The 1985 NCAA financial audit legislation : is it working, from college and university presidents' perspective ?

by Thomas Harrison Gibson, Jr

A thesis submitted in partial fulfillment of the requirements for the degree of Doctor of Education
Montana State University

Abstract:
In 1985, the Presidents' Commission of the National Collegiate Athletic Association (NCAA) proposed legislation to address the concerns of member institution presidents regarding the loss of institutional financial control over the athletic programs. The legislation was the hallmark of the 1985 NCAA special convention, and institutional presidents and chancellors voted almost unanimously to accept and implement the legislation. It required an annual independent audit of all revenues and expenses received for or expended in behalf of the intercollegiate athletic program. This research was conducted to evaluate whether the NCAA financial audit legislation adequately addressed and resolved the issues and concerns associated with the loss of institutional financial control over athletic programs, as judged by the member institution presidents.

Information and data for this research was gathered using a custom written survey which was sent to all NCAA Division I school presidents. The information solicited in the survey included financial, operating practices, compliance actions, and presidential opinions on the annual NCAA financial audit, its use, and its cost. Analysis of the data was conducted using the Chi-square analytical technique, and ranges and mean figures were shown where appropriate. The results were presented in Tables by NCAA Division Classification in most instances. The Chi-square tests were tests of independence involving fourteen dependent variables and three independent variables.

Of the 42 Chi-square tests, three were found to have statistical significance at the 5% error level. Given the 5% error rate used, one would expect at least two findings of statistical significance simply by chance alone. Since Chi-square testing does not allow the determination of any conclusions other than the presence of statistical significance, further analysis is necessary to determine whether the findings did occur by chance alone. Generally speaking, it appears that the existing financial audit legislation has accomplished its intended purpose, though a degree of concern about the loss of institutional financial control still exists among the presidents. The audit report also generally serves its purpose as accurate, timely, complete, and understandable. However, it too has weaknesses which lend themselves to further study and correction, as well as potential for expansion to address reporting requirements raised by the NCAA in recent years.

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This thesis has been read by each member of the thesis committee and has been found to be satisfactory regarding content, English usage, format, citations, bibliographic style, and consistency, and is ready for submission to the College of Graduate Studies.

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ABSTRACT

In 1985, the Presidents' Commission of the National Collegiate Athletic Association (NCAA) proposed legislation to address the concerns of member institution presidents regarding the loss of institutional financial control over the athletic programs. The legislation was the hallmark of the 1985 NCAA special convention, and institutional presidents and chancellors voted almost unanimously to accept and implement the legislation. It required an annual independent audit of all revenues and expenses received for or expended in behalf of the intercollegiate athletic program. This research was conducted to evaluate whether the NCAA financial audit legislation adequately addressed and resolved the issues and concerns associated with the loss of institutional financial control over athletic programs, as judged by the member institution presidents.

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CHAPTER I

ISSUE INTRODUCTION AND BACKGROUND

Intercollegiate athletics represent a significant business at many of the nation's institutions of higher education, both in terms of revenues and expenditures, as well as in the number of people directly and indirectly involved in the athletic operations. Beginning in the 1970's, the steadiness and intensity of resource consumption associated with intercollegiate athletic programs had escalated in almost an exponential fashion. During the early 1980's, many collegiate athletics programs were expanded by adding new sports, hiring more personnel, and extending the opportunity of sports participation to a larger and larger number of student athletes. (Raiborn, 1990)

With the advent and acceptance of televised sports, the statement made by former coach of the Green Bay Packers, Vince Lombardi, "Winning isn't everything, it's the only thing," has come to have even greater meaning and importance, even at the collegiate level. It is rare that anyone remembers who finished second in a major sports competition, an important issue when competition for scarce resources is growing. The direct economic implications of managing an intercollegiate athletic program are of great significance to college and university administrators, if for no other reason than that stated earlier. That is, nationally those sports programs collectively employ thousands of individuals and involve significant annual expenditures and investments in physical facilities. (Raiborn, 1990)

