UNIVERSITY OF TEXAS ARLINGTON

Audit Report

Athletic Sponsorship Contract Review

November 2022

OFFICE OF AUDIT AND CONSULTING SERVICES | BOX 19112 | ARLINGTON | TX 76019-0112 | 817-272-0150 | www.uta.edu/internalaudit

Summary – Athletic Sponsorship Contract Review

We recently completed a contract audit of the Athletic Sponsorship Agreement (herein referred to as Vendor). The background, audit objective, scope and rankings are detailed on pages 6 through 8 of this report. Overall, the audit identified the need to enhance contract monitoring. Specific observations from the audit are in this report.

A separate consulting review was performed related to the cost effectiveness of the amended contract terms, which was issued under a separate cover. Given the current level of sponsorships, the amended contract terms significantly limit UTA's financial benefit. As a result, we support UTA Athletics' efforts to improve the financial benefit by working with Vendor, UTA faculty and staff, as well as others.

Recommendations	Rating	Count
2	Priority	0
	High	0
	Medium	2
	Low	0

Observations	Recommendations	Rating	Page
A. Financial Monitoring Could Be Enhanced	1. Establish controls to help ensure all financial statements and payments due from Vendor are received timely.	Medium	Page 3
B. Improvement Needed for In-Kind Valuation Process	2. The acceptance of in-kind trade, including valuation approval, should be documented and retained. All values should be recorded in Vendor's financial statements.	Medium	Page 5

Further details can be found on the following pages. Other less significant opportunities were communicated to management separately.

We appreciate the outstanding courtesy and cooperation received from Athletics' personnel during this audit.

Observation A – Financial Monitoring Could Be Enhanced

Medium

Financial Monitoring Could Be Enhanced

Section 15 of the Trademark License Agreement (effective 7/1/2014) requires Vendor to pay commission and provide supporting financial statements to UTA on a quarterly basis. The First Amendment to the Agreement (effective 6/30/2021) changed the payment frequency to annually (payment is due by May 31 with a final settlement by July 31) and continued to require the supporting financial statements be provided each quarter. Our review of Vendor financial statements and commission payments disclosed:

- For the period FY 2018 through FY 2022 (audit scope), financial statements were provided one or two times each year, instead of quarterly as required.
- For the period FY 2018 through FY 2020, commission payments were provided two times each year, instead of quarterly as required.
- For FY 2020, the second installment payment in the amount of $24,786 was received one year late.
- For FY 2021, the second installment payment in the amount of $57,009 was received one year late. This payment was made during the audit.
- Vendor financial statements do not indicate whether or when outstanding payments were paid or written-off. This makes it difficult to determine whether commission is calculated correctly. The total Accounts Receivable balance uncollected for the period FY 2019 through FY 2021 was $53,474.

Lastly, the First Amendment to the Trademark License Agreement requires Vendor to pay capital subsidies in the amount of $200,000 over five years. Our review disclosed the FY 2021 subsidy payment in the amount of $25,000 was received over one-year late.

Observation A – Financial Monitoring Could Be Enhanced

Medium

Recommendation A.1:
Management should obtain quarterly statements from Vendor in accordance with terms of the agreement. Statements should clearly indicate whether past due sponsor payments were paid or written-off. Management should also consider independently documenting annual sponsor obligations to help ensure correct amounts have been collected and recorded in the financial statements. Controls should be established to ensure all payments due from Vendor are received on a timely basis.

Management Response:
Management will institute monthly meetings to monitor vendor activity. During these meetings, Management will review current Accounts Receivables and verify which payments have been received. Additionally, Management will review any outstanding obligations and review how long and why they remain unpaid. Management will also review and document with Vendor any obligations that will not be fulfilled and review reasons behind the lack of fulfillment. Management will work with Vendor to ensure statements clearly indicate when past due sponsor payment was paid or when they were written off. Management will maintain a separate record of sponsor obligations to ensure those are the amounts recorded on the Vendor statements. Furthermore, all financial obligations owed to Management will be reconciled.

