REPORT OF

THE

STATE AUDITOR

Boulder Campus Athletic Department
University of Colorado

PERFORMANCE AUDIT
November 2005

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This report contains the results of a performance audit of the University of Colorado's Boulder Campus Athletic Department. The audit was conducted under Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the University of Colorado.

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Authority, Purpose, and Scope

This performance audit of the University of Colorado's Boulder Campus Athletic Department was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the Office of the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The audit work, performed from March through October 2005, was conducted in accordance with generally accepted government auditing standards.

The purpose of the audit was to review the financial operations of the football camps and the University's oversight of the camps. In addition, the audit evaluated the football program's controls over cash and spending, the University's oversight and management of the Boulder Campus Athletic Department, and related University-wide administrative processes, such as procurement practices and cell phone use and monitoring. The Office of the State Auditor retained BKD, LLP and KPMG, LLP to assist with the audit work.

We acknowledge the assistance and cooperation extended by management and staff at the University of Colorado.

Overview

The Colorado territorial legislature passed an act in 1861 providing for the creation of a university in Boulder. In 1876, the University of Colorado (the University) was formally declared an institution of the State of Colorado and the Board of Regents was established under the Colorado Constitution as the governing authority. In 1974 the Board of Regents officially established the University of Colorado System to be led by a President, with each campus to be led by a Chancellor. Currently the System has three campuses with 30 schools and colleges offering more than 300 degree programs. The University enrolls more than 50,000 students annually and employs nearly 24,000 full- and part-time faculty and staff.

The Boulder Campus Athletic Department (the Department) administers intercollegiate athletic programs and the Athletic Director is charged with overseeing the Department. For Fiscal Years 2002 through 2005, the Athletic Department averaged $34.5 million in revenue and $35.0 million in expenses annually. As of the end of Fiscal Year 2005 the Department had a deficit balance of about $904,000 in net assets, indicating that on a cumulative basis the Department has lost money on operations. Football operations generate the highest revenue for the Department, representing nearly half the revenue received in Fiscal Years 2004 and 2005. Sports such as basketball, skiing, tennis, and track have operated at a loss. The Department competes in Division I of the National Collegiate Athletic Association (NCAA). The NCAA is made up of more than 1,250 colleges, universities, and conferences. The University is also a member of the Big 12 Conference and represents the Conference during national post-season competition, such as championship and bowl games.

Key Findings

Athletic Department Controls

We evaluated controls over cash advances, reviewed a sample of expenses related to football operations, and reviewed policies and procedures related to courtesy cars. We found an overall lack of controls over spending and cash advances that have led to poorly documented, questionable, and unallowable expenses:

- **Excessive cash advances for football bowl games.** For the two most recent bowl games at the time of our audit—the Alamo Bowl (December 2002) and the Houston Bowl (December 2004)—one staff member in the Athletic Department received cash advances of $115,000 for each game. The advances were used to pay per diems to students and to reimburse staff for expenses such as meals and rental cars. The issuance of large cash advances poses liability and safety risks to the University and the staff member responsible for the cash. Further, for about $16,000 paid from the cash advances there was not sufficient documentation to support the appropriateness of the expenses. Between one-third and one-half of the cash advances were returned to the University, indicating substantially more cash was taken than was needed.

- **Questionable and unallowable football operations expenses.** Out of 97 football operations transactions we tested totaling about $859,400, we found 22 of the transactions totaling about $55,800 were for questionable or unallowable expenses and/or lacked supporting documentation. Four expenses totaling about $39,000 were incurred by football operations staff for use of the University of Colorado Foundation's private plane for recruiting trips and to attend a coaches' clinic and an awards ceremony. The University was unable to locate any supporting documentation for 15 transactions totaling about $61,100 in our sample until after our fieldwork was completed.

- **Questionable and unallowable bowl game expenses.** Out of a sample of 85 transactions totaling about $1.1 million for bowl game expenses, 49 transactions included one or more questionable expenses. For example, we questioned 13 award expenses, which included 125 awards totaling about $7,800 to spouses and children of Athletic Department staff and 163 awards totaling about $17,400 for which the Department provided no documentation of who received the awards. In addition, we found payments for the travel costs of the families of

Department staff, which is prohibited under State Fiscal Rules. Finally, the University was unable to locate any supporting documentation for three transactions in our sample totaling about $9,600 until after our fieldwork was completed.

- **Inadequate policies and controls over courtesy cars.** Local auto dealerships provide the University with courtesy vehicles for use by University coaches and some staff outside the Boulder Campus Athletic Department. We found the Department's policy allows spouses to use courtesy cars on an "occasional basis" if the University employee obtains separate insurance for this use. The Department does not monitor whether staff obtain separate insurance to cover use by spouses, and University staff were unclear as to whether the University's insurance policy would cover spouses' use of courtesy cars. Additionally, the University lacked written agreements with dealerships for a number of courtesy cars.

Football Camps

The Athletic Department coordinates summer sports camps, including football camps, for youth ages 8 to 18. For Calendar Years 2002 through 2004, the University contracted with High Hopes 95, Inc. (High Hopes), a private company owned by the University's football head coach, to conduct the football camps using University facilities. In Calendar Year 2005 the University brought the football camps in-house. We evaluated the financial activities of the football camps to determine compliance with federal and state laws and regulations and NCAA and Big 12 rules. We found:

- **Records maintained by High Hopes for the 2002 through 2004 football camps were in disarray.** The football head coach represented that basic documentation to support revenue and expenses was not maintained. The absence of controls over cash receipts and disbursements of the camps operated by High Hopes increased the risk of errors and irregularities. Furthermore, the absence of documentation and financial records prevented us from obtaining reasonable assurance that there were no violations of laws and regulations. We noted concerns with camp receipts and disbursements, as follows:

    - **Camp receipts.** We were not able to determine the source of $328,000 of the $753,900 (44 percent) in receipts deposited in the bank account for the three years we reviewed because the deposit records did not provide detail on the source of the deposits. Additionally, High Hopes did not have controls in place to ensure that all receipts were collected and deposited into the camp bank account. Specifically, for all three years reviewed, no evidence was provided on the receipt or deposit of cash from the sale of concessions, apparel, equipment, or sponsorships. Camp staff reported to us that cash collected from the 2002 camps was not deposited into the bank and was used to pay coaches.

    - **Camp disbursements.** Of the $742,700 in disbursements made from the camp bank account during the three-year period we reviewed, $102,700 did not have sufficient documentation to indicate the purpose of the expense and to enable us to assess compliance with laws and regulations. These disbursements included about $43,000 in payments to individuals for which there was insufficient documentation to determine whether the payments related to camp operations; about $14,400 in payments for food purchases for which no documentation was provided showing who participated in the meals or the business purpose; about $6,000 in checks made out to cash for which the camps retained no records supporting how the funds were used; and about $39,300 in miscellaneous costs for which no receipts or other documentation was provided to substantiate the purpose of the expenses.

The amounts recorded for receipts and disbursements for the three-year period reviewed do not include the entire $200,000 paid by the University to the head coach each year to conduct the camps.

- **Lack of adequate controls and procedures over sports camp operations.** When the University brought the football camps in-house in 2005, some of the internal control deficiencies that related to the private operation of the camps in 2002 through 2004 were addressed. However, we found that cash controls were inadequate for the 2005 camps, with staff failing to issue receipts for cash received for registrations and inadequately documenting the source of funds deposited in the bank. We also found that the University does not obtain and maintain medical release forms for all football camp participants.

- **Inadequate monitoring of activities and lack of contracts with sports camp operators.** The University did not review the financial operations of the football camps during 2002 and 2003 to ensure that High Hopes complied with contract provisions, including NCAA and Big 12 requirements. Additionally, in some instances contracts for the various sports camps, including football, were not established or were not fully executed. University staff and external oversight agencies have raised concerns about the University's control over privately-operated sports camps several times in the past eight years. Our findings indicate that the University has not taken adequate action to address these concerns.

- **Inaccurate reporting of athletically related income from football camps by football operations staff.** NCAA regulations require that staff annually report to the University all athletically related income they receive from sources outside the University. On average, 55 percent of the football operations staff underreported income earned from football camps in Fiscal Years 2002 through 2004. Failure to fully disclose income received from outside sources may be a violation of NCAA rules. The University should report the instances of underreporting of outside income to the NCAA and Big 12 Conference.

- **No policy or guidelines for performing criminal history checks on camp workers.** The Boulder Campus Athletic Department conducted national criminal history checks on 23 of the 88 individuals (26 percent) who worked at the 2005 football camps. University staff reported that because the camps were brought in-house shortly before they occurred, some of the criminal history checks were not completed until after the camps occurred. The checks showed that one individual had been issued a restraining order and another had a recent conviction for a felony DUI. We requested information from the Judicial Department on 18 additional football operations staff who worked on the 2005 football camps and found that 4 had pled or been found guilty of offenses that could be of concern, including false imprisonment, misdemeanor assault, misdemeanor child abuse, and driving while impaired.

University Administration

We extended our audit to include a review of policies and procedures in a number of systemwide areas and found:

- **Disclosures of conflicts of interest by University officers and Regents were not always filed as required by Regent policies and statutes.** We found that of the 28 disclosures that should have been filed by seven high-level University officers (e.g., the University President and Vice Presidents) from 2002 through 2005, only 11 were filed. Additionally, of the 83 disclosure reports that Regents were required by state statutes to file during this four-year period, 21 were not filed at all and 17 were filed after the statutory deadline.

- **Lack of a finalized systemwide cell phone policy.** Four of the seven University departments tested in our sample have written cell phone policies, but the policies lack key provisions such as criteria for determining which employees will be issued cell phones. Further, departments do not regularly assess whether their cell phone plans meet their needs and are as cost-effective as possible, and five departments do not regularly monitor cell phone statements to ensure appropriate use.

- **Need for systemwide improvements over controls related to procurement.** We contracted with KPMG, LLP to assist us with testing expenditure controls throughout the University. The primary issue identified was that documentation for transactions reviewed was not always sufficient to ensure that expenses are reasonable and for University business. Both University departments that incur expenses and the Procurement Services Center (Procurement) that makes payment on expenses have responsibility for ensuring that adequate documentation, explanations, and approvals are provided for expenses. However, we found expenses were paid even when adequate documentation and explanations were lacking.

Our recommendations and the University's responses can be found in the Recommendation Locator on pages 7 through 9 of this report.

RECOMMENDATION LOCATOR

Agency Addressed: University of Colorado

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	22	Strengthen controls over cash advances issued to the Boulder Campus Athletic Department by exploring options to pay staff travel expenses and student per diems that significantly reduce or eliminate the cash advances and allow for proper controls and efficiencies.	Agree	January 2006
2	26	Ensure that the Boulder Campus Athletic Department follows State Fiscal Rules and University expense policies by (a) maintaining documentation to support all expense transactions, (b) providing additional training and technical assistance to staff, and (c) following up on findings in this report as well as Internal Audit Department recommendations to ensure that expenses are appropriate and allowable.	Agree	August 2006
3	32	Enforce requirements related to an appropriate University official's providing prior written approval for individuals included in the official travel party and for awards given for bowl games, and require staff to provide detailed information on each official function held as part of a bowl game.	Agree	January 2006
4	33	Ensure that the Boulder Campus Athletic Department follows requirements for bowl game expenses by (a) maintaining documentation to support expense transactions; (b) obtaining payment from certain guests traveling on charter planes to bowl games; (c) improving management and oversight of bowl game awards; (d) discontinuing payments for employees' family members to attend bowl games and the issuance of awards to employees' family members; and (e) enforcing requirements related to official functions.	Agree	January 2006
5	35	Establish a systemwide policy related to courtesy cars that (a) prohibits the use of courtesy cars by non-University personnel; (b) requires all agreements to be fully executed before courtesy cars are provided to the University and items of value are given to auto dealerships; and (c) discontinues the practice of taking monthly deductions from coaches who have courtesy cars for donation to the Foundation.	Agree	March 2006

RECOMMENDATION LOCATOR

Agency Addressed: University of Colorado

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
6	46	Improve oversight of sports camps operated in-house by (a) ensuring that the Boulder Campus Athletic Department follows cash control policies; (b) establishing a policy to collect and maintain medical release forms for all youth participating in sports camps; (c) conducting periodic reviews of the financial operations of sports camps; and (d) performing analyses of the revenue and expenses of camp operations.	Agree	July 2006
7	47	Report the violations we identified related to supplemental income and consider if any additional actions, such as disciplinary actions, should be taken related to NCAA and/or Big 12 violations.	Agree	Implemented December 2005
8	47	Work toward bringing the administration of the men's basketball camps in-house in the future.	Agree	July 2006
9	51	Improve oversight and management of Boulder Campus Athletic Department service providers by (a) establishing contracts and vendor agreements when required and ensuring contracts are fully executed before payments are made; (b) adding contract provisions to provide additional protection to the University; and (c) ensuring that providers comply with contractual requirements.	Agree	July 2006
10	54	Report the violation related to the failure of some coaches to report outside income from the camps to the NCAA and/or Big 12 Conference and contact the NCAA and/or Big 12 to determine whether the omission of the stipulation in letters of appointment that outside income be reported annually to the University is a violation.	Agree	Implemented November 2005
11	54	Improve the accuracy of reporting athletically related income received by outside sources by (a) providing training and technical assistance to Athletic Department staff that highlights NCAA requirements for reporting outside income, and (b) updating guidelines to reference the NCAA requirements for letters of appointment issued to football staff.	Agree	December 2005

RECOMMENDATION LOCATOR

Agency Addressed: University of Colorado

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
12	57	Develop and implement a policy for conducting criminal history checks on individuals who work at sports camps that includes (a) criteria for determining who should undergo such checks, (b) timelines for conducting checks, and (c) criteria for which criminal histories would disqualify individuals from working at sports camps.	Agree	July 2006
13	62	Improve compliance with financial disclosure requirements for University officers and members of the Board of Regents by (a) continuing to enforce the policy requiring University officers to file outside financial disclosures with the University on an annual basis; and (b) expanding the annual briefing of the Board of Regents regarding the filing of disclosures with the Secretary of State.	Agree	January 2006
14	65	Finalize and implement a University-wide cell phone policy that addresses personal use of cell phones, criteria for determining which staff should be issued phones, guidance on selection and periodic review of cell phone plans, and processes for monitoring use.	Agree	June 2006
15	69	Improve procurement controls by (a) expanding documentation policies and guidance for expenses; (b) enforcing compliance with the revised policies; (c) reviewing the procurement practices followed by departments to identify noncompliance with revised policies and take appropriate action; and (d) expanding training and technical assistance to help ensure University-wide understanding and application of procurement policies.	Agree	March 2006

Overview

University of Colorado

In 1861 the Colorado territorial legislature passed an act providing for the creation of a university in Boulder. Upon the admission of Colorado into the Union in 1876, the University of Colorado (the University) was formally declared an institution of the State of Colorado, and the Board of Regents was established under the Colorado Constitution as its governing authority. In 1974 the Board of Regents officially established the University of Colorado System to be led by a President with each campus being led by a Chancellor. Currently the System has three campuses: (1) Boulder, (2) Colorado Springs, and (3) Denver and Health Sciences Center.

