

June 1, 2021

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

Re: Arizona Board of Regents – University-Affiliated Organizations

Dear General Perry:

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

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

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

Sincerely,

John Arnold

REGENTS

Chair Larry E. Penley

Nikhil Dave ♦ Fred DuVal ♦ Kathryn Hackett King ♦ Lyndel Manson ♦ Cecilia Mata
Bill Ridenour ♦ Karrin Taylor Robson ♦ Anthony Rusk ♦ Ron Shoopman
Governor Doug Ducey ♦ Superintendent of Public Instruction Kathy Hoffman

Executive Director John Arnold

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

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

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

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

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

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

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

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

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

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

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

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

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

Recommendation 3: ABOR should develop and implement a process and/or use existing processes to regularly obtain information from the universities about affiliated organizations' activities and their

associated risks and liabilities to help ensure it can identify and monitor risks and their potential impact to the universities and ABOR.

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

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

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