employees were given a choice how to be compensated. We recommend that Athletics comply with University HR policy and ensure that all nonexempt hourly employees have signed a Compensatory Time Agreement prior to earning comp time.

Recommendations

1. We recommend the University of Utah Athletics Department work closely with the University's Division of Human Resources to review the use of hiring waivers and the purposes for which they are permitted.

2. We recommend the University of Utah Athletics Department work closely with the University's Division of Human Resources to review University hiring practices to ensure they are consistently followed and that records are accurate and up to date.

3. We recommend the University of Utah Athletics Department work closely with the University's Division of Human Resources to, if necessary and where appropriate, develop job codes specific to Athletics.

4. We recommend the University of Utah Athletics Department work closely with the University's Division of Human Resources to review timekeeping practices in Athletics and provide greater training, especially for supervisors, on how to strengthen compliance with human resource law and policies.

5. We recommend the University of Utah Athletics Department ensure that all nonexempt hourly employees sign a compensatory work agreement. The Department should accurately account for any excess hours earned above 40 hours in one workweek through the University's approved time and attendance system.

Appendix A

The purpose of this appendix is to give an expanded explanation of the itemized indirect subsidy amounts reported in Chapter II. The amounts in Figure A.1 have been numbered to organize the further detail provided here.

Figure A.1 Itemized Indirect University Subsidy for Athletics.

	Subsidies in FY 2015		Amount
1.	Athletics Employee Benefits Paid by University	$	397,637*
2.	Office Space and Utilities at Huntsman Center		359,320
3.	Facilities Services at Huntsman Center		199,126
4.	Huntsman Center Rental Contract Discount		196,333
	Total Indirect Subsidy Not Reflected in NCAA Report	**$**	**1,152,416**

Source: OLAG generated with data provided by multiple University of Utah departments.
** The Department paid directly for all other employee benefits, totaling $4.7 million in fiscal year 2015.*

1. Athletics Employee Benefits Paid by University

Based on historical practice, the University of Utah (the University) pays for certain Utah Athletics Department (Athletics or the Department) employees' salaries and benefits each year. The Department then reimburses the University for the cost of the salaries but not the benefits. The $397,637 shown in the Figure A.1 (and in Chapter II) is the amount of employee benefits paid by the University in FY 2015 but not reimbursed by the Athletics Department.

2. Athletic Office Space and Utilities at Huntsman Center

The second amount pertains to Athletics' use of space within the Huntsman Center for Department offices. The Huntsman Center is defined and operated as an auxiliary and, as such, is expected by definition and policy to generate revenue and operate in a self-sustaining way. Given that and the fact that the NCAA manual specifically cites rental fees and utilities as appropriate amounts to include in indirect subsidy calculations, we felt that this amount was appropriate to include here. By comparison, Utah State University calculates a portion of its indirect subsidy allocation to its athletics department based on the square footage of facility space the athletics department occupies.

Specifically, conversations with the director of real estate for the University's Research Park indicated that an appropriate, full-service rental amount would be around $20 per square foot of office space. The square footage used by Athletics in the Huntsman Center is 17,966 ft^2. The product of those two numbers comes to the amount shown, $359,320.

3. Facilities Services at Huntsman Center

As mentioned above, the University operates the Huntsman Center as an auxiliary. As such, Huntsman Center staff are Auxiliary employees but often work on behalf of Athletics in preparation for basketball, gymnastics, and volleyball events. Based on historical practice, Huntsman Center staff does not charge Athletics for these services if they are provided between the hours of 7:00am and 4:00pm. In these hours, their services have been considered to be part of the staff's routine duties and have not been charged to Athletics.

Recent efforts by Auxiliaries to track and quantify these costs resulted in Huntsman Center staff billing their time to a special accounting category set up specifically to capture Athletics-related work. The amount reported here, $199,126, is the exact amount as recorded in the University accounting system for this special accounting category.

Because Athletics has not yet been afforded the ability to review what, specifically, is being recorded, we suggest the Department work with Auxiliaries to validate and potentially refine this amount.

4. Huntsman Center Rental Contract Discount

Contracts are in place between Athletics and Auxiliaries which govern the use of both the Huntsman Center and Rice-Eccles Stadium. These stipulate how much Athletics must pay in order to use the facilities on game days. The football stadium contract, dated 2003, requires that Athletics pay a portion of gross ticket sales, gross income from stadium suite sales, and a facility fee assessed on each ticket sold. It was reported to us that this contract approximates a market rate.

The Huntsman Center contract, dated 1989, requires that Athletics pay a flat rate of $1,750 for men's intercollegiate athletic events and $1,000 plus expenses for women's athletic events. These terms are below even intra-university market rates that are charged to other University departments for Huntsman Center usage. The difference between a fair market rate and this 1989 contract should therefore be included in our calculation of indirect university support.