As the largest higher education institution in the State, the University enrolls more than 50,000 students each year and employs nearly 24,000 full- and part-time faculty and staff. The three University campuses comprise 30 schools and colleges, which offer more than 300 degree programs.

Administration

As established under the Colorado Constitution, the University is governed by a nine-member Board of Regents (the Regents). The Regents are responsible for the general supervision of the University and, in most cases, the exclusive control and direction of all funds of and appropriations to the University. Board members serve staggered six-year terms and comprise one elected member from each of the State's seven congressional districts and two at-large elected members.

The Board of Regents appoints the President and Chancellors of the University. The President serves three distinct roles for the University as the chief executive officer, the chief academic officer, and the chief spokesperson and interpreter of University policy. The Chancellors are the chief academic and administrative officers at the campus level and are responsible to the President for the affairs of their respective campuses, in accordance with Regent policies.

Funding

The University receives funding from various sources, including student tuition and fees, state appropriations, gifts, contracts, grants, and auxiliary enterprises. The table below shows the University's total revenue and expenses in Fiscal Years 2002 through 2005.

University of Colorado Revenue and Expenses
Fiscal Years 2002 Through 2005 (In Thousands)

	2002	2003	2004	2005	% Change 2002-2005
Operating Revenue					
Grants & Contracts	$503,300	$529,400	$577,700	$609,400	21%
Student Tuition & Fees	$294,600	$336,300	$379,100	$409,100	39%
Health Services [1]	$161,000	$176,500	$200,800	$225,200	40%
Auxiliary Enterprises [2]	$112,900	$118,300	$128,100	$130,600	16%
Other [3]	$123,400	$133,900	$135,900	$141,100	14%
Total Operating Revenue	**$1,195,200**	**$1,294,400**	**$1,421,600**	**$1,515,400**	**27%**
Operating Expenses					
Instruction	$419,600	$452,400	$436,600	$464,800	11%
Research	$301,300	$321,700	$356,300	$374,800	24%
Academic, Institutional & Plant Support	$241,100	$245,200	$257,200	$286,300	19%
Health Services [1]	$160,100	$161,000	$196,400	$205,000	28%
Auxiliary Enterprises [2]	$104,800	$108,200	$104,400	$106,000	1%
Student Aid & Services	$89,300	$90,700	$83,400	$91,200	2%
Depreciation	$64,800	$68,400	$88,500	$108,000	67%
Other [4]	$48,900	$43,900	$46,600	$52,100	7%
Total Operating Expenses	**$1,429,900**	**$1,491,500**	**$1,569,400**	**$1,688,200**	**18%**
Operating Income (Loss)	**($234,700)**	**($197,100)**	**($147,800)**	**($172,800)**	**26%**
Nonoperating Revenue (Expenses)					
State Appropriations [5]	$216,900	$193,600	$155,200	$150,700	-31%
Gifts [6]	$41,200	$48,700	$52,000	$56,300	37%
Other Nonoperating Revenue (net of expenses) [7]	$2,700	$23,000	$61,200	$87,200	313%
Net Nonoperating Revenue	**$260,800**	**$265,300**	**$268,400**	**$294,200**	**13%**
Total Other Revenue [8]	**$53,900**	**$35,600**	**$73,200**	**$23,100**	**-57%**
Increase in Net Assets	**$80,000**	**$103,800**	**$193,800**	**$144,500**	**81%**
Net Assets, Beginning of Year	$1,125,300	$1,205,300	$1,309,100	$1,502,900	34%
Net Assets, End of Year	$1,205,300	$1,309,100	$1,502,900	$1,647,400	37%

Source: University of Colorado audited financial statements for Fiscal Years 2002 through 2004 and unaudited financial statements for Fiscal Year 2005.

[1] In Fiscal Years 2003 through 2005, health services primarily included revenue and expenses for University Physicians, Inc. (UPI), a separate nonprofit entity. UPI performs billing and disbursement for the professional services provided under Section 23-30-114, C.R.S. In Fiscal Year 2002, health services primarily included revenue and expenses related to faculty salary paid on-behalf of the University by UPI.

[2] Facilities or services for students, faculty, and staff, such as housing, bookstores, and athletic programs.

[3] Includes revenue from sales and services of educational departments, rental income, and internal service centers' (e.g., copier centers) sales to the public.

[4] Includes public service expenses incurred from activities established to provide non-instructional services to external parties, such as community service, and miscellaneous expenses resulting from mission-related activities that do not meet the definition of University functions.

[5] Represents the General Assembly's annual appropriation of state general funds as well as certain cash funds, excluding capital appropriations.

[6] Includes donations to the University, including direct gifts from donors and transfers from the University of Colorado Foundation.

[7] Includes investment income, gain/loss on disposal of capital assets, interest expense on capital asset-related debt, and other nonoperating revenue.

[8] Includes state capital appropriations, capital grants and gifts, and additions to permanent endowments.

As the previous table shows, the University's operating revenue increased 27 percent and operating expenses increased 18 percent between Fiscal Years 2002 and 2005. State appropriations declined 31 percent over this period.

Senate Bill 04-189, enacted during the 2004 Legislative Session, provides institutions of higher education with the opportunity to become enterprises under Section 20 of Article X of the Colorado Constitution (commonly referred to as the Taxpayer's Bill of Rights, or TABOR). Institutions must meet three criteria before they can qualify as a TABOR enterprise: (1) be a government-owned business, (2) have legal authority to issue revenue bonds, and (3) receive state and local government grants equivalent to less than 10 percent of total annual revenue. In July 2004 the Regents approved a measure to designate the University as a TABOR enterprise for Fiscal Year 2005 and future years. The University's status as a TABOR enterprise is assessed as part of its annual independent financial audit to determine if all three criteria are met. For Fiscal Year 2005, the audit determined that the University qualified as a TABOR enterprise.

Boulder Campus Athletic Department

The Boulder Campus Athletic Department (the Department) administers intercollegiate athletic programs, which include the following varsity sports:

- Basketball (men and women)
- Football (men)
- Cross-country (men and women)
- Golf (men and women)
- Skiing (men and women)
- Tennis (men and women)
- Track and field (men and women)
- Soccer (women)
- Volleyball (women)

The Boulder Campus Athletic Director (the Athletic Director) is charged with overseeing the operations of the Department, which employs more than 150 staff who are responsible for activities such as coaching and training, business operations, ticket sales, equipment management, rule compliance, and marketing.

For Fiscal Years 2002 through 2005, the Department averaged $34.5 million in revenue and $35.0 million in expenses annually. The following table provides detail on the operating revenue and expenses for the Department for Fiscal Years 2004 and 2005, by activity.

University of Colorado
Operating Revenue and Expenses for the Boulder Campus Athletic Department
Fiscal Years 2004 and 2005 (In Thousands)

	2004			2005		
Program	**Revenue**	**Expenses**	**Net Profit (Loss)**	**Revenue**	**Expenses**	**Net Profit (Loss)**
Football	$17,476	$9,690	$7,786	$16,142	$10,841	$5,301
Men's Basketball	$1,176	$2,846	($1,670)	$1,338	$2,649	($1,311)
Women's Basketball	$605	$2,066	($1,461)	$666	$1,947	($1,281)
Other Men's Sports [1]	$234	$1,509	($1,275)	$266	$1,501	($1,235)
Other Women's Sports [2]	$2,055	$3,391	($1,336)	$1,960	$3,402	($1,442)
Non-Sport Programs [3]	$14,789	$17,260	($2,471)	$16,178	$17,893	($1,715)
TOTAL	**$36,335**	**$36,762**	**($427)**	**$36,550**	**$38,233**	**($1,683)**

Source: Report on intercollegiate athletics submitted by the University of Colorado to the NCAA for Fiscal Year 2004 and draft report for Fiscal Year 2005. The reports exclude certain revenue and expenses, such as those related to capital assets.

[1] Includes cross-country, golf, skiing, tennis, and track and field.

[2] Includes cross-country, golf, skiing, soccer, tennis, track and field, and volleyball.

[3] Includes the non-sport functions of the Boulder Campus Athletic Department, such as administration, the Athletic Director's office, promotions, sports information, video, sports medicine, equipment, academics, cheer squad, life skills, facilities operations, licensing, and compliance.

As the table shows, the Department incurred losses of about $427,000 and $1.7 million on its operations in Fiscal Years 2004 and 2005, respectively. As of June 30, 2005, the Department had a total deficit of about $904,000 in net assets. This means that on a cumulative basis, the Department has lost money.

Football Operations

Football operations generate the highest revenue for the Department, representing nearly half the revenue received in Fiscal Years 2004 and 2005 ($17.5 million in 2004 and $16.1 million in 2005). The table below shows the detail on revenue and expenses incurred by football operations in Fiscal Years 2002 through 2005.

University of Colorado Boulder Campus Football Operations
Operating Revenue and Expenses for Fiscal Years 2002 Through 2005
(In Thousands)

	2002	2003	2004	2005	% Change 2002-2005
Operating Revenue					
Ticket Sales	$8,827	$10,606	$12,265	$9,672	10%
Bowl Game & Big 12 Championship [1]	$2,054	$1,226	$0	$963	-53%
Guarantees Received [2]	$0	$310	$560	$240	NA
Restricted Gifts	$787	$1,204	$3,206	$2,921	271%
Financial Aid Support [3]	$582	$507	$194	$700	20%
Radio & Television	$512	$487	$492	$504	-2%
Sponsorships [4]	$277	$315	$321	$507	83%
Concessions & Parking	$200	$252	$330	$349	75%
Summer Camps [5]	$0	$0	$0	$139	NA
Other [6]	$107	$78	$108	$147	37%
Total Operating Revenue	**$13,346**	**$14,985**	**$17,476**	**$16,142**	**21%**
Operating Expenses					
Salaries & Benefits	$2,402	$3,151	$2,958	$3,260	36%
Financial Aid [3]	$2,160	$2,372	$2,481	$2,524	17%
Travel	$1,255	$1,348	$727	$1,049	-16%
Guarantees Paid [2]	$400	$600	$540	$950	138%
Local Food, Lodging & Entertainment	$814	$623	$474	$544	-33%
Contractual Services	$773	$864	$855	$597	-23%
Equipment Purchases	$371	$437	$428	$620	67%
Building & Equipment Rent	$287	$492	$359	$438	53%
Medical	$215	$207	$190	$168	-22%
Gifts and Awards [7]	$164	$137	$17	$101	-38%
Other [8]	$834	$917	$661	$590	-29%
Total Operating Expenses	**$9,675**	**$11,148**	**$9,690**	**$10,841**	**12%**
Excess/(Deficiency) of Revenue Over Expenses	**$3,671**	**$3,837**	**$7,786**	**$5,301**	**44%**

Source: Report on intercollegiate athletics submitted by the University of Colorado to the NCAA for Fiscal Years 2002 through 2004 and draft report for 2005. The reports exclude certain revenue and expenses, such as those related to capital assets.

[1] The football team did not go to a bowl game in Fiscal Year 2004.

[2] The Department receives financial guarantees when the football team plays a non-conference game at another school and pays guarantees when other schools play non-conference games at the University. No such games were played at other schools in 2002.

[3] The football program receives student-athlete financial aid support from a variety of sources, including the Colorado Commission on Higher Education, the Boulder Campus, and the President's and Chancellor's Offices.

[4] Includes sponsorship funds paid to the University through its contract with Nike and as part of corporate sponsor days. On a corporate sponsor day, the particular sponsor is mentioned on programs, shakers, tickets, and billboards.

[5] Prior to the summer of 2005, a private company (High Hopes 95, Inc.) conducted the summer football camps. In the summer of 2005, the University began administering the camps in-house.

[6] Includes revenue from game program advertisements, commissions on the sale of shirts and novelty items, and banquets (revenue received from fans paying to attend a banquet after the season ends).

[7] Most of the gifts and awards distributed relate to bowl game appearances. Because the football team did not attend a bowl game in Fiscal Year 2004, costs for gifts and awards were considerably lower than in other years.

[8] Includes costs for film, videotape, photography, motor vehicle rentals, publicity, training table, postage, and insurance.

As the table above shows, total operating revenue for football operations increased 21 percent between Fiscal Years 2002 and 2005, and total operating expenses increased 12 percent over these years.

The football program comprises about 105 players and 18 staff (1 head coach, 9 assistant coaches, 2 graduate assistant coaches, 1 director of football operations, 2 interns, and 3 administrative assistants). Football coaches' duties include coaching players and recruiting prospective student-athletes (prospects). Recruiting activities consist of contacting prospects by phone and email; coordinating official visits to the campus for prospects to meet with football players and staff, which are paid for by the University; visiting prospects in their hometowns; meeting with prospects during unofficial visits to campus, which are paid for by the prospect; and evaluating prospects' academic and athletic abilities.

The Department offers summer sports camps, including football camps, for youth ages 8 to 18. Prior to the summer of 2005, the University contracted with High Hopes 95, Inc. (High Hopes), a private company owned by the football head coach to conduct the football camps using University facilities. For the 2002 through 2004 camps, the University paid High Hopes $200,000 per year to conduct the camps. Under the terms of the contract, High Hopes was allowed to retain all profits (e.g., participant registration fees) earned from the camps and was responsible for all costs associated with the camps. High Hopes paid Department staff as well as non-University personnel to run the camps. According to the contract, the football camps are intended to enhance the public image and support the football program and the University. The University began administering the camps in the summer of 2005, using both existing University staff and individuals hired specifically for the camps.

NCAA and Big 12 Conference

The Department is a Division I member of the National Collegiate Athletic Association (NCAA). The NCAA is made up of more than 1,250 colleges, universities, and conferences. As a condition of its NCAA membership, the University must adhere to NCAA rules. The NCAA has a rules enforcement program and an investigation process to address allegations of rule violations. Some of the key requirements established by the NCAA include rules related to:

- **Institutional control**, which place ultimate responsibility for the conduct and compliance of athletics programs with the institution's chief executive officer (i.e., the Boulder Campus Chancellor for the University).

- **Recruiting**, which control all types of contact with and evaluation of prospective student-athletes, including the provision of financial aid, the conduct of official and unofficial visits, and the allowability of entertainment.

- **Conduct and employment of athletic personnel**, which address the responsibilities of institutional employees, including requirements for contractual agreements, and the disclosure of athletically related income and benefits from sources outside the institution.

- **Ethical conduct**, which stipulate that all employees and student-athletes of member institutions must act with honesty and sportsmanship at all times.

- **Amateurism**, which set out general regulations for student-athletes to retain eligibility to participate in intercollegiate athletics. For example, any form of payment or promise of payment for a player's skill in an intercollegiate sport will cause loss of the player's amateur status in that sport.

- **Academic eligibility and provision of financial aid**, which require students to meet certain academic standards to be eligible to participate in athletics and limit the amount of financial aid available to student-athletes.

- **Awards, benefits, and expenses for enrolled student-athletes**, which prohibit student-athletes from receiving awards, benefits, and expenses not authorized by NCAA bylaws or in excess of permissible amounts.