Numerous books have been written about intercollegiate athletics, and one widely read was written almost fifteen years ago. In his 1976 best seller Sports in America, author James Michener devoted an entire chapter to college and university sports, addressing financial concerns and abuses in football and basketball programs in particular. He selected these sports for review and comment because, "those are the areas in which our academic institutions face their most pressing moral and financial problems, and in which, during a time of financial stringency, they cannot escape making certain value judgments." (p. 219)

It should be noted that while Michener's research and study for Sports in America may not have been scientifically valid, his familiarity with sports programs is extensive and his research into his novel subject matter is generally accepted as exhaustive. While the moral issues cited by Michener were many, this paper will deal more exclusively with the representative financial issues raised, how they were addressed by the NCAA member presidents, and whether the actions taken were successful in addressing and resolving the financial problems.

When Michener focused upon one specific fictional but representative institution which he said epitomized the current intercollegiate athletic scene, he noted among other things that at the make-believe school, "...attendance at the stadium was growing, but the budget faced increasing trouble. Basketball prospered, but minor sports were threatened with elimination. And, the hysteria with which the citizens idolized their teams was representative of general American attitudes." (p. 220)

As an example of the many financial activities gone awry at this fictional representative school, he noted specifically the half million dollars given to the popular coach by the boosters to do with as he pleased, and the extensive donations of labor and materials to build a massive press box for the institution. He also noted the million and a half dollars provided by donors to construct an athletic dormitory or 'Hilton' as it was referred to, and the use of a fleet of five jets provided by a donor for the use of the coaches throughout the year, worth in excess of five million dollars had the jets actually been purchased and operated by that make-believe school.

Michener noted that the collegiate players were paid well by enthusiastic supporters, tutors were found and paid when needed, summer employment was always found, and well paying jobs for the players' wives were no problem. Though the Head Coach's salary was reflected in the institutional records as very appropriate and acceptable, his related outside income as a result of being the Head Coach boosted his net worth to close to two million dollars. It was also noted by Michener that the administration from this representative institution recognized the ironic financial position the institution was placed in as a result of fielding a winning team. As long as the team had the resources to win and attend a bowl game, the institution benefitted from garnering an additional income of nearly a million dollars, something no institution would willingly give up.

As Michener discussed the similar dilemmas faced by other institutions under pressure to field winning sports programs and to move into the big conferences, he also spoke about the effect on other institutions which simply could not muster the financial resources or the external support to fairly compete. For one of these representative institutions he noted, "Common sense dictated that football be dropped. But a group of nostalgic alumni would not permit it; they'd finance one last shot. Promises were made; funds that did not exist and never would exist were earmarked; and a dynamic promoter was hired and given unusual powers as athletic director." (p. 264)

Once again, finances became the hub of activity, and one must ask whether the institutional president was really aware of what all was going on in the various athletic programs, whether he knew the extent of resources being provided to the athletic programs and by who, and whether he had any idea of how those resources were being used and what the monies were being spent on. It would seem to be a difficult if not an impossible task for an institutional president to be fully aware of all the activity in the athletic programs which resulted in outside resources being provided, and the use of those resources, both internally and externally.

At the same time that many institutional presidents were becoming more and more uneasy with the exponential growth and loss of control over their institutional athletic programs, the national media was having a heyday with their focus on athletic scandals in higher education. The costs of higher education were escalating, but the public appeared to be focused on the varied abuses occurring within well-known higher educational intercollegiate athletic programs.

In a manner somewhat synonymous to the scenario portrayed by Michener, a growing group of institutional presidents experienced what they collectively believed was a serious loss of financial control of their intercollegiate athletic programs in the early 1980's. There was a reluctance by some of the presidents to fully recognize and report the extent of the outside financial and other resources being provided in support of intercollegiate athletics programs, driven by the fear that fiscal legislative support might be reduced to the same extent. To compound the issue, they often did not truly know the sources or the full extent of the outside resources being provided to their institution's athletic programs.