The $196,333 shown in the figure is the difference between what Athletics paid in FY 2015 to use the Huntsman Center and what it would pay under a contract like the one at the football stadium. A percentage of ticket sales revenue from each sport was therefore calculated and the amount actually paid by Athletics in 2015 was subtracted from that. For women's basketball and volleyball, the Athletics Department would have actually ended up paying a combined $25,000 less than what they did.

Nonetheless, with gymnastics and men's basketball ticket sales factored in, the Department paid approximately $200,000 less than it would have under a contract with terms similar to those at the football stadium.

On a related note, the fact that this contract was negotiated nearly 30 years ago suggests a need to reapproach the document. Not only are the rates below what other University departments pay to use the Huntsman Center but requirements regarding concessions operations and revenue sharing are no longer accurate since control of concessions moved from Athletics to Auxiliaries in 2013.

Agency Response

THE UNIVERSITY OF UTAH

David W. Pershing
President
Distinguished Professor

201 Presidents Circle, Room 203 • Salt Lake City, Utah 84112-9008 • 801-581-5701 • president@utah.edu

November 8, 2016

John M. Schaff, CIA
Auditor General
Office of the Legislative Auditor General
W315 Utah State Capitol Complex
Salt Lake City, UT 84114

RE: Response to Report # 2016-10

Dear Mr. Schaff:

Thank you for the opportunity to respond to your office's Performance Audit of the University of Utah Athletics Department (Report No. 2016-10). We appreciate the time and attention you have given to the issues addressed in the Performance Audit. We also appreciate the collaborative nature of your office and particularly those auditors who worked with the Athletics Department on this audit.

As noted in the following response, the University is in the process of implementing all recommendations from the Performance Audit. The Athletics Department is working with the University's Human Resources Management Department, the University's Internal Auditors and other administrative departments to implement these recommendations. We look forward to next year's follow-up by your office, and I am confident you will find much improvement in each of the areas addressed in the audit.

Sincerely,

David W. Pershing

DWP:jj

THE UNIVERSITY OF UTAH'S PLAN TO IMPLMENT ALL RECOMMENDATIONS FROM THE AUDIT REPORT

As stated in the cover letter to this report, the Athletics Department, in conjunction with the University of Utah Human Resource Management Department (UHRM), the University's Department of Internal Audit (Internal Audit) and other University administrative departments have begun the process of implementing all recommendations in the Performance Audit. Those recommendations, and the University's actions in response, are as follows:

Chapter 1 Introduction
No Recommendations

Chapter II Athletics Department Should Strengthen Its Budget Practices
Recommendations at Pages 19 & 20:

1. "We recommend the University of Utah Athletics Department work with senior administration at the University to calculate and report an accurate amount of indirect institutional support and disclose it in the Department's NCAA agreed-upon procedures report."

   Response: Agree. Athletics is working with University administration to accurately calculate the correct amount of indirect support received from the university. This amount will be included in the NCAA agreed-upon procedures report. The University acknowledges that in addition to the $4.6 Million paid by Athletics for employee benefits, there should be public recognition of the additional $400K that has been covered by central administration. The University appreciates the auditors' recognition in the Performance Report that the University's support of the Athletics program is in keeping with several of its Pac-12 peers and, from a percentage of funding standpoint, substantially below the funding provided by other Utah state schools to their athletics departments.

2. "We recommend the University of Utah Athletics Department expand its NCAA agreed-upon procedures reports, as allowed by NCAA guidelines, to include information about both its athletics fund and reserve fund balances."

   Response: Agree. As noted in the audit report, the University's movement into the Pac-12 presented certain challenges which resulted in short-term deficit spending in order to remain competitive at a higher athletic level. Athletics worked closely with central administration to determine appropriate investment and spending strategies, including the creation of strategic reserves. These strategies recognized the necessity for short-term debt in order to gain the significant financial upside from remaining competitive and ultimately receiving a full share of the Pac-12 revenues. Athletics will expand its NCAA agreed-upon procedures reports to include the results of this investment strategy.

3. "We recommend that the University of Utah Athletics Department include current and historical financial information on its website including NCAA reports, athletic fund balance, and reserve funds."

Response: Agree. In the past two years, the Athletics Department has taken significant steps to make its operations, including its financial position, more transparent. Detailed financial information is regularly provided to the Athletics Academic Advisory Council, the Faculty Senate, Athletics personnel, University administration, and to the public through the Athletics website. The Athletics Department will expand these financial disclosures (including providing historical data and information about debt and reserves) as recommended by the auditors.

4. "We recommend the University of Utah Athletics Department continue its effort to formulate and adopt a departmental strategic plan with a clear focus on financial analysis and control."

   Response: Agree. As the Performance Report notes, the Athletics Department is committed to controlling financial expenditures while remaining competitive within the Pac-12. The department has achieved this goal during its first five years as a member of the Pac-12 by remaining last among its peers in terms of expenditures. The Athletics Department will work with central administration to assure the continuation of these efforts including the formulation and adoption of a strategic plan.