The NCAA requires all member institutions to have a qualified independent auditor perform certain procedures on their athletic departments' financial records each year and to conduct a comprehensive self-study of their intercollegiate athletics programs at least once every 10 years. The self-study must review areas such as finances, personnel, sports programs, recruiting policies, and services for student-athletes. The NCAA uses the self-study to determine whether to certify, or validate the fundamental integrity of, an institution's athletics programs. The University's current certification is based on a self-study performed in 2004. The University is also responsible for monitoring compliance by staff, students, and defined outside entities with NCAA requirements and reporting any violations it identifies to the NCAA or the Big 12 Conference within prescribed time frames.

The NCAA has established two types of rule violations: (1) major violations, which occur when an institution's actions result in an extensive recruiting or competitive advantage for the institution, and (2) secondary violations, which include actions that are isolated, unintentionally cause a violation, or give the institution only minor advantages in recruiting or competition. In Fiscal Year 2005 the University reported 30 secondary violations to the NCAA. While major violations by the University are rare, the University committed several secondary violations of NCAA rules related to recruiting from 1995 to 1999, which resulted in the NCAA assessing a major violation in October 2002. As a result, the University was subject to various penalties as well as a two-year period of probation, which ended in October 2004. If the NCAA finds that the University has committed another major violation before

October 2007 (five years after the effective date of the 2002 penalties), the University could be considered a repeat violator and be subject to additional penalties, such as prohibition of some or all competition in the sport for up to two seasons.

The University is also a member of the Big 12 Conference and represents the Conference during national post-season competition, such as championship and bowl games. The Big 12 Conference promotes its 12 member institutions by sponsoring varsity intercollegiate athletic competitions for both men and women, executing bowl agreements, and negotiating contracts for television opportunities. The Conference also adopts rules in some areas not addressed by NCAA bylaws, including size restrictions for team travel squads.

Audit Scope and Methodology

The primary purpose of the audit was to review the financial operations of the football camps and the University's oversight of the camps. In addition, the audit evaluated the football program's controls over cash and spending, the University's oversight and management of the Boulder Campus Athletic Department, and University-wide administrative practices related to procurement, cell phones, and disclosure of conflicts of interest. We interviewed representatives from the University, the Board of Regents, and the Department. We also conducted a survey of other universities to gain an understanding of the policies and practices of their athletic departments. We contracted with the accounting firms KPMG, LLP and BKD, LLP to assist with audit work related to University procurement and the football camps, respectively.

Because the focus of our audit was to test the systems and controls in place at the University, the samples we selected were not statistically-based. Therefore, the results of testing on the samples selected cannot be projected to the entire related population of University transactions.

Athletic Department Controls

Chapter 1

Background

As discussed in the Overview, the Boulder Campus Athletic Department (the Department) averaged about $34.5 million in revenue each year between Fiscal Years 2002 and 2005. Almost half the revenue was from the Department's football operations, primarily from ticket sales and gifts from donors. Over this period, football was the only sports program in the Department that made a profit, averaging about $5.1 million per year; the Department as a whole experienced net losses during three of these four years, ranging from about $138,000 in Fiscal Year 2002 to $1.7 million in Fiscal Year 2005. In 2002 through 2004, the Department had sufficient net assets to cover the losses. However, in Fiscal Year 2005 the Department's losses resulted in a deficit balance in net assets at year-end of about $904,000.

We evaluated controls over cash and reviewed a sample of expenses related to general football operations and bowl games. Our audit identified deficiencies in controls over spending and cash advances. We found poorly documented, questionable, and unallowable expenses. Adequate controls and policies are essential for ensuring good fiscal management within the University of Colorado (the University) and the Department, maintaining public trust in the University and its athletic programs, and minimizing operating losses as well as the risk of errors and irregularities.

Cash Advances

Department staff typically obtain cash advances for away games for various athletic programs. One staff member from the Department's Business Office is responsible for requesting all cash advances for away games; disbursing the cash to students and staff before, during, and after a game; completing and submitting the travel voucher forms to the University; and returning any unused cash. Between Fiscal Years 2002 and 2005, football program staff received 54 cash advances totaling about $861,300, mostly for away games, including three bowl games. We evaluated the processes used by the Department to request, handle, and disburse cash advances for football games and noted two main concerns.

First, we question whether the Department needs such large cash advances for away games. We reviewed documentation for cash advances for two football bowl games—the Alamo Bowl (December 2002) and the Houston Bowl (December 2004). The Department received cash advances of $115,000 for each of these two games. The table below shows the Department's reported use of the cash advances.

University of Colorado
Cash Advance Uses by the Boulder Campus Athletic Department
Alamo and Houston Football Bowl Games

	Alamo Bowl (December 2002)		**Houston Bowl (December 2004)**	
	Amount	**% of Total**	**Amount**	**% of Total**
Total Cash Advances	**$115,000**	**100%**	**$115,000**	**100%**
Cash Advance Uses:				
Student-Athlete Per Diems	$34,900	30%	$27,800	24%
Other Student Per Diems [1]	$9,400	8%	$10,800	9%
Staff & Other Per Diems [2]	$6,400	6%	$5,000	5%
Mileage, Transportation, & Parking Costs	$17,000	15%	$12,700	11%
Other Costs [3]	$3,800	3%	$2,100	2%
Total Uses of Cash Advance	**$71,500**	**62%**	**$58,400**	**51%**
Cash Returned to University	**$43,500**	**38%**	**$56,600**	**49%**

Source: Data provided by the University of Colorado regarding cash advances.
[1] Includes per diems for student workers, cheer squad, band members, and mascot handlers.
[2] Includes per diems for coaches and other University staff.
[3] Includes post-game snacks for the team and cheer squad, police escorts, entertainment, staff meals outside of per diems, hotel charges, medical charges, supplies, and other miscellaneous expenses.

As the table shows, the Department returned between about one-third and one-half of the cash advances to the University for the bowls. According to the University, student per diems accounted for only about a third of the cash advances issued for the bowls, and most of the remaining cash was used to reimburse staff for expenses such as meals and rental cars. In many cases, staff paid for these expenses using personal credit cards, submitted receipts to the staff member holding the cash advance, and received reimbursements from the cash advances. In other instances involving out-of-town travel, the typical process for University staff to obtain reimbursement for their travel expenses is for them to individually submit their receipts and travel vouchers to their departments and receive payment through the University's reimbursement system. This is reasonable because the University's system can process reimbursements fast enough to meet payment deadlines for personal credit card bills.

Second, we found a lack of sufficient documentation to support the appropriateness of about $16,000 in expenses paid from the cash advances for the Alamo and Houston Bowls (about 7 percent of the $230,000 in cash advances received for these bowl games). Specifically, we found:

- About $13,200 in mileage reimbursements to student-athletes who traveled to the bowl games independently (i.e., did not travel with the official party, as discussed later). The University did not have adequate documentation showing how the amounts paid to student-athletes were calculated or that they represented the least expensive travel option. University policy requires such reimbursements to be calculated based upon the lowest cost of either a 14-day advance airline ticket or cost of mileage (at 28 cents per mile) to the destination.

- About $2,100 in miscellaneous costs for items such as meals, entertainment, and hotel charges for which there was no indication of the business purpose of the expenses.

- About $500 in per diems paid to three student-athletes that did not attend the Houston Bowl. According to the University, these students practiced with the team prior to the bowl game and after the academic semester ended. The University reported that the payments were for meal assistance and should have been applied against each student-athlete's financial aid limit. The University was unable to provide us with any documentation showing that these payments were recorded as financial aid.

- About $200 in identifiable alcohol purchases made using cash advance monies for the Alamo Bowl. State Fiscal Rules do not allow reimbursement for alcohol purchases made during travel. The official function form for the Alamo Bowl indicated that alcohol would not be served as part of official functions.

According to University staff, a portion of the cash advances received for bowl games are distributed to students and staff prior to departure, and the University has taken precautions related to the cash advances, such as storing the cash in the hotel's safe. However, the issuance of these cash advances poses liability and safety risks to the University and the staff member responsible for the cash. If the cash is lost or stolen, the staff member who received the advance is responsible for repaying it.

To minimize risks, the University should reduce the amount of cash withdrawn for athletic away games. First, the University should significantly reduce or eliminate the use of cash advances to reimburse staff travel expenses (e.g., per diems, car rentals, hotel charges). As an alternative, the University could require the

Department to use the University event card (a credit card billed directly to the University) or purchase orders.

Second, the University should assess ways to reduce the amount of cash needed to pay student per diems during away games. For example, the University could limit the amount of cash per diems issued to students and staff by arranging for most meals to be provided at the hotel and paying for the meals using a purchase order. Further, students could carry their own per diems rather than having a University staff member be responsible for all of the funds. Use of cash advances has generally declined around the State as other payment methods (e.g., procurement and credit cards) are now used and the State's systems can process payments quickly.

Recommendation No. 1:

The University of Colorado should strengthen controls over cash advances issued to the Boulder Campus Athletic Department by exploring options for paying staff travel expenses and student per diems. The goal of such options should be to significantly reduce or eliminate the use of cash advances and allow for proper controls and efficiencies. Options could include expanding the use of the University's event card, purchase orders, and/or direct reimbursement for travel expenses.

University of Colorado Response:

Agree. Implementation date: January 2006. The University has identified opportunities to maximize alternative payment methods, such as event cards and purchase orders. As a result, the University will significantly reduce the amount of individual cash advances for team travel by limiting them to necessary types of expenses, such as per diems. The University's new practices will be implemented for the 2005 season football bowl game or no later than January 2006.

Controls Over Spending

The University has a procurement system in which individual departments have been delegated authority to initiate purchases of goods and services up to $4,500. The University's Procurement Services Center (Procurement) is responsible for handling procurement of goods and services over $4,500 as well as for making payment on purchases of any amount through its Accounts Payable office. In addition, employees are required to submit travel vouchers to Procurement for payment and reimbursement of their travel expenses.

University policy and State Fiscal Rules require individuals who have authority to approve expenses to review transactions for adequate documentation and compliance with applicable policies and rules before giving their approval. Procurement is responsible for ensuring that adequate documentation accompanies each payment request and that all required approvals have been obtained for all the expenses it processes.

All departments within the University are required to follow state statutes, State Fiscal Rules, and University policies and procedures, as described below.

All Expenses. State Fiscal Rules and University policies require that all expenses incurred by the University be for official state business purposes only and be reasonable and necessary under the circumstances. University policy describes reasonable as "the quality and quantity of goods or services . . . sufficient to meet, but not exceed, the identified need." The University's policies also require expenses to (1) comply with all existing federal, state, and University laws, rules, and policies; (2) not appear to, nor actually provide personal benefit to any employee without there being a valid business benefit to the University; (3) be within approved budgets; and (4) be approved at the appropriate level of management.

Sensitive Expenses. University policy defines some expenses as sensitive, stating:

> The majority of University expenditures are standard operating expenditures and their propriety is easily decided. However, the propriety of some expenditures is difficult to determine because the benefit to the University may be unclear, or individuals may appear to personally benefit from the expenditure, which may be contrary to public and University policy.

According to the policy, sensitive expenses include alcohol, food for official functions, gifts and tokens, holiday parties, and recruiting costs for prospective employees. The University has established policies and procedures to specifically guide employees in evaluating the propriety of sensitive expenses.

To evaluate football operations' compliance with spending policies and procedures, we requested documentation from the University for a sample of 200 expense transactions totaling about $2.1 million for football operations and bowl game expenses for Fiscal Years 2002 through 2005. During this four-year period, football operations incurred about $41.4 million in expenses, or an average of about $10.3 million per year, which included bowl game expenses. Of the 200 expense transactions in our sample:

- The University provided documentation for 182 transactions totaling about $2.0 million during our fieldwork, as we discuss later in this section.

- The University was unable to locate any supporting documentation, such as payment vouchers, receipts, pre-authorization forms, or invoices, for the remaining 18 transactions totaling $70,700 until after our fieldwork was completed. We requested this documentation from the University over a period of several months. Because the University did not provide the documentation until after our fieldwork was completed and because it was clear from the results of testing the 182 transactions discussed below that controls need to be improved, testing of these 18 transactions was not performed.

Overall, we found weaknesses in University procedures that led to poorly documented, questionable, and/or unallowable expenses for 71 of the 182 transactions we tested totaling $105,300 for both general football operations and bowl games, as discussed in the following two sections of the report.

Football Operations Expenses

In the sample of 182 expenses we tested, 97 transactions totaling about $859,400 were for general football operations. The remaining transactions were bowl game expenses, which are discussed separately in the next section. We found questionable or unallowable expenses and/or a lack of supporting documentation for 22 of the 97 transactions totaling about $55,800. Some of the transactions in our sample involved multiple purchases. For example, some hotel payment transactions included charges for rooms, banquets, porter services, parking, and audiovisual equipment.

First, we found that for 15 transactions totaling about $16,700, the documentation maintained by the University was insufficient to determine the appropriateness of the expense. In particular, written descriptions explaining the business purpose either did not exist on the documentation or were not adequate. Further, in some cases additional internal documentation, such as equipment inventory control records or official function forms, were not completed or maintained, as required by University policy. Documentation showing the business purpose of transactions is particularly important because State Fiscal Rules and University policies require that all expenses incurred by the University be for official state business purposes only. Further, University policies state that expenses should not appear to, nor actually provide personal benefit to any employee without there being a valid business benefit to the University. For the 15 transactions lacking sufficient documentation, we found:

- Twelve expenses totaling about $10,700 in miscellaneous purchases that included 68 ladies' fleece jackets, 40 faux leather briefcases, 15 sunglass cases, 12 pairs of women's shoes, men's clothing, and video game equipment. Documentation provided by the University did not indicate who ultimately received the items or did not adequately explain the reason for the purchases. Such documentation would help demonstrate both the appropriateness of the expenses and compliance with National Collegiate Athletic Association (NCAA) rules, such as those related to recruiting and providing awards to student-athletes.

- Two expenses totaling about $4,700 for equipment rentals for a party hosted by the head football coach. Documentation for the expenses did not include information about the business purpose of the party. Additionally, we determined that the rental company had charged the Department twice for the rental. After we informed the University of the double billing, the University requested and received a refund from the rental company of about $2,100 in October 2005 due to the billing error.

- One expense of about $1,300 for a banquet. Documentation for the expense did not indicate the purpose or who attended.

Second, we question the reasonableness of four expenses totaling about $39,000, which involved football operations staff using a private plane owned by the University of Colorado Foundation (the Foundation). This plane was donated to the Foundation by a corporation in which the former Boulder Campus Athletic Director was a primary partner. University staff report that the plane was used by football operations staff for two recruiting trips, one trip to attend a coaches' clinic, and one trip to attend an awards ceremony. There was no evidence that the Department performed a cost analysis to determine whether using the private plane was the most cost-efficient means of travel. State Fiscal Rules stipulate that "travel charged to the state, regardless of the funding source, shall be for the benefit of the state and completed using the most economical means available which will satisfactorily accomplish the state's business." University staff reported that subsequent to these flights, they determined that use of the private plane was not cost-efficient and discontinued using it in 2004.