At the same time, the internal struggle for institutional resources between the athletic programs and the academic programs escalated, and numerous athletic programs totally withdrew or distanced themselves from their institutions and were re-established as associated non-profit corporations. This further removed these athletic programs from control by the institutional presidents. There were significant funds involved in the intercollegiate athletic programs, they were coming from a host of both internal and external sources which were often difficult to specifically identify, and this loss of control over intercollegiate athletic program spending represented a growing source of frustration for the institutional presidents, as well as for the National Collegiate Athletic Association (NCAA). (NCAA Presidents' Commission notes)

The National Collegiate Athletic Association (NCAA)

The NCAA is an organization whose defined purpose in the NCAA Manual is, "...to maintain intercollegiate athletics as an integral part of the educational program and the athlete as an integral part of the student body and, by so doing, retain a clear line of demarcation between intercollegiate athletics and professional sports." (p.4) Membership in the NCAA is voluntary for institutions, except that participation in any NCAA-governed sports activities may only occur between member institutions.

There are four classifications of membership within the NCAA, strictly governed by specific eligibility standards and conditions of membership set forth by the NCAA. The NCAA has promulgated the "bible" for intercollegiate athletics activity for member institutions in the NCAA Manual, published annually by the NCAA. The NCAA Manual includes the Constitution, the Operating Bylaws, the Administrative Bylaws, and the structure of the NCAA and Administrative Organization, with each section entailing detailed rules and guidelines.

Article 2 of the NCAA Constitution, Section 2.1.1 under the title **Responsibility for Control**, currently states that, "It is the responsibility of each member institution to control its intercollegiate athletics program in compliance with the rules and regulations of the Association. The institution's Chief Executive Officer/President (referred to hereafter as President, except where specifically quoted) is responsible for the administration of all aspects of the athletics program, including approval of the budget and audit of all expenditures." (p.3) This concept is further expanded in Section 6.2 of the NCAA Manual, entitled **Budgetary Control.** Ultimately, the following section of this paper will entail a discussion of the **Budgetary Control** section of the NCAA Manual, where the focus of this research paper rests.

Section 4.5 of the NCAA Manual sets forth the provisions for the Presidents' Commission of the NCAA, including the composition, eligibility, and duties and responsibilities.

This Commission was established in January 1984 at the annual NCAA convention. Among other things, the current 44 members of the Commission must be institutional Presidents. The makeup of the representatives from the various NCAA Divisions is clearly defined in the NCAA Manual. Included in the duties and responsibilities of the Commission are: 1) the ability to commission the study of issues and courses of action to address intercollegiate athletics, 2) the ability to propose NCAA legislation to any NCAA Convention, 3) the ability to establish the final sequence of legislative proposals in any Convention agenda, and 4) the ability to call for a special meeting of the Association. (p.23) Thus, the Presidents' Commission has significant legislative power over NCAA member institutions.

Article 5 of the NCAA Constitution addresses legislative authority and process. Section 5.01.1 states that "All legislation of the Association that governs the conduct of the intercollegiate athletics programs of its member institutions shall be adopted by the membership in Convention assembled, shall be consistent with the purposes and fundamental policy set forth in [Article] 1, and shall be designed to advance one or more principles such as those set forth in [Article] 2." (p. 27)

A "dominant legislative provision" is defined in Section 5.02.1.1 of the Manual as "a regulation that applies to all members of the Association and is of sufficient importance to the entire membership that it requires a two thirds majority vote of all delegates present and voting in joint session at an annual or special Convention." (p. 27) This becomes a key issue later in this paper when the NCAA annual financial audit legislation is discussed.

The NCAA Legislated Solution to the Problem

Recognizing the growing concerns over intercollegiate athletic program scandals and the loss of institutional financial control over the athletic programs themselves, the NCAA Presidents' Commission sought to propose legislation which would address these related issues through a series of institutional financial controls. This was a pressing issue and was one of the first substantial tasks of the Presidents' Commission.