Chapter III Improvement Needed for Measuring And Rewarding Coaches Recommendations at Pages 28 & 29:

1. "We recommend that the University of Utah Athletics Department properly incentivize performance when goals have been met."

   Response: Agree. It has been, and will continue to be, the goal of the Athletics Department to incentivize its coaches to excel both on the field and in the areas of academics, rules compliance and positive community engagement. A companion goal will be to keep coaches' compensation competitive with their peers in the relevant market. This second goal required significant market adjustments to salaries beginning in 2012 as a result of the University's move into the Pac-12. The Athletics Department will continue to work with the coaches to set realistic and appropriate goals (for both on- and off-field performance) and to provide appropriate incentives for the achievement of those goals.

2. "We recommend that the University of Utah Athletics Department review and determine if current strategic goals are adequate and sufficiently measuring desired performance outcomes."

   Response: Agree. The University has been very pleased with the performance of its coaches. They have risen to the challenge (both athletically and academically) and are performing well at the higher level required within the Pac-12. The Athletics Department will continue to annually evaluate the goals set for each coach to assure that those goals provide appropriate incentives and are fair and achievable.

3. "We recommend that the University of Utah Athletics Department include coaches in determining on-field performance measures."

   Response: Agree. See more detailed responses at (1) and (2) above.

4. "We recommend that the University of Utah president with the Athletics Department director, consider changing compensation measures to incentivize all non-revenue sports."

   Response: Agree. The University currently incentivizes the Athletics Director to achieve high academic standards across all sports. The President will work with the Athletics Director to add an additional incentive for on-field achievement in the non-revenue generating sports.

Chapter IV Stronger Controls over Inventory and Building Access Are Needed Recommendations at Page 37:

1. "We recommend the University of Utah Athletics Department conduct an audit, as required by University policy, of all non-capital assets, provide tags, and inventory all assets currently in the Department's possession."

   Response: Agree. The Athletics Department is working with the University's internal auditors to accomplish this recommendation.

2. "We recommend the University of Utah Athletics Department provide greater oversight of tracking Athletics inventory and in keeping their records current."

   Response: Agree. As noted in the Performance Report, the Athletics Department had two instances in which employees stole certain inventory from the department. Those employees are no longer with the University. Since discovering the thefts, the Athletics Department has improved its monitoring and oversight of inventory. The Athletics Department will continue working with the University's internal auditors to refine and implement appropriate monitoring and oversight strategies.

3. "We recommend the University of Utah Athletics Department rekey locks for or add electronic card readers in spaces where keys have been lost."

   Response: Agree. The Athletics department is working with Auxiliary Services at the University to implement this recommendation. Rekeying of the Huntsman Center has already begun.

4. "We recommend the University of Utah Athletics Department, in collaboration with the Building Access Office, provide proper oversight of keys or electronic cards and keep their records current."

   Response: Agree.

5. "We recommend the University of Utah Athletics Department work with the Building Access Office to review which employees can access Athletics facilities to determine if such access is still required."

   Response: Agree. The Athletics Department has assigned responsibility to one employee within Athletics who has primary responsibility to determine the access requirements for all Athletics employees and to monitor and assure appropriate access going forward.

Chapter V Stronger Adherence to Human Resources Policy is Needed to Ensure Employee Equity
Recommendations at Page 45:

1. "We recommend the University of Utah Athletics Department work closely with the University's Division of Human Resources to review the use of hiring waivers and the purposes for which they are permitted."

   Response: Agree. We are pleased that the audit has determined that improvement in recommended HR processes and organization is already underway with the implementation of "embedded HR" within Athletics since December 3, 2015 (even prior to the initiation of this audit). The embedded HR team has begun to implement this recommendation.

2. "We recommend the University of Utah Athletics Department work closely with the University's Division of Human Resources to review University hiring practices to ensure they are consistently followed and that records are accurate and up to date."

   Response: Agree. The embedded HR team within Athletics is already implementing this recommendation.

3. We recommend the University of Utah Athletics Department work closely with the University's Division of Human Resources to, if necessary and where appropriate, develop job codes specific to Athletics."

   Response: Agree. UHRM is currently working with Athletics to determine the necessity for new job codes, which will be implemented as needed.

4. "We recommend the University of Utah Athletics Department work closely with the University's Division of Human Resources to review timekeeping practices in Athletics and provide greater training, especially for supervisors, on how to strengthen compliance with human resource law and policies."

   Response: Agree. Payroll and timekeeping training implementation for Athletics is currently being designed and planned.

5. "We recommend the University of Utah Athletics Department ensure all nonexempt hourly employees sign a compensatory work agreement. The Department should accurately account for any excess hours earned above 40 hours in one workweek through the University's approved time and attendance system."

   Response: Agree. The embedded HR team has begun to implement this recommendation.

The University thanks the Auditor General for the audit and for the excellent recommendations. We look forward to next year's follow-up by the Auditor General and are confident there will be much improvement in the areas addressed in the audit.