Finally, we found three expenses in our sample totaling about $110 for various costs that are not consistent with State Fiscal Rules. One expense included a restaurant tip that exceeded the 20 percent limit established in Fiscal Rules by about $50. Fiscal Rules state that "tips given to servers for meals are considered reasonable if they are not greater than 20 percent of the total cost of the meal, excluding taxes," and all expenses must be "reasonable and necessary under the circumstance." The remaining two expenses included meal per diems in excess of the limits in Fiscal Rules by about $30 and movie rental charges totaling about $30 incurred by University staff, which are considered personal expenses under Fiscal Rules and, therefore, are not reimbursable. While these expenses from our sample are small, they indicate a lack of review prior to payment.

Adequate controls over expenses are essential to safeguard the University's financial assets; minimize operating losses; maintain public trust among Colorado citizens, donors, and prospective students; and help ensure compliance with state and NCAA requirements. The University should strengthen controls over football operations expenses and expand staff training and education efforts. The University reports that it provides various training to departments on expense policies and procedures. However, we noted improvements that could be made related to the Department. Specifically, the University should ensure that all Department employees authorized to make purchases or travel arrangements for the Department are fully trained on proper policies and procedures. The Department's current practice is to require only one staff member from each office or program to attend training. Without a clear understanding by all Department staff of University policies and their individual responsibility to enforce these policies, the risk of inappropriate or unallowed expenses will not be adequately mitigated.

The Internal Audit Department issued a report in January 2005 citing procedural and documentation concerns related to the Department's handling of expense transactions. Several of the concerns noted by the Internal Audit Department were similar to those identified by our audit. The Internal Audit Department should follow up on the concerns noted in this report as well as its own recommendations regarding improving expense procedures and providing training and technical assistance to staff in this area. Additionally, the Internal Audit Department should consider whether periodic audits in this area are necessary in the future.

Recommendation No. 2:

The University of Colorado should ensure that the Boulder Campus Athletic Department adheres to State Fiscal Rules and University policies related to expense transactions by:

a. Maintaining documentation to support all expense transactions in accordance with requirements.

b. Providing additional training and technical assistance to both Athletic Department staff and other University staff who incur, review, and/or approve Athletic Department expenses regarding documentation requirements. Particular emphasis should be given to evaluating the reasonableness and business purpose of sensitive expenses.

c. Following up on concerns noted in this report as well as Internal Audit Department recommendations to help ensure that expenses are appropriate and allowable and that policies and procedures, such as for adequate documentation, are followed. The University should consider performing periodic internal audits that focus on compliance with policies and procedures over football operations expense transactions.

University of Colorado Response:

Agree. Implementation date: August 2006. The University will improve its control processes over expense transactions in the Boulder Athletic Department by:

a. Increasing the review process of certain expenses to ensure required documentation is maintained;

b. Enhancing its procurement training programs; and

c. Conducting the planned internal audit follow-ups and ensuring the Boulder football operations is included in the annual audit planning process.

The University's new practices will be fully implemented by March 2006 and the internal audit follow-up conducted by August 2006.

Bowl Game Expenses

Since 2001, the University's football team has participated in three post-season bowl games, including the 2002 Fiesta Bowl, the 2002 Alamo Bowl, and the 2004 Houston Bowl. The table below shows the revenue and expenses associated with these bowl games.

University of Colorado Revenue and Expenses for the Three Most Recent Football Bowl Games			
	Fiesta Bowl (Jan. 2002)	**Alamo Bowl (Dec. 2002)**	**Houston Bowl (Dec. 2004)**
Revenue:			
Payment by Big 12 Conference & Bowl Authority[1]	$1,577,000	$1,056,000	$810,000
Ticket receipts [2]	$313,000	$8,000	$4,000
Other [3]	$14,000	$11,000	$0
Total Revenue	**$1,904,000**	**$1,075,000**	**$814,000**
Expenses:			
Travel [4]	$694,000	$628,000	$388,000
Payroll/benefits	$277,000	$185,000	$150,000
Entertainment [5]	$194,000	$95,000	$68,000
Awards	$69,000	$76,000	$41,000
Other [6]	$147,000	$124,000	$77,000
Total Expenses	**$1,381,000**	**$1,108,000**	**$724,000**
Excess (Deficiency) of Revenue Over Expenses	**$523,000**	**($33,000)**	**$90,000**

Source: Information from the University of Colorado on football bowl game revenues received and expenses paid by the University.

[1] Bowl games are classified under one of three tiers. Tier I bowls are championship series games, which include the highest-ranking teams. The Fiesta Bowl is a Tier I bowl, the Alamo Bowl is Tier II, and the Houston Bowl is Tier III. Ticket revenue and conference payments are larger for Tier I and II bowls than for Tier III bowls.

[2] Includes revenue from tickets sold for the bowl games and associated special events.

[3] Includes reimbursements for charter airfare from guests required to pay for travel.

[4] Includes parking, gas, meals and lodging, car rentals and other transportation services, and airfare.

[5] Includes tickets to the bowl game and to receptions and events associated with the game for members of the official travel party, which consist of individuals representing the University at the bowl game.

[6] Includes football equipment/supplies, office supplies, photography services, copying, printing, and postage.

Bowl games are important to the University for several reasons. In particular, attendance at bowl games brings national recognition to the University, which can aid in recruiting students and cultivating donors. However, to protect the University from NCAA violations, misappropriation of funds, and errors and irregularities, the University needs to improve business practices associated with bowl games. The University needs to ensure transparency and accountability within the Department and football program related to bowl game expenses.

Unallowable and Questionable Expenses

In addition to reviewing general football operations' procedures and expenses, we evaluated the University's controls and processes related to bowl games. We reviewed a sample of 85 bowl game expense transactions totaling about $1.1 million for Fiscal Years 2002 through 2005. Some of the transactions in our sample involved multiple purchases. For example, some hotel payment transactions included charges for rooms, banquets, porter services, parking, and audio-visual equipment. For these 85 transactions, we noted issues similar to those we found with our testing of general football operations expenses. These include a lack of adequate review of expenses, noncompliance with policies, and insufficient documentation to support the business purposes. We also found a lack of required approvals for some bowl game expenses. In total, we identified 49 transactions totaling $49,500 that included one or more questionable expenses, as discussed in the following sections.

Travel Costs. State Fiscal Rules contain a number of stipulations about allowable travel costs. For example, the Fiscal Rules do not allow for payment of travel costs for family members traveling with a state employee or for alcohol purchases; University policy allows alcohol to be purchased during travel only if it is part of an approved official function. Fiscal Rules also establish per diems (daily limits on the amounts to be paid to state employees for meals), which are only paid when employees are traveling. For the three bowl games we reviewed, the Department spent about $1.7 million for travel. We found that 34 of the transactions we reviewed totaling $12,300 included some expenses that violated these travel policies, including:

- Two expenses totaling about $2,200 for payments to cover the travel costs of family members of University employees and for alcohol purchased. Specifically, these expenses included about $1,600 for two hotel rooms for football coaches' families for the 2002 Alamo Bowl; about $400 for cribs, gratuities, and portage charges for coaches' families for the 2002 Fiesta Bowl; and about $200 for alcohol reimbursed during a hotel stay for the 2002 Alamo Bowl. The official function forms for these bowl games indicated that alcohol would not be served at the functions.

- Thirty-two expenses totaling about $10,100 in extra payments to Department staff for the Alamo and Houston bowls to cover the costs of their family members to attend the bowl games. Specifically, the Department issued payments to coaches and essential support staff equivalent to the costs of paying per diems for their family members and classified the payments as "bonuses." These payments were made in addition to about $267,200 in separate bonuses paid to the coaches and support staff for the two bowl games.

We also identified additional travel expenses that appear questionable. In particular, we found two expenses totaling $12,000 for football coaching staff and others to use a private plane owned by the Foundation for two trips to the Alamo Bowl. These expenses are in addition to expenses for use of the Foundation's plane discussed earlier related to football operations. The documentation provided by the University did not indicate who was included in the trips and whether the use of a charter plane was the most economical means of transportation.

In addition, we found a lack of approvals for the composition of and financial arrangements for the official travel party for the bowl games. The travel party typically includes football players; band and cheer squad members; student trainers; and Regents, University officers, Department staff, and other Boulder Campus representatives, and their spouses. Additionally, University policy allows certain individuals, such as University of Colorado Foundation staff and their spouses and special guests of the Regents, the President, and the Chancellors, to travel with the official party as long as they pay their own travel costs. However, we found that for the Houston Bowl, the University did not receive any reimbursements for such guests for their travel with the official party on the charter plane. We estimate 12 guests, which included 5 babysitters for staff members' children, should have paid the University about $4,700 for their travel. The University should ensure that it collects payments from such guests for future bowl games. Furthermore, the University's policies and the Department's *Post-Season Guidelines* require an appropriate University official to approve the guests traveling with the official party for bowl games, but we found no evidence of such approval for the three bowl games we reviewed. Since travel represents the single largest cost for the three bowl games we reviewed, oversight of the composition of the travel party is critical to containing bowl game costs.

Awards. The Department provides awards to student-athletes, staff, and others as rewards for a successful season and for their participation at post-season events. Department policies stipulate who may receive awards related to performance in the post-season and require that the Athletic Director approve all awards. With respect to awards given to the student-athletes, NCAA rules state that "awards for participation in special events [such as post season bowl games] may be provided only to student-athletes eligible to participate in the competition." For the three recent bowl games, the Department spent about $187,200 on performance awards, and our sample of bowl game expenses included about $129,200 for awards. We question the reasonableness and allowability of 13 award expenses totaling $25,200, as follows:

- <u>Questionable award recipients</u>. For the 2002 Fiesta Bowl and the 2002 Alamo Bowl, the Department provided 125 awards totaling about $7,800 to spouses and children of Department staff. This included 63 jerseys costing a total of $1,600 for staff members' children and 31 each of jackets and watches costing a combined total of about $6,200 for staff members' spouses. Although the Department's *Post-Season Guidelines* identify the spouses of some Department employees as being eligible for bowl awards, we question whether giving bowl awards to spouses and children is a necessary and reasonable expense for accomplishing state business. We found no evidence of the Athletic Director's approval of awards provided for the three bowl games we reviewed.

- Lack of documentation on the issuance of awards. We reviewed documentation associated with 991 awards totaling about $122,900 purchased for student-athletes and travel party members for the three most recent bowl games and found that the Department did not document who received 163 of the awards (16 percent) totaling about $17,400. Without this information, we could not determine whether issuance of the 163 awards violated NCAA rules that prohibit awards being provided to ineligible student-athletes. The University reported that for recent bowl games it reviewed the issuance of awards and identified those student-athletes not eligible to receive bowl gifts. The University also stated that it has no additional documentation or information indicating that ineligible student-athletes received bowl gifts and has therefore determined that no NCAA violations occurred.

Official Functions

The University sponsors and attends a number of events related to football bowl competitions, such as receptions, luncheons, and parties, which are considered to be official functions. In total, the Department spent about $113,300 for official functions for the three bowl games we reviewed. We identified three concerns with official functions related to the bowl games.

First, the Department completes only one official function form for all official functions related to a given bowl game, making it difficult to determine how many events were held, the purpose and costs of each event, and the individuals attending them. Such information is essential to the University for approving functions and controlling costs. Fiscal Rules state that official function "expenses shall be kept to a minimum as they have the potential of being perceived to be for personal benefit and an abuse of public funds." The University should require the Department to either complete a separate official function form for each bowl event or to individually list the events to be held, their estimated costs and purposes, and whether alcohol will be served, as an attachment to a single official function form.

Second, we found the Department does not always record official function expenses as official functions in its financial reporting system, as required by University policy. Failure to record these expenses as official functions makes it difficult for the University to assess how much is spent for official functions on food, beverages, and alcohol, which are considered sensitive expenses.

Finally, the Department did not consistently attach a copy of the official function form to payment vouchers, as required by University policy. We identified two expenses in our sample for which payment vouchers did not include the official function form. Attaching the official function form to the payment vouchers provides Department staff with information they need to assess the allowability of the expense and to properly classify it in the general ledger.

As part of addressing control deficiencies related to football operations expense transactions, the University should incorporate specific efforts to address deficiencies related to bowl game expenses. The University must provide greater scrutiny of expenses incurred for bowl games to ensure that they are reasonable, necessary, and in compliance with state, University, and NCAA requirements.

Recommendation No. 3:

The University of Colorado should use the planning and approval processes for football bowl games to ensure adherence to State Fiscal Rules and University policies by:

a. Enforcing requirements related to the appropriate University official's providing prior written approval for individuals included in the official travel party and for awards given for bowl games.

b. Improving procedures related to official functions for bowl games by requiring staff to provide detailed information on each official function held as part of a bowl game.

University of Colorado Response:

Agree. Implementation date: January 2006. The University will improve its planning and approval processes over football bowl games of the Boulder Athletic Department by:

a. Enhancing the oversight of the official party composition and bowl awards; and

b. Expanding the official function documentation to identify individual events.

The University's new practices will be implemented for the 2005 season football bowl game or no later than January 2006.

Recommendation No. 4:

The University of Colorado should ensure that the Boulder Campus Athletic Department adheres to State Fiscal Rules and University policies for expenses incurred for football bowl games by:

a. Maintaining documentation to support all expense transactions in accordance with requirements.

b. Obtaining payment from certain guests traveling on charter planes to bowl games in compliance with University policies.

c. Improving the management and oversight of bowl game awards to clearly define who is eligible to receive awards, the documentation required for all awards given out, consequences for issuing awards in violation of NCAA requirements, and mechanisms for reporting such violations.

d. Modifying practices related to payment of travel costs and awards for employees' family members. This should include discontinuing payments for the cost of family members to attend bowl games and eliminating the issuance of awards to employees' family members or limiting the value of such awards to a minimal amount.

e. Ensuring that staff attach official function forms to payment vouchers and properly record official functions in the general ledger.

In addition, the University should provide training to ensure that all bowl game expenses are appropriate, as discussed in Recommendation No. 2.

University of Colorado Response:

Agree. Implementation date: January 2006. The University will improve its control processes over football bowl game expense transactions in the Boulder Athletic Department by increasing the review process over football bowl game expenses to:

a. Ensure required documentation is maintained;

b. Ensure University policy properly defines all personal expenses and requires full reimbursement for any occurrences as well as requires documentation of the cost-effectiveness of its airline choice and how to consistently use any seats not occupied by the primary bowl game travel party;

c. Ensure its bowl game awards management process clearly defines eligibility, required documentation, oversight roles and responsibilities, consequences for NCAA regulations violations, and violation reporting;

d. Discontinue employee bonuses related to family bowl travel allowances and limit the issuance of bowl game awards to employee's family members; and

e. Expand the official function documentation as mentioned in Recommendation No. 3 above.

The University's new practices will be implemented for the 2005 season football bowl game or no later than January 2006.