Target Implementation Date:
December 2, 2022

Responsible Party:
Deputy Athletics Director

Observation B – Improvement Needed for In-Kind Valuation Process

Medium

Trade Value Approval Is Not Documented

The terms of the Trademark License Agreement provide in-kind commission to UTA and state that the value of in-kind property (trade) will be determined jointly by UTA and Vendor. Our review disclosed that the trade value approvals were not documented. Instead, the Deputy Athletics Director and Vendor General Manager (GM) discuss options for potential trade and a verbal approval is provided. In addition, a portion of a FY 2022 trade value (from a sponsor whose restaurant hosts radio productions with UTA coaches) was used to entertain potential sponsors. The value was not documented in Vendor's financial statements, nor was approval documented.

Recommendation B.2:

Management should ensure that all in-kind valuations are clearly documented in financial reports provided to UTA. In addition, UTA management's acceptance and approval of in-kind valuations should be documented and retained.

Management Response:

Management will communicate in writing with Vendor regarding the valuation of all in-kind arrangements to ensure that both parties agree that the value of the services rendered are congruent with market rates. Specific written approval will be required for all in-kind arrangements prior to the execution of any such arrangement and that documentation will be provided to Vendor and retained by Management.

Target Implementation Date:

December 2, 2022

Responsible Party:

Deputy Athletics Director

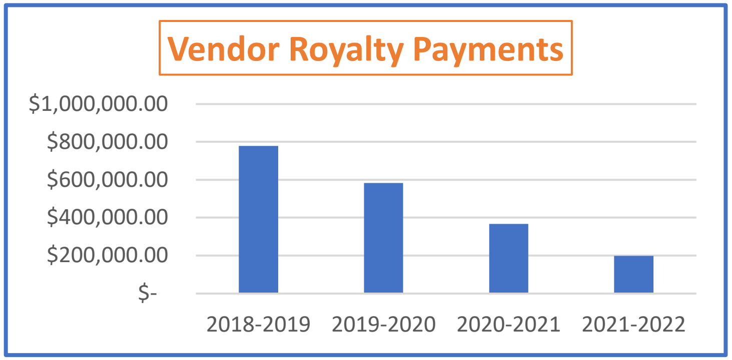
Background

Background

Vendor manages multimedia rights for UTA Athletics. Their main function is securing advertising rights for sponsorships that include signage, radio, print, digital and social media advertising. A Trademark License Agreement was entered into effective 7/1/2014 between UT System Board of Regents on behalf of UT Arlington (UTA) and Vendor. The First Amendment was entered into effective 6/30/2021 and extends the Agreement through 6/30/2029.

Terms of the First Amendment are less favorable to UTA than terms of the original Agreement. It entitles Vendor to a significant portion of revenue before sharing with UTA and requires UTA to pay certain expenses.

Our review of royalty payments received over the past four years indicate a steady decline -- from $777,500 in 2018-2019 to $198,000 in 2021-2022.



Audit Objective, and Scope & Methodology

Audit Objective

To determine whether Vendor is operating in accordance with the contracted terms and to determine whether UTA has adequate processes in place to manage the contract in an efficient and effective manner.

Audit Scope and Methodology

The scope of the audit was from July 2018 through June 2022.

As part of the audit, we examined the following:

- Revenue and Expenditures
- Contract Monitoring

A Profitability Projection Analysis was also performed and shared with the UTA Athletics Director and Deputy Athletics Director. This consulting review was issued under a separate over.

Audit methodology included interviewing key personnel, reviewing processes, performing analytical procedures and testing of supporting documentation.

Our examination was conducted in accordance with guidelines set forth in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Ranking Criteria – Athletic Sponsorship Contract Review

Ranking Criteria

All findings in this report are ranked-based on an assessment of applicable qualitative, operational control and quantitative risk factors, as well as the probability of a negative outcome occurring if the risk is not adequately mitigated. The criteria for these rankings are as follows:

Priority	An issue identified by an internal audit that, if not addressed on a timely basis, could directly impact achievement of a strategic or important operational objective of UTA or the UT System as a whole.
High	A finding identified by an internal audit that is considered to have a medium to high probability of adverse effects to UTA either as a whole or to a significant college/school/unit level.
Medium	A finding identified by an internal audit that is considered to have a low to medium probability of adverse effects to UTA either as a whole or to a college/school/unit level.
Low	A finding identified by an internal audit that is considered to have minimal probability of adverse effects to UTA either as a whole or to a college/school/unit level.

None of the findings from this review are deemed as a “Priority” finding.

Distribution – Athletic Sponsorship Contract Review

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