On October 3, 1984, the Institutional Control and Integrity Subcommittee of the Presidents' Commission met in Kansas City, Missouri. The subcommittee charge was reviewed by the committee Chair, and the current consideration for discussion was slated as being the effort needed to resolve the issues of institutional control and integrity currently facing member institutions. (Commission Minutes, October 3, 1984)

In a written statement by the NCAA Executive Director, it was noted that one of the principle concerns of the NCAA member Presidents was that the repeated and highly publicized violations of governing legislation by institutions involved in intercollegiate athletics could undermine the integrity of higher education in a uniquely devastating manner. He noted also that the fundamental issue before higher education seemed identifiable as one of integrity, of the moral commitment to honesty and sincerity of action in intercollegiate athletics. (October 3, 1984 Meeting Minutes)

The subcommittee also discussed a report prepared by two independent higher education faculty members, the Wright-Remington report, which was largely focused on the enhancement of institutional control and observance of NCAA legislation. The report noted that the erosion of institutional control of athletic programs was due in part to the growing problem of generating sufficient revenue to support the programs. It was suggested in the Wright-Remington report that dependence on outside funds be reduced and that the institutions should monitor carefully all revenues from donors and booster groups and assure that such revenues are audited and controlled. (October 3, 1984 Minutes)

In an ensuing discussion by the subcommittee, the Minutes reflect that "...the subcommittee members agreed that the source and control of funds utilized for intercollegiate athletics programs was an important issue for consideration in determining means of establishing institutional control and integrity. General agreement was expressed for the principle that all funds utilized to support a member institution's athletics program should be subject to the direct control of the institution." (October 3, 1984 Minutes) The subcommittee members agreed to recommend that the Presidents' Commission sponsor legislation (if feasible) at the 1985 NCAA Convention to require that all income and expenditures for athletic programs flow through the institution's regular operating budget, under the direct control of the President and other institutional administrative officers, and that such funds be audited as are all other accounts of the institution. (October 3, 1984 Minutes)

Interestingly, the subcommittee's discussion on institutional self-study and accreditation in the Finance section of the NCAA publication entitled "Evaluation of Intercollegiate Athletics" reflected a very similar position that all expenditures for and income from athletics, from whatever source, should be controlled by the institution and included in its regular accounting and budgeting procedures. It also suggested that funds used to support all athletic programs should be fully controlled by the administration and should be reflected in an annual audit of the institution's financial records. (October 3, 1984 Minutes)

On October 4, 1984, the full Presidents' Commission convened to hear and discuss the various reports of the Commission subcommittees. It was stated in this meeting that, "...the charge to the Institutional Control and Integrity subcommittee may be the most important to be faced by the

Presidents' Commission." (October 4, 1984 Minutes) After the presentation of the recommendation previously cited by the subcommittee and the ensuing discussion, it was voted by the Commission membership, "...that the Commission sponsor legislation as recommended." (October 4, 1984 Minutes)

The subcommittee again met on April 4, 1985 to discuss the legislation proposed to address those related issues discussed earlier in 1984. The minutes of the meeting reflect that the full subcommittee favored sponsorship of two specific amendments to [Article] 3.2 of the NCAA Constitution. One amendment would require that a member institution's annual budget for intercollegiate athletics be controlled by the institution, subject to its normal budgeting procedures, including approval by the President. The other would require an annual audit of all expenditures for an institution's entire intercollegiate athletics program by an individual from outside the institution, to be selected by the President. The subcommittee also recommended that these proposals be among the first listed in the Official Notice of the upcoming NCAA special Convention. (April 4, 1985 Minutes)

During a meeting of the Presidents' Commission in Washington, D.C. on April 3-4, 1985, the NCAA Assistant Executive Director for Legislative Services presented and explained the 15 proposals slated for consideration at the upcoming NCAA Special Convention. The Minutes of the meeting refer to only one comment made by the general membership regarding the financial legislation previously cited. One institutional President suggested that the three related issues of financial accountability, habitual violations by individuals, and the role of the President in hiring and dismissing coaches should all be treated by the special Convention. (April 3, 1985 Minutes)

On April 4, 1985, during the general Commission meeting, the aforementioned proposals were discussed, and it was noted that all three Commission subcommittees favored sponsorship of the two proposed financial amendments by the Institutional Control and Integrity subcommittee. The Minutes of the meeting reflect a further expansion and clarification of the proposed legislation in that, "It was voted that the Commission sponsor both amendments and that the second be modified to specify that the audit would be conducted by a CPA or other qualified auditor from outside the institution." (April 4, 1985 Minutes)

The Commission also agreed that all of its proposals should be voted upon by roll call, in part to demonstrate that the upcoming special convention was a