Courtesy Cars

Each year, University coaches receive courtesy vehicles from local auto dealerships for University business and their personal use. In exchange for the vehicles, the University gives the dealerships athletic event tickets. The University records the cost of the tickets issued in exchange for the cars in its accounting system and reports the annual lease value of each vehicle on the appropriate employee's W-2 form. Additionally, the University pays for insurance and registration fees for the vehicles. In Fiscal Year 2005 the University had 26 courtesy cars, 25 of which were used by the Department, including 10 vehicles assigned to football coaches and 15 assigned to the other Department staff, such as the Athletic Director and coaches in other sports. There is no University-wide courtesy car policy, but the Department has a policy on courtesy cars. We assessed how the cars are used by football coaches and tracked by the Department. We noted four concerns.

First, the Department's policy related to spousal use of courtesy cars creates a risk for the University. According to the policy, spouses are allowed to use courtesy cars on an "occasional basis," but only if the University employee obtains separate insurance for this use. Three of the five coaches we interviewed stated that they allow their spouses to use their courtesy cars, but only one reported that he had separate insurance covering his spouse's use. The Department does not monitor whether employees allow their spouses to use the cars or whether employees obtain separate insurance coverage for their spouses. Additionally, University staff have not determined whether the University's insurance policy would cover spouses and other non-employees' use of courtesy cars. To be consistent with limitations on the use of state-owned vehicles, the University should prohibit the use of courtesy cars by non-University personnel.

Second, we found the University lacked written agreements with the dealerships for a number of the courtesy cars, and some agreements were not signed. Specifically, the University had an agreement for only 1 of the 22 courtesy cars provided to the Department in Fiscal Year 2003 and for none of the 27 cars provided in Fiscal Year 2004. In addition, none of the courtesy car agreements established for Fiscal Year 2005 were signed by the University; three of the agreements were signed by the dealership representatives in June 2005, nearly 12 months after they became effective; and one agreement did not include the date the dealership representative signed the agreement.

Third, the courtesy car agreements are informal and vague. In particular, the agreements list the number, types, and value of athletic tickets the Department provides to the dealerships but do not describe the cars or include terms related to the University's use of the vehicles (e.g., mileage limitations, maintenance), liability issues (e.g., insurance coverage), and the duration of the agreement. Further, the agreements were created and issued by Department staff without the review and approval of the University's Legal Counsel, in violation of state and University procurement requirements. The University should establish formal contracts with each dealership for the courtesy cars.

Finally, the Department's policy requires courtesy car drivers to pay $30 per month toward insurance costs, which is automatically deducted from the monthly pay of each staff member with a courtesy car. However, these payments are not used to offset the University's insurance costs for the cars, but are, in fact, sent to the University of Colorado Foundation as a donation for the benefit of the Department by the individual coaches. The Foundation issues tax-deductible gift receipts to the coaches for these "donations" and deposits the funds into an unrestricted gift account available for use by the Department. According to Department staff, this practice was implemented in the 1970s to allow Department staff to be included on the Foundation's list of donors. We believe the University should discontinue the deductions because the practice is misleading and inappropriate.

Because courtesy cars are also provided to some staff outside the Department, the University should establish a systemwide policy related to courtesy cars. This policy should address use of the cars by spouses and compliance with state and University procurement policies.

Recommendation No. 5:

The University of Colorado should establish a systemwide policy related to courtesy cars, which should include:

a. Prohibiting the use of courtesy cars by non-University personnel.

b. Requiring all agreements related to courtesy cars to be fully executed before courtesy cars are provided to the University and before items of value, such as athletic tickets, are given to auto dealerships.

c. Discontinuing the practice of taking monthly deductions from staff who have courtesy cars for donation to the Foundation.

University of Colorado Response:

Agree. Implementation date: March 2006. The University will establish a systemwide policy related to courtesy cars, which includes:

a. Prohibiting non-University employees' use of courtesy cars unless for official University business;

b. Requiring all agreements to be fully executed prior to taking custody of the cars or forsaking any University asset; and

c. Discontinuing the practice of related monthly donations to the Foundation.

Football Camps

Chapter 2

Background

The Boulder Campus Athletic Department (the Department) offers summer sports camps, including football camps, for youth ages 8 to 18. The camps are intended to support and enhance the public image of the sports programs and the University. Over the past four years, the University's approach for offering football camps has changed. For Calendar Years 2002 through 2004, the University contracted with High Hopes 95, Inc. (High Hopes), a private company owned by the football head coach, to conduct the football camps using University facilities. In Calendar Year 2005, the University brought the football camps in-house.

Under the contract, High Hopes was responsible for paying all expenses associated with the camps and was allowed to retain all camp profits. For the 2002 through 2004 period reviewed during the audit, the University paid High Hopes $200,000 each year for the summer football camps. As discussed later in the report, the University had a signed contract to pay High Hopes $140,000 annually in 2002 and 2003. In 2001, the University amended the contract to raise the annual payment amount to $200,000 beginning with the 2002 camps. The amendment also extended the contract to cover the 2004 camps. However, the amendment was never signed.

High Hopes operated as a small business. Its management was responsible for maintaining adequate records on revenue and expenses to support compliance with federal and state laws, University policies, and requirements established by the National Collegiate Athletic Association (NCAA) and the Big 12 Conference, as required by the contract with the University. A bank account under the name of the Buffalo Football Technique School was used to conduct the financial activities of the camps, such as collecting receipts and making disbursements. High Hopes paid Department staff as well as non-University personnel to run the camps.

When the University brought the camps in-house in Calendar Year 2005, all funds in the Buffalo Football Technique School bank account, which totaled about $43,400 as of June 2005, were transferred to the University. University staff registered camp participants, collected registration fees, and carried out the day-to-day operations of the 2005 camps. The Department's Business Office was responsible for depositing revenue collected from the camps, paying camp expenses, and handling the books and records for the camps.

Football camps generate revenue from various sources, such as participant registration fees, concession sales, equipment rental fees, and donations. Camp disbursements are made for costs such as advertising, dorms for participants, field use, insurance, and compensation to camp workers. For the 2002 through 2004 camps, we reviewed available documentation from High Hopes related to receipts and disbursements, which included participant registration forms , medical release waivers; bank statements, canceled checks, and deposit slips related to camp operations. For the 2005 camps, we reviewed the financial records and other documentation maintained by the University. The objective of our audit was to evaluate the financial activities associated with the football camps to determine compliance with federal and state laws and regulations and NCAA and Big 12 rules. However, for the 2002 through 2004 camps, we were limited in achieving our objective because of the disarray of the camp records, the absence of supporting documentation for transactions, and conflicting information provided by individuals involved with the camps, as discussed below.

We noted concerns with the football camps when they were conducted by High Hopes as well as under the University's administration, as discussed in this chapter.

Football Camps Operated by High Hopes

The IRS expects small businesses to maintain records supporting their revenue and deductible expenses, such as travel and meals. In the case of High Hopes, such records were also necessary to demonstrate that the camps complied with NCAA and Big 12 rules. We found that the available camp records were in disarray and basic documentation supporting all revenue and expenses was not maintained.

In addition, the camp operator told us that no financial statements had been prepared for the camps in the past, but in 2005, High Hopes hired an accountant to compile profit and loss statements and balance sheets for 2002, 2003, and 2004. The financial statements appeared to be compiled based solely on bank records, which contain limited information for classifying revenue and expenses. For example, many deposits to the camp bank account were aggregated and the deposit slips did not always indicate the source of the receipts (e.g., camp registration fees, sponsorship contributions, etc.). Apparently due to the lack of clear documentation, the financial statements indicated that all revenue for the camps for 2002, 2003, and 2004 were from registration fees, except for a single donation of $1,500. During the audit we learned that other sources of revenue, such as from equipment rentals and sponsors, existed. As discussed later, we learned that some cash received and some of the monies paid to High Hopes by the University in accordance with the contract were not deposited into the camp bank account, nor were all expenses paid out of the bank account. Further, although bank records identify payees, they do not always indicate the purpose of the payments or the uses of cash obtained from checks written to cash.

The absence of controls over cash receipts and disbursements of the camps operated by High Hopes increased the risk of errors and irregularities and limited our test work, preventing us from obtaining reasonable assurance that there were no violations of laws or regulations. We used the information from bank records, camp registration forms, and the limited supporting documentation provided, along with interviews of camp personnel, to conduct our audit.

Football Camp Receipts

We reviewed bank records, registration forms, and University documents for information on camp receipts. However, we found that registration forms, financial statements, and University data did not always agree, as discussed later in this chapter, limiting our ability to determine actual receipts. According to the bank records, total camp receipts appear to be in the range of about $219,700 to $273,700 per year from 2002 to 2004. These amounts do not include all of the $200,000 paid annually to High Hopes by the University for the three years we reviewed, although it appears the head coach deposited a portion of these funds into the camp account. Disbursements appeared to range from about $220,800 to $264,600 per year. We provide these figures only to indicate the relative size of the camps. We emphasize that we have no assurance that the records are complete.

Based on the financial records maintained by High Hopes, we could not verify the source of all receipts for 2002 through 2004. Specifically, out of the $753,900 in cash receipts deposited in the bank account in these three years, we were able to verify the source of $425,900 (56 percent) on the basis of documentation provided by High Hopes. However, we were not able to determine the source of the remaining $328,000 (44 percent) because the deposit records did not provide detail on the source of deposits. For example, a number of deposit slips contained the aggregate amounts being deposited but did not list the checks included or the source of cash. We reviewed registration forms for camp participants, many of which indicate the amount of the registration fee, but we were unable to reconcile them to bank deposit records. In addition, we could not determine whether all receipts were accounted for. We identified a number of concerns related to cash receipts, as described below.

No evidence of receipt or deposit of revenues from concessions, apparel, equipment, and donations. The financial statements for the camps for 2002 through 2004 reported camp registrations as the sole source of receipts, except for a single $1,500 donation in 2002. However, interviews with camp employees and sponsors indicated that in addition to registration fees, cash was generated from other sources, including:

- **Concession sales.** Various camp employees provided differing information about who received the proceeds from concession sales. Due to the absence of any documentation, we could not identify the amount of receipts collected from concessions.

- **Apparel sales and equipment rentals.** There was no documentation related to these revenue sources for the 2002 through 2004 camps. However, based on the revenue the University received for apparel sales and equipment rentals for the 2005 camps, we roughly estimate that about $15,500 in receipts could have been generated from these two sources over the three-year period.

- **Sponsorships and donations.** Camp employees and sponsors indicated that about $44,600 in cash donations were paid to the camps by sponsors for the 2002 through 2004 camps, but we could not verify this information from the documentation provided to us. Additionally, one booster club reported that it donated about $197,200 to the camps between 1998 and 2002. In 2003 and 2004, no checks from this booster club were provided to the camps. Due to the poor documentation on cash receipts, we could not determine whether the camps received cash donations from this booster club in 2003 and 2004.

Conflicting data on camp registration receipts. We found discrepancies in participant registration fees recorded in various documents provided to us by High Hopes and the University for the 2002 through 2004 camps. For example, for 2004, the camp financial statements reported $144,000 in registration fees; documentation provided to the University's Compliance Office by High Hopes reported $115,900 in registration fees; and the registration forms provided to us by High Hopes indicated that about $110,400 should have been collected in registration fees. The head coach told us that he believed registration forms provided to us were incomplete.

Lack of controls and documentation for bank deposits. High Hopes did not have financial and cash controls in place to ensure that funds collected were deposited into the account. For example, individual receipts were not prepared when cash was received, payment logs were not maintained for certain receipts (e.g., concession sales and equipment rentals), and there was no evidence that cash received was reconciled to the registration fee payment logs. As a result, there is a high risk that cash received by the camps was not deposited into the bank account. In fact, the head coach's assistant who was responsible for the financial operations of the camps reported to us that cash collected from the 2002 camps was never deposited into the camp bank account and was used to pay University coaches. High Hopes did not maintain records showing the amounts paid using cash that were not deposited into the bank account.

Football Camp Disbursements

For the 2002 through 2004 camps, we reviewed documentation provided by High Hopes to determine whether payments by the camps complied with contractual requirements. On the basis of documentation provided to us, about $626,300 of the $742,700 in disbursements (84 percent) made by the camps during these three years could be related to camp operations. These disbursements included $30,000 for gift certificates purchased by the head coach and provided to University football staff who worked at the camps. According to NCAA regulations: “An outside source is prohibited from . . . arranging to supplement . . . [an athletics department staff member’s] salary for an unspecified achievement.” The gift certificates would be considered supplemental pay and, therefore, violated this rule. The University had not identified or reported this violation as of the end of our audit fieldwork.

About $13,700 in disbursements for these three years appeared to be for non-camp purposes. These included $12,730 for miscellaneous non-camp purposes and $970 in payments that violated NCAA rules ($770 in cash withdrawals used to pay student-hosts to entertain prospective student-athletes and a $200 reimbursement to the University for alcohol served at a game-day function). The University identified and reported the $970 in payments to the NCAA as a violation in March 2004.

The remaining $102,700 in disbursements did not have sufficient documentation to indicate the purpose and whether they were camp-related. These included:

- About $43,000 in payments to individuals for which there was insufficient documentation to determine whether the payments related to camp operations. We received conflicting information during the audit about disbursements to individuals. In particular, early in the audit we were told that disbursements to individuals from the camp account were for camp-related expenses, such as compensation for work on the camps, refunds of registration fees, or reimbursements to camp employees. Later, camp staff informed us that some of the payments to individuals were for non-camp related activities. The head football coach, who was responsible for operating the camps, indicated that the majority of the payments were to individuals who were employed by the camps, but he could not provide contracts or written agreements. The individuals receiving the $43,000 in payments were not listed as camp employees on the camp compliance rosters provided to the University by the camps.

- About $14,400 in payments for food purchases. The head coach indicated these expenses were for camp employees but could not provide documentation of who participated in the meals or the business purpose.

- About $6,000 in checks made out to cash. The head coach indicated these funds were used to maintain change funds for the camps. The camps had no records related to the change funds, so we were unable to verify the statement. In addition, one check made out to cash for $180 was written during recruiting season, but no documentation was available to show how the monies were spent. According to NCAA rules, "all funds for the recruiting of prospects shall be deposited with the member institution, which shall be exclusively and entirely responsible for the manner in which such funds are expended." Since this check written on the camp bank account was dated during the recruiting season, it raises a concern that the monies could have been used for recruiting, in violation of NCAA rules. However, because there was no documentation of how the cash was used, we could not determine if an NCAA violation related to these monies had occurred.

- About $39,300 in miscellaneous costs. The checks for some of these expenses included notes indicating that they were for items such as advertising, parking, and storage. However, there were no receipts or other documentation to substantiate the notes.

Failure to have adequate controls and to maintain documentation to show the source of all receipts and the use of all funds creates a risk to the University that state or federal laws could have been violated or NCAA and/or Big 12 violations could have occurred and were not detected. Our audit identified two violations of NCAA rules (the supplemental pay issue discussed above and the failure of some coaches to report outside income, discussed later in the chapter).

The University should consider whether any additional actions need to be taken related to violations of NCAA and/or Big 12 rules, such as disciplinary actions on University personnel who were responsible for the violations.

Football Camp Tax Issues

According to the contract, High Hopes was required to comply with all applicable federal and state laws and rules, University policies, and requirements established by the NCAA and the Big 12 Conference. Through our review of High Hopes' financial records, we identified two issues related to compliance with tax laws. First, a number of vendors did not charge High Hopes, a private for-profit entity, for state and local sales taxes for some purchases in 2002 through 2004. Invoices for these purchases indicated that the vendors applied the University's sales tax exemption status to the purchases. We identified 32 camp purchases totaling about $16,900 for which vendors did not assess an estimated $1,300 in sales tax. According to Section 39-26-704, C.R.S., governmental entities are not charged sales tax when purchasing items within their governmental capacities. We were unable to determine whether vendors assumed the purchases were being made by the University in its governmental capacity or whether there had been a misrepresentation to vendors that the purchases were tax exempt. Because High Hopes did not retain receipts and invoices for all purchases made, it is possible there were other instances in which vendors did not charge High Hopes all appropriate sales tax.

Second, staff employed by the private football camps informed us that the camps did not obtain a sales tax license and did not remit sales taxes to the State or local jurisdictions for its own concession sales occurring at the 2002 to 2004 camps. Section, 39-26-103, C.R.S., states: ". . . it is unlawful for any person to engage in the business of selling at retail without first having obtained a license therefor, which license shall be granted and issued by the executive director of the department of revenue . . . ." Statutes also require businesses making retail sales to remit all sales tax collected to the Department of Revenue. Failure to remit sales taxes can lead to civil penalties (e.g., a 10 percent penalty assessed on the amount due). High Hopes could not provide us with any documentation showing the total amount of concession sales for the years we reviewed; therefore, we could not determine the amount of sales tax owed.

Our audit did not include a review of compliance with state and federal income tax reporting requirements. However, the head football coach reported to us that he is working with the Internal Revenue Service with respect to income tax reporting related to the football camps operated by High Hopes.

Football Camps Operated by the University

In June 2005, just before the football camps began, the University brought the administration of the camps in-house. The Department's general ledger recorded about $190,000 in revenue for the 2005 football camps and about $440,000 in expenses, resulting in a loss of $250,000. According to the University, most of the revenue was from registration fees. However, the University did not record registrations separately from other camp revenue, so we could not verify the sources. A majority of the expenses were for compensation, including $130,000 to the head football coach and about $201,400 to other University coaches, staff, and temporary employees.

We evaluated the University's administration of the camps in 2005, including controls over cash and processing of expenses, and reviewed a sample of 30 expenses totaling about $36,500 incurred for the camps. Bringing the football camps in-house addressed some of the internal control deficiencies we identified related to the private operation of the camps in 2002 through 2004. For example, the University's financial system provides greater controls over expenses than the football camps operated by High Hopes in 2002 through 2004. However, we identified weaknesses in some of the operations of the 2005 camps.

Cash controls. We reviewed the processes used by football operations staff to collect, record, and deposit cash collected at five football camps occurring in 2005 and found an absence of controls over cash handling. Camp participants may pay their registration fees online, by mail, or in person on the first day of the camps. As noted above, the University reported that the camps generated a total of about $190,000 in revenue in 2005. We found that football operations staff did not issue receipts to payees for about $12,200 paid by camp participants on the first day of the 2005 camps. University policy requires departments to document individual cash sales with duplicate, pre-numbered sales receipts, which should include the date, a description of the item sold, and the form of payment. Departments must provide each payee with a copy of the receipt and retain a copy for University records. We also found that the Department did not clearly document which cash receipts were included in each specific bank deposit. As a result, we could not verify that all cash received was deposited. University policy requires cash receipts to be balanced daily to the accounting system and to cash records.

Additionally, we received conflicting information regarding how cash was stored. Originally, staff informed us that they may not consistently store cash in a locked desk, file cabinet, or office. Later in the audit, staff told us that for the 2005 camps, cash was always locked in the camp director's office. State statutes require that agencies and higher education institutions adequately safeguard state assets. University policy requires departments to store cash in a secured location with restricted access, such as safes, locked file cabinets with key controls, and locked boxes, at all times.

Collection and retention of medical release forms. The University did not have medical release forms for all football camp participants. Camp participants are required to submit medical release forms signed by their parents giving consent for medical treatment in case of injury prior to participation in the camps. The forms are intended to minimize the liability to the University, the Board of Regents, the state of Colorado, and the sports camp in the event that a participant is injured. We reviewed copies of the medical release forms for football camps operated during 2002 through 2004 by High Hopes and in 2005 by the University. We found that for the football camps operated by High Hopes, about 9 percent of the medical release forms were missing for camp participants for the three-year period. Collection and retention of the forms improved in 2005 when the University operated the camps, with about 3 percent of the forms missing for camp participants.

According to the University, 304 camp participants received some type of medical assistance from the University during the 2002 through 2005 football camps, ranging from applying ice packs and monitoring pre-existing medical conditions to treating injuries incurred during the camps. We found that the University and High Hopes did not have medical release forms for 23 of the 304 participants. The University should minimize its risks by ensuring that staff collect medical release forms from all participants prior to allowing them to participate in the camps, and the University should maintain all of the forms.

As of October 2005, the University had not developed specific policies and procedures on how sports camps are to be operated. The University made the decision to bring the camps in-house shortly before the 2005 football camps occurred, and staff report that they did not have time to develop policies and procedures for those camps. To minimize risks and strengthen oversight of future camp operations, the University should:

- Develop policies and procedures that (1) establish controls over cash receipts and deposits; (2) require the Department to obtain and maintain medical release forms for all youth participating in the sports camps; and (3) include mechanisms to enforce policy requirements, including disciplinary actions such as penalties or termination from camp employment, for failure to comply with the policies.

- Consider conducting periodic audits of the operations of sports camps to determine compliance with laws, regulations, and policies.

- Analyze the revenue and costs of the camp operations. In particular, the University should evaluate all camp expenses for reasonableness, determine if fees and other sources of revenue are adequate to cover expenses, and make adjustments as necessary. The University should operate the camps as close to break-even as possible to avoid increasing the operating deficits of the Department.

In addition, although our review was limited to the football camps, we learned that the University is still contracting with a private company owned by the head men's basketball coach to conduct the men's basketball camps. We believe the University should work toward bringing the men's basketball camps in-house to decrease the risks to the University of noncompliance going undetected, unreported, and uncorrected.

Recommendation No. 6:

The University of Colorado should improve its oversight of sports camps operated in-house by:

a. Ensuring that the Boulder Campus Athletic Department adheres to state and University cash control policies when handling cash for the football camps. The University should provide training and guidance to Department staff on cash control policies and procedures.

b. Establishing a policy to require Boulder Campus Athletic Department staff to collect all medical release forms from youth before allowing them to participate in sports camps and require staff to maintain the forms. The policy should include mechanisms, such as disciplinary actions, to enforce the requirements.

c. Conducting periodic reviews of the financial operations of sports camps to ensure compliance with requirements.

d. Performing an analysis of the revenue and expenses associated with sports camps operations. The University should use the results of the evaluation to ensure that fees are appropriately set and to control costs.

University of Colorado Response:

Agree. Implementation date: July 2006. The University will improve its oversight of in-house sports camps of the Boulder Athletic Department by:

a. Ensuring compliance with state and University cash control policies, including enhancing the related training for responsible employees;

b. Enhancing its process over medical release form collection and retention;

c. Expanding its external audits to include review of the sports camps; and

d. Conducting annual analysis of costs to ensure fees are appropriately set.

The University's new practices will be implemented by the 2006 sports camp season or no later than July 2006.

Recommendation No. 7:

The University of Colorado should report the violations we identified related to supplemental income for the 2002 through 2004 football camps. The University should also consider whether any additional actions need to be taken related to

NCAA and/or Big 12 violations, such as disciplinary actions on University personnel who were responsible for the violations.

University of Colorado Response:

Agree. Implementation date: Implemented. In November 2005, the University reported Level II, secondary violations related to supplemental income. In December 2005, the University took appropriate personnel disciplinary action.

Recommendation No. 8:

The University of Colorado should work toward bringing the administration of the men's basketball camps in-house in the future.

University of Colorado Response:

Agree. Implementation date: July 2006. The University will bring the administration of the men's basketball camps into the Boulder Athletic Department for the 2006 sports camp season or no later than July 2006.

Contract Oversight

State Fiscal Rules require state agencies and institutions of higher education to establish state contracts for personal services over a specified amount ($50,000 prior to August 2005; $100,000 after that date). Additionally, Fiscal Rules mandate that the chief executive officer or delegate of the agency or institution sign all contracts. The State also provides direction on drafting and monitoring contracts in its *Contract Management Guide*, which notes that contract monitoring is intended to ensure that legal obligations are fulfilled and acceptable levels of services are provided.

We reviewed contracts established between the University and private entities operating sports camps and noted the following concerns.

Lack of Contract Monitoring

We identified several instances in which the University failed to ensure that High Hopes complied with contract provisions. First, the University had no evidence that High Hopes had obtained workers' compensation insurance coverage as required by the contract. High Hopes was required to provide the University with certificates of insurance prior to the commencement of the summer football camps; these certificates were intended to serve as evidence that High Hopes was complying with this requirement in the contract. However, the University had no evidence of workers' compensation insurance for the camps for 2002 through 2004, a possible breach of the contract.

Second, 10 of the 44 University employees (23 percent) who worked at the football camps in 2002 through 2004 did not receive pre-approval to do so, as required by the contract. Specifically, the contractor was required to:

> . . . ensure that all employees and subcontractors, who may also be staff members in an NCAA institution's athletic department, obtain prior written approval from the chief executive officer of the institution for any income and benefits received from the Contractor in connection with the staff member's participation with the summer football camps.

According to the University, approval is given when the Chancellor signs employees' outside income disclosure forms, which are filed at the beginning and updated at the end of each fiscal year. However, five employees did not file the disclosures in 2002 through 2004, and five filed disclosures that indicated they would not receive any income from the camps.

Finally, we found that the University did not review the financial operations of the football camps during 2002 and 2003 to ensure that High Hopes complied with contract provisions, including NCAA and Big 12 requirements. We identified violations related to supplemental pay provided to coaches by the camps and to lack of reporting of outside income, as discussed later in this chapter. We also found that as of the end our audit, the University had not reviewed the financial operations of the men's basketball camps, which are still being conducted by a private entity owned by the head basketball coach. As noted earlier in this chapter, the University should bring the basketball camps in-house.

Concerns about the University's control over sports camps have been raised by University staff and external oversight agencies several times in the past eight years, including:

- A 1997 self-study of NCAA compliance performed by the University and used by the NCAA to certify the University (i.e., validate the fundamental integrity of the institution's athletics programs). The self-study recommended that the University "conduct a thorough review of the administration of its . . . sports camps and clinics to ensure that they are under the institution's control and subject to fiscal- and compliance-auditing procedures." The University reported in 2001 that it had reviewed its sports camps and believed that its contracts with private entities operating the camps provided appropriate institutional control over the camps. As just discussed, however, we found the University did not adequately monitor the football camps' contract.

- A July 2002 memorandum from the Compliance Office to the Boulder Campus Athletic Director, the Provost, and the Senior Associate Athletic Director of Business Affairs that outlined concerns about the University's oversight of the financial operations of the sports camps. The memorandum stated:

  > While [the] Compliance [Office] does collect information from the camps for NCAA monitoring purposes, [the] Compliance [Office] does not have the expertise to perform a financial audit to determine whether the camps are using proper accounting techniques. For a financial audit of the camps, the camp administrator should provide statements that afford a good overview of the camp's revenue and expenses . . . to the assigned (professional) auditor. Receipts (either in total or for targeted areas) should be submitted to substantiate the actual numbers claimed. . . . Our current monitoring process will not catch all potential problems and may leave the University vulnerable to a serious infraction and charge of a lack of institutional control.

- A November 2003 Big 12 Conference review of the University's NCAA compliance program which found that "camps and clinics are not audited and coaches understand that they have sole control over the [sports camp bank] account, including deposits and withdrawals." The Big 12 Conference recommended that the University consider performing annual audits of the sports camps "to ensure that the funds are not being used for recruiting purposes."

Based on our findings, the University has not taken adequate action to address the concerns expressed over the years. Further, as a result of the University's lack of oversight of the football camps' financial operations, the University did not have adequate controls to ensure it was aware of potential NCAA violations. For example, the University was not aware of discrepancies in information on camp-related compensation paid to University staff. We discuss reporting of outside income, the need for more oversight of reported data, and related NCAA and Big 12 requirements later in this chapter.

Lacking and Incomplete Contracts

We identified concerns related to the University's business arrangements with Department service providers, including:

- **Lack of contracts.** We found three types of arrangements related to the sports camps for which no contracts were in place. First, the University did not establish contracts with coaches conducting the volleyball and skiing camps in 2002 through 2004 and with the coach conducting the strength training camp in 2004. The University did not pay for these camps, but the coaches were allowed to retain the profits. Second, University assistant coaches were allowed to make concession sales to camp participants for the 2005 football camps and retain the proceeds of their sales without a written agreement with the University. The assistant coaches were considered third-party vendors and should have written vendor agreements approved by the University. University management reported it was unaware that Department staff were operating concession sales as part of the 2005 camps, so there was no approval for the arrangement and no vendor agreements. Finally, the University did not establish a vendor agreement with the private company that handled apparel sales for the 2005 football camps. The vendor paid the University a commission on the sales of about $3,200.

- **Unsigned contracts.** We identified instances in which contracts and agreements were not fully executed, as required by Fiscal Rules. For example, the University's contract with High Hopes, which originally covered the 1999 through 2003 football camps, was amended in 2001 and extended to cover the 2004 camps but was never signed by the University. The University paid High Hopes $200,000 annually for the 2002 through 2004 camps under the unsigned contract amendment. In addition, the University's contracts for the 2004 tennis camp and the 2002 women's soccer camp were not signed by the University or the contractor. The University did not pay for these camps, but the contractors were allowed to retain the profits.

- **Additional contract provisions.** The contracts between the University and the football, men's basketball, and women's basketball camp operators did not contain certain explicit provisions that could help protect the interests of the University. First, although the contracts contain specific language requiring compliance with applicable laws and regulations, they did not specifically state that the University has the right to inspect the operators' books and records related to the camps. Second, the contracts did not stipulate that the contractors maintain adequate documentation to verify compliance with contract provisions, including University policies and

NCAA and Big 12 rules. Finally, the contracts did not include provisions requiring the camp operators to collect and retain medical release forms from all camp participants. As discussed earlier, we noted problems with the collection of medical waivers for the football camps. While the omission of these provisions does not impair the University's legal right to access these records, such provisions make the University's access clear to the contractor.

Many of the problems we identified during our review of the football camps operated by High Hopes likely could have been avoided or mitigated if the University had exercised adequate oversight of the contract. The University should establish appropriate procedures to prevent or identify problems with other Boulder Campus Athletic Department contractors.

Recommendation No. 9:

The University of Colorado should improve oversight and management of Boulder Campus Athletic Department service providers by:

a. Establishing contracts and vendor agreements when required by State Fiscal Rules and University policy and ensuring contracts are fully executed before payments are made.

b. Adding provisions to contracts to provide additional protection of the University's interests, such as stating the University's right to inspect the contractor's books and records; requiring sufficient documentation to verify compliance with contract provisions, including applicable University policies and NCAA and Big 12 rules, to be maintained; and specifying that medical release forms are required and should be maintained for all camp participants.

c. Ensuring that providers comply with all contractual requirements, such as obtaining appropriate insurance coverage, and applying penalties against providers that fail to comply with their contracts.

University of Colorado Response:

Agree. Implementation date: July 2006. The University will improve its oversight and management of Boulder Athletic Department service providers by:

a. Fully executing contracts in accordance with state and University policies prior to making any payments;

b. Including additional contractual provisions as appropriate for the specific contracted services, such as record inspection rights, vendor documentation standards, and vendor document retention policies; and

c. Documenting University monitoring of vendor compliance with contractual requirements, including any failure consequences.

The University's new practices will be implemented by the 2006 sports camp season or no later than July 2006.

Outside Income Disclosures

According to NCAA rules, Department staff members, excluding administrative assistants, are required "to provide a written detailed account annually to the chief executive officer for all athletically related income and benefits from sources outside the institution." Contracts and letters of appointment between the institution and staff must include this requirement. According to the NCAA, this requirement applies to income such as compensation for working at sports camps, making television and radio appearances, and endorsing athletic apparel or equipment manufacturers, as well as to perquisites such as housing benefits and country club memberships. Staff complete a standardized form at the beginning of the year to estimate income that will be received and again at the end of the year to provide actual income figures. We reviewed the outside income disclosures filed by football operations staff in Fiscal Years 2002 through 2004 and noted two issues with the forms and information reported.

First, we found that staff did not accurately report their income from football camps on the disclosure forms. We compared the camp income reported on the forms with bank statements provided by High Hopes. We identified payments to football staff in bank records provided by High Hopes that exceeded the amounts reported on the disclosure forms. We found that, on average, 55 percent of the staff underreported income in Fiscal Years 2002 through 2004. The table below provides income information for those staff who underreported their income.

University of Colorado
Football Camp Income Reporting to the Compliance Office
For Staff Who Underreported Income
Fiscal Years 2002 through 2004

Fiscal Year	Camp Income Earned by Football Staff Who Underreported[1]	Income Reported to the University by Staff Who Underreported[2]	Amount Underreported	Percent Underreported
2002	$33,700	$12,500	$21,200	63%
2003	$41,900	$23,500	$18,400	44%
2004	$64,200	$35,800	$28,400	44%
Totals	**$139,800**	**$71,800**	**$68,000**	**49%**

Source: Outside income disclosure forms submitted by football staff to the University and records provided by High Hopes related to the 2002 through 2004 football camps.

[1] Includes disbursements to football staff in Fiscal Years 2002 through 2004 that were recorded in the Buffalo Football Technique School bank account.

[2] Includes income figures for football staff who underreported football camp income. We found that this income was underreported by 7 and 6 of the 14 staff in Fiscal Years 2002 and 2003, respectively, and by 11 of the 16 staff in Fiscal Year 2004.

As the table shows, football staff underreported to the Compliance Office about $68,000, or 49 percent of income earned, from football camps in Fiscal Years 2002 through 2004. Under NCAA rules, football staff have a responsibility to fully disclose outside income and the disclosure forms require them to attest to the accuracy of the information reported. Failure to fully disclose income received from outside sources may be a violation of NCAA rules, and therefore, the University should report the instances of underreporting to the NCAA and Big 12 Conference.

Since most of the sports camps are being operated in-house by the University as of 2005, the risk of underreporting in this category in the future is reduced. However, the University should take steps to ensure that Department staff disclose income from outside sources in the future. In particular, as long as the men's basketball camps continue to be operated under a contract, the University should have a mechanism to ensure that University staff accurately report their outside income from these camps.

The second issue we found related to outside income disclosures is that the letters of appointment between the University and the assistant football coaches do not always include the stipulation that all athletically related income from outside sources be reported to the University on an annual basis. NCAA rules state:

> Contractual agreements, including letters of appointment, between a full-time or part-time athletics department staff member . . . and an institution shall

include the stipulation that the staff member is required to provide a written detailed account annually to the chief executive officer for all athletically related income and benefits from sources outside the institution.

We reviewed the 11 offer letters issued by the University to football operations staff in Fiscal Years 2002 through 2004 and found that none included this stipulation. We also found that the University's policy for preparing letters of offer does not reference this NCAA rule. The University did include this stipulation in offer letters provided to coaches hired in 2005.

Recommendation No. 10:

The University of Colorado should report the violation related to the failure of some football staff to report outside income from the football camps to the NCAA and/or Big 12 Conference. In addition, the University should contact the NCAA and/or the Big 12 Conference to determine whether the omission of the stipulation in letters of appointment that outside income be reported annually to the University is a violation. If so, the University should formally report the violation.

University of Colorado Response:

Agree. Implementation date: Implemented. In November 2005, the University discussed the NCAA requirement with the Big 12 conference and reported Level II, secondary violations for prior year employment letters of offers having non-specific language related to outside income disclosure and for the non-disclosure of outside income.

Recommendation No. 11:

The University of Colorado should improve the reporting of athletically related income received from outside sources by:

a. Providing training and technical assistance to Boulder Campus Athletic Department staff that highlights the NCAA requirements for reporting athletically related income received from outside sources and proper use of outside income disclosure forms.

b. Updating policies and guidelines to reference the NCAA requirement that all letters of appointment issued to Athletic Department staff include the stipulation about reporting athletically related outside income.

University of Colorado Response:

Agree. Implementation date: December 2005. The University will improve its accuracy of reporting athletically related income received from outside sources by Boulder Athletic Department employees by:

a. Expanding its training program; and

b. Updating its policies and guidelines for letters of appointments to include a direct requirement reference.

Criminal History Checks

As discussed earlier, sports camps hosted by the University are targeted to youth ranging from ages 8 to 18. Therefore, the camps generally involve youth who are younger than the University's student body. Conducting criminal history checks on potential workers and volunteers can help protect youth from possible harm. Prior to 2005, the University did not require its contractor to conduct criminal history checks on individuals working at the football camps. In 2005 the University brought the camp operations in-house, and the Department conducted national criminal history checks through the University's Police Department on 23 of the 88 employees and volunteers (26 percent) who worked at the football camps. The University chose to conduct checks only on new employees (individuals who were not already employed by the University), such as coaches.

We reviewed the Department's processes for conducting criminal history checks and its use of the results in decisions to hire staff for the 2005 football camps. We found the Department has not established a policy or guidelines regarding which camp workers must undergo criminal history checks, when the checks should be completed, and how to use the results. As noted earlier, shortly before the camps were to occur, administration of the 2005 camps was brought in-house. According to the University, this resulted in not completing some of the criminal history checks of camp employees until after the camps had occurred. The results of the checks showed that one individual who worked at the camps had been issued a restraining order and another had a recent conviction for a felony DUI. Neither camp worker reported the criminal history information on the personal history questionnaires submitted by them to the University. The questionnaire specifically asks for a listing of "all convictions resulting from arrests, tickets, or summonses that required court appearance."

In addition, we requested information from the Judicial Department's Integrated Colorado On-Line Network (ICON) database on 18 football operations staff who worked on the 2005 football camps and were not included in the University's criminal history check. ICON contains information on criminal court filings and dispositions in Colorado. We found that 4 of the 18 employees checked had pled or been found guilty of offenses that could be of concern, including false imprisonment, misdemeanor assault, misdemeanor child abuse, and driving while impaired.

The purpose of conducting checks on individuals working at the camps is to protect minors from harm. To help ensure that youth are protected, the University should implement policies and procedures for performing criminal history checks and using the results to make employment decisions regarding camp workers. The policies and procedures should:

- Describe which University staff, contract personnel, and volunteers must undergo criminal history checks before working at the camps.

- Establish a timeline for conducting checks of individuals working at the camps to ensure results are received and reviewed before the camps begin.

- Define which criminal histories would disqualify individuals from participating in the camps. State statutes and Colorado State Board of Education regulations include criteria for using the results of criminal history checks conducted on educators. For example, the statutes and regulations state that the Board of Education may deny, suspend, or revoke the teaching license of someone who is convicted of, pleads no contest to, or receives a deferred sentence for certain misdemeanor or felony charges, such as sexual assault or child abuse. These statutes and regulations may be useful to the University in establishing criteria for evaluating the results of background checks on camp employees and volunteers.

Although we did not audit other sports camps offered through the University, these issues should be considered throughout the Department. Obtaining criminal history information on staff involved with camp participants is important in mitigating the risk to youth and to the University.

Recommendation No. 12:

The University of Colorado should develop and implement a policy for conducting criminal history checks on individuals who to work at sports camps. The policy should include:

a. Criteria for determining which individuals should be required to undergo criminal history checks.

b. Timelines for conducting checks that ensure they are completed prior to the start date for individuals who work at the sports camps.

c. Criteria for which criminal histories would disqualify individuals from working at the sports camps.

University of Colorado Response:

Agree. Implementation date: July 2006. The University will improve its background employment checks by expanding its policy to include criminal history checks on employees of the Boulder Athletic Department's sports camps and ensuring the policy includes:

a. Criteria for identifying affected employees;

b. Timelines that ensure checks are completed prior to first day of work; and

c. Criteria for disqualifying applicants.

The University's new practices will be implemented by the 2006 sports camp season or no later than July 2006.

University Administration

Chapter 3

Background

The University of Colorado (the University) is a large, complex, and geographically dispersed institution. The University consists of a System Office and three campuses located in Boulder, Colorado Springs, and Denver. The University is governed by the Board of Regents, which appoints officers of the University including the President and the campus Chancellors. Each college and school is headed by a dean, who is the principal administrative officer for the college or school.

The Regents and the University's System Office provide guidance to the campuses through policies and procedures in areas such as financial activities, personnel, and ethical practices. Day-to-day operations at the campuses are decentralized, with individual departments managing their own activities. The System Office provides oversight of campuses' and departments' operations through its accounting, procurement, internal audit, legal, and other departments.

In addition to evaluating football operations and the football camps, as discussed in the first two chapters of the report, we extended our audit to include a review of policies and procedures in a number of systemwide areas. We reviewed the University's policies and procedures related to conflicts of interest and cell phone use. In addition, as part of the Fiscal Year 2004 financial audit of the University, we contracted with KPMG, LLP to conduct procedures related to the University's procurement system. We noted concerns in these areas, as described in this chapter.

Conflicts of Interest

State statutes, policies issued by the Board of Regents, and University administrative policies all include requirements related to the avoidance and disclosure of conflicts of interest. University policies define conflicts of interest as:

> Situations in which financial or other personal considerations may compromise, or have the appearance of compromising, an employee's professional judgment in administration, management, instruction, research and other professional activities . . . . The mere appearance of a conflict may

be as serious and potentially damaging as an actual distortion of instructional, research or administrative goals, processes, or outcomes.

We evaluated University staff and Regent practices related to conflicts of interest for compliance with Regent and University policies and state statutes. We noted concerns with disclosures of conflicts of interest, as described in the sections below.

Disclosures by University Officers

Regent policy requires University officers to submit annual written disclosures to their supervisors of outside financial interests and activities. Supervisors are required to review these disclosures for possible conflicts of interest. In June 2005 the policy was expanded to include additional administrative officers, such as associate and assistant vice presidents, vice chancellors, and deans. We requested copies of all of the disclosures filed with the University by the President, Treasurer, Secretary, three Vice Presidents, and the Boulder Chancellor for a four-year period from 2002 through 2005. For 2002 through 2004, only 4 of the 21 disclosures we requested had been filed by University officers. For 2005, after the new policy was implemented, all 7 disclosures we requested had been filed.

Disclosures by Regents

Section 24-6-202, C.R.S., requires elected and appointed officials, including the members of the University's Board of Regents, to submit written disclosures to the Secretary of State within 30 days after election, reelection, appointment, or retention in office and on or before January 10 of each calendar year. Statute stipulates that these written disclosures include certain information about the officials (and in some cases the official's spouse and minor children residing with him or her), such as their sources of income, including capital gains; each business, insurance policy, or trust in which the official has a financial interest in excess of $5,000; all offices, directorships, and fiduciary relations held by the official; and all businesses with which the official is associated that do business with or are regulated by the State.

Additionally, Section 24-6-203, C.R.S., requires the Regents to submit a report each year on or before January 15 to the Secretary of State disclosing gifts and honoraria, such as any money received with a value of $25 or more; any gift of real or personal property (excluding money) valued at $50 or more; any payments for speeches, appearances, or publications; and tickets to sporting, recreational, educational, or cultural events valued at $50 or more. According to statutes, the purpose of these various disclosures is to "continue the public confidence in the integrity of government officials and to promote trust of the people in the objectivity of their public servants." These disclosures are available to the public.

We requested copies of the two types of disclosure reports that Regents were required to file with the Secretary of State between 2002 and 2005. During this time, 14 individuals served as Regents and would have been required to file a total of 83 disclosure reports. We found the following:

- **Missing reports.** The Secretary of State's Office did not receive 21 of the required disclosure reports (25 percent) from the Regents.

- **Late reports.** The Secretary of State's Office received 17 of the required annual disclosure reports (20 percent) after the statutory deadline.

We found that during the period of 2002 through 2005, only 1 of the 14 Regents filed all of the required disclosure reports by the statutory deadlines.

Staff from the University and the Secretary of State's Office notify Regents of their filing requirements and provide copies of the forms to the Regents on an annual basis. Additionally, the Secretary of State's Office sends reminder letters to Regents who have not filed their disclosure forms. However, the University does not monitor the submission of required reports, and is, therefore, not aware of the lack of compliance.

Concerns with financial transactions between one Regent and the head football coach, acting in his capacity as the football camp operator, have been widely reported. Specifically, between 2002 and 2004, the coach purchased gift certificates totaling $30,000 (about $10,000 per year) from a private business owned by the Regent. In 2002 the Board of Regents approved an extension of the head football coach's employment contract. Between 2002 and 2004, the University paid the head coach between about $723,000 and $1.6 million each year, which included the contract payments made to the head coach's private company, High Hopes, to conduct the football camps. In addition, the head coach's employment contract includes an incentive of $2 million if the coach remains at the University until 2007. Although the policies in place at the time of these transactions did not specifically require disclosure by the Regents, we believe the purchases created an appearance of conflict of interest.

In February 2005 the Board of Regents amended its policy regarding conflicts of interest to specifically require the Regents to file conflict-of-interest disclosures with the University. The policy states that Regents should avoid the appearance of impropriety, which includes "any conduct that might lead members of the public to conclude that the Regent is using his or her official position to further the financial or personal interests of the Regent, the members of his or her family, or his or her associates." The revised policy should help ensure that the type of transaction discussed above is disclosed and evaluated by the Board.

Recommendation No. 13:

The University of Colorado should improve compliance with financial disclosure requirements for University officers and members of the Board of Regents by:

a. Continuing to enforce the amended Regent policy requiring all University officers to file outside financial disclosures with the University on an annual basis.

b. Expanding the annual briefing of the Board of Regents regarding the submission of financial disclosures to the Secretary of State and following up with Regents to encourage compliance with the filing requirement.

University of Colorado Response:

Agree. Implementation date: January 2006. The University will improve its compliance with financial disclosures for officers and Regents through:

a. Continuing enforcement of its policy for officers to file disclosure forms, which includes failure consequences; and

b. Expansion of its annual briefing of Regents to include state requirements and compliance as of January 2006.

Cell Phones

University departments issue some staff cell phones for use in their jobs. The University estimates that it paid a total of $508,400 for cell phone costs incurred in Fiscal Year 2004. The University had to estimate the costs because it does not require departments to record all cell phone costs in a specific account code. We reviewed cell phone plans, policies, and a sample of expenditures for seven departments at the Boulder Campus. The table below shows the total cell phone expenditures for these seven departments in Fiscal Year 2004.

University of Colorado
Fiscal Year 2004 Cell Phone Expenditures
for Seven Boulder Campus Departments

Department	Number of Staff	Number of Cell Phone Users[1]	% of Staff Issued Cell Phones	Cell Phone Expenses	Average Cost per User for the Year
Athletic Department	120	87	73%	$97,400	$1,120
University Memorial Center	92	19	21%	$10,700	$563
Information Technology Services	129	39	30%	$20,300	$521
Public Safety	127	48	38%	$18,100	$377
Facilities Management	347	55	16%	$19,000	$345
Leeds School of Business	164	16	10%	$6,600	$413
Housing	462	102	22%	$12,300	$121
TOTAL	**1,441**	**366**	**25%**	**$184,400**	**$504**

Source: Financial information provided by the University of Colorado.
[1] These figures represent the total number of cell phone accounts paid by each department.

As the table shows, the number of users, expenses, and costs per user vary widely by department. The University does not have a systemwide policy related to cell phones but is currently working on a draft telecommunications policy that includes cell phones. Instead, individual departments and programs use varying processes to select and monitor cell phone plans. While four departments in our sample had written cell phone policies, the other three did not. The lack of a University-wide policy leads to variations in the number and types of plans purchased by departments, poor oversight of the need for and use of the phones, and the potential for unnecessary costs, as described in the following sections.

Incomplete department policies. Four of the seven departments we reviewed have written cell phone policies, but we found the policies lacked key provisions, such as criteria for determining which employees will be issued cell phones. Only two of the four policies addressed this issue. Additionally, the four policies vary on personal use stipulations for cell phones. Two departments allow personal use of cell phones as long as the use does not exceed the minutes allowed by the plan and result in additional charges; another department allows personal use but requires staff to reimburse the associated costs if the allowed plan minutes are exceeded; and the remaining department's policy prohibits any personal use.

Lack of regular review of needs. Departments do not regularly assess whether their cell phone plans meet their needs and are as cost-effective as possible. We reviewed cell phone statements for June 2004 and March 2005 for a sample of users in these seven departments and found:

- **Unused phones.** Three departments in our sample have "spare" cell phones that may go unused for months. The departments are typically charged for service suspension (about $15 per month) or for full service if the service is not formally suspended. The plans we reviewed charged a set monthly fee-for-service cost of, on average, $52 per month. We also found that 18 of 165 statements (11 percent) we reviewed for cell phones issued to specific staff showed minimal or no use during the billing period. For example, one cell phone in our sample has a plan costing about $30 per month but was not used for the two months we reviewed. The departments should periodically assess whether phones with minimal or no use are needed, particularly if the departments are billed for them.

- **Plan analysis.** The cell phone service provider for one of the departments in our sample provides the department a quarterly summary of use and rate plan suggestions based on past use. The provider offered one rate plan suggestion that would have resulted in a monthly savings of nearly $620. However, we found no evidence that the department had considered or accepted the rate plan suggestions offered by the provider. Such information can be useful to departments in assessing whether their current cell phone plans are appropriate and cost-effective.

Lack of oversight of use. Five of the departments we reviewed do not regularly monitor cell phone statements to ensure appropriate use. The other two departments do monitor cell phone usage by performing monthly reviews of statements. One department reviews for any unusual phone numbers called and additional charges incurred, while the other reviews to identify personal calls made by staff and requests reimbursement for such calls. Monitoring is particularly important for identifying instances in which staff use cell phones inappropriately. One department that performs monthly reviews of statements identified about $85 in personal international long-distance calls made by one employee in June 2004. The department later obtained reimbursement for these calls. We believe departments should have processes to oversee cell phone use, such as reviewing a sample of statements each month, to identify inappropriate use or personal calls that should be reimbursed.

Because of the varying cell phone policies, plans, and practices, guidance by the University is important to ensure appropriate use of the phones and implementation of cost-containing measures. We surveyed nine other universities that have university-wide cell phone policies and identified provisions that the University should consider including in its systemwide policy, as follows:

- Periodically analyzing cell phone plans to ensure plan minutes are reasonable given the needs of the departments and determining whether alternative plans would be more cost-effective.

- Establishing criteria for determining which staff should receive University-paid cell phones, based on factors such as the staff member's job responsibilities, accessibility, and travel requirements.

- Clarifying to staff that University-paid cell phones are to be used to conduct University business and requiring reimbursement for any charges related to personal use beyond an established de minimus amount.

- Requiring departments to periodically review cell phone use to identify instances of misuse and to ensure phones are returned by staff upon termination of employment.

- Conducting periodic audits of departments' compliance with the University's cell phone policy.

Recommendation No. 14:

The University of Colorado should finalize and implement a University-wide cell phone policy and ensure that it addresses personal use of cell phones, criteria for determining which staff should be issued phones, guidance on selection and periodic review of cell phone plans, and processes for monitoring use.

University of Colorado Response:

Agree. Implementation date: June 2006. The University will finalize and implement its University-wide cell phone policy by June 2006 and ensure it addresses personal usage, criteria for issuance, guidance on selection of plans, and monitoring processes.

Procurement

As discussed in Chapter 1, the University has a procurement system in which individual departments have been delegated authority to initiate purchases of goods and services up to $4,500. The University's Procurement Services Center (Procurement) is responsible for handling procurement of goods and services over $4,500 as well as for making payment on purchases of any amount through its Accounts Payable office. All departments within the University are required to follow State Fiscal Rules and University policies and procedures related to expenses paid with state funds.

We contracted with KPMG, LLP to perform the University's annual financial statement audit for Fiscal Year 2004 and to assist us with testing expenditure controls. The test work involved assessing whether the expenses were in compliance with University requirements, including supervisory approvals, adequate supporting documentation, and proper use of standardized forms. KPMG reviewed written policies and procedures and examined a sample of about 3,100 expenses incurred in Fiscal Year 2004 that were paid using mechanisms such as procurement cards, purchase orders, payment vouchers, travel vouchers, standing purchase orders, leases, and contracts. The sample included about 1,300 transactions that were paid for using gift monies from donors and about 1,800 transactions that were paid for using non-gift monies. All transactions were tested for compliance with general procurement controls. The gift transactions underwent additional testing for compliance with donor intent, and the results of the donor intent testing were reported in the Office of the State Auditor's performance audit of the University of Colorado Foundation (Report #1691, November 2005).

Of the 3,100 expenses tested, KPMG identified about 1,400 transactions (45 percent) that had one or more exceptions. To validate the exceptions, University staff reviewed a subsample of the items tested and reported that they disagreed with roughly half the exceptions identified. For the remaining exceptions, the University either agreed with the exceptions, could not evaluate the exceptions due to missing and/or illegible documentation, or concluded that the procedures the University had intended to have tested were not actually in place in the departments or were not operating as intended. As a result of difficulties encountered by the University when attempting to validate the large number of exceptions, we cannot report a specific number of transactions that did not comply with University policies. However, because the testing indicated weaknesses in certain fundamental controls, the actual number of exceptions is less important than the overall conclusions identified. KPMG's testing, the University's review of exceptions, and testing by the Office of the State Auditor in the area of football operations, as detailed earlier in the report, indicate that certain basic controls need to be improved.

The primary issue identified by KPMG was that the documentation for the transactions reviewed was not always sufficient to ensure that all expenses are reasonable and for University business. This issue is consistent with those identified during our testing of football operations expenses, which are discussed in Chapter 1 of the report. Without adequate documentation, there is a risk that expenses may be approved that are unreasonable or are not for University purposes. The following sections provide some examples that illustrate the issues identified.

Unallowed expenses. We found that certain University controls were not operating as intended or were not effective in providing reasonable assurance that expenses comply with State Fiscal Rules and/or University policies. Examples of unallowed expenses identified from the sample tested include:

- University purchases of first- and business-class airline tickets on five occasions. University policies do not allow for the payment of first- or business-class tickets. The ticket purchases were included as part of a group travel purchase, and the documentation provided by the University did not list the cost of each of these tickets. According to State Fiscal Rules, state employees shall only be reimbursed "for the cost equivalent of the most cost beneficial method of transportation available."

- Rentals of luxury vehicles costing an average of about $80 per day on seven occasions. According to State Travel Management Program rules, state employees are not allowed to rent luxury cars.

Lack of documentation. In addition to the unallowed expenses discussed above, we found some expenses without documentation to support their reasonableness and appropriateness. Examples of these expenses include:

- Nine payments to restaurants totaling about $1,100 with no itemized receipts. In addition, one of the payments did not specify who participated in the meal. Itemized receipts and notations regarding meal participants are needed to determine whether the expenses were appropriate.

- Three expenses totaling about $810 paid to one vendor that included inadequate explanations of the goods or services provided. The only description of the expenses on the payment vouchers were names and dates; there was no explanation of how the expenses were for University business. As a result, we could not determine whether the expenses were legitimate and reasonable for the University.

- One expense of about $530 for purchases at Circuit City and CompUSA that had no documentation explaining the business purpose of the items purchased. The payment voucher contained a statement that the expense was for "miscellaneous receipts" and "reimbursement for out of pocket expenses."

- Ten payments to restaurants that included about $490 in alcohol purchases, although the University had not authorized alcohol purchases for the events. For eight of the payments, the official function forms indicated that alcohol would not be served, and for two of the payments, the University could not provide an official function form.

- One procurement card purchase of about $360 with no receipts whatsoever. Therefore, the items purchased and the business purpose of the expense could not be determined. University policy requires staff to provide receipts or other documentation to support procurement card purchases.

- One restaurant charge of about $100 for a lunch meeting with no documentation indicating who attended the meeting and the business purpose. The payment voucher included an explanation that stated "group meeting - lunch."

As discussed in Chapter 1, the University has defined some expenses as sensitive, noting that the propriety of some expenditures is difficult to determine because the benefit to the University may be unclear, or individuals may appear to personally benefit from the expenditure, which may be contrary to public and University policy. Sensitive expenses identified in University policy include items such as food for employees, equipment for employee entertainment, and alcohol. Many of the examples of expenses cited above would be considered sensitive under the University's policy. These types of expenses should be scrutinized more carefully to ensure they are reasonable and necessary.

It is important for the University to ensure that all employees provide sufficient documentary information and written descriptions about how expenses relate to University business and are allowable and reasonable. University policies and guidance currently require receipts and other supporting documentation for expenses and indicate that some written explanation of purchases should be provided. For example, policies regarding the use of payment vouchers state that "each receipt must contain . . . [a] description of each item purchased . . . " ; instructions for official function forms state that staff should "describe the event and the reason for holding it"; and guidance for procurement cards states that documentation should include a "description and quantity of items purchased." However, the policies and guidelines focus on describing the goods or services purchased, not how those goods or services are necessary and reasonable for University business. Specific explanations of business purpose and itemized receipts are important to document expenses, especially those that are considered sensitive.

Under the University's decentralized operations, both the departments that initiate expenses and the Procurement Services Center have responsibility for ensuring that expense transactions comply with applicable University policies. The departments are specifically responsible for ensuring adequate explanations of the business purpose of transactions are provided. Procurement's role is to ensure that all third-party documentation (e.g, invoices, receipts) accompanies each payment request and that all required approvals have been obtained for the expenses it pays. On the basis of our testing, the departments did not always ensure adequate explanations of expenses were provided and Procurement did not question expenses with inadequate documentation or return such expenses to the originating departments for additional information.

During Fiscal Year 2005 the University began taking measures to improve its oversight and guidance related to systemwide financial activities. The University

President has taken steps to establish a tone of financial accountability and responsibility throughout the organization through improved communications, an increased focus on professional development, and broad-based reviews of the control environment. For example, the University assessed its policies and practices relative to National Association of College and University Business Officers (NACUBO) best practice guidelines for higher education institutions related to the requirements of the federal Sarbanes-Oxley Act of 2002. Although colleges and universities are not subject to the provisions of Sarbanes-Oxley, NACUBO developed best practice guidelines, in part, to provide a framework for higher education institutions to evaluate their overall financial risks. The NACUBO guidelines address various responsibilities of the governing boards and officers of the institutions, including clearly assigning the financial responsibilities of business units within the institution and using an internal audit function to periodically report on internal control to the audit committee of the governing board.

In addition, on July 1, 2005, the University implemented a variety of new and amended policies to strengthen fiscal accountability. The policy changes address a range of issues such as providing additional guidance on the allowability of sensitive expenses, required documentation for expenses, and clarifying the circumstances when alcohol purchases are allowed.

As stated earlier, our testing of procurement policies and practices indicates that fundamental controls, particularly with respect to adequate documentation, need to be strengthened. In addition, the University needs to expand efforts to ensure that departments are consistently following procurement practices and that financial management of the University is aware of the procedures and controls in place at the departmental level. With about 50,000 employees, 24,000 students, and 30 schools and colleges, the University is a large and complex system that needs strong controls and enforcement to ensure expenses are necessary and reasonable. The University's recent efforts should assist with addressing these issues. Continuing efforts should include strengthening, clarifying, and enforcing documentation requirements and providing staff with training specific to the requirements to help ensure they are followed.

Recommendation No. 15:

The University of Colorado should improve procurement controls by:

a. Expanding documentation policies and guidance for expenses. The policies and guidance should specify the appropriate written descriptions for expenses to explain how they are necessary for University business and are reasonable, and itemized receipts should be submitted for meals.

b. Enforcing compliance with the revised policies, such as denying payment for expenses until all required supporting documentation and descriptive information is provided.

c. Reviewing the procurement practices being followed by departments to identify noncompliance with revised policies and taking appropriate action.

d. Providing training and technical assistance, as necessary, to help ensure University-wide understanding and application of procurement policies.

University of Colorado Response:

Agree. Implementation date: March 2006. The University is fully committed to continuously improving its control environment and emphasizing accountability and integrity while balancing costs and benefits. Therefore, the University will improve its control efforts over expenses by:

a. Expanding its documentation policies and guidance to specify that an appropriate level of documentation demonstrates how the expenses are necessary for University business purposes and reasonable. The University changed its policies to require itemized receipts for all meals effective August 2005.

b. Continuing to enforce compliance with university policies, including, where appropriate, denying payment until required documentation is provided.

c. Continuing to review departmental compliance with university policies and procedures and taking appropriate actions for non-compliance.

d. Expanding its training and outreach programs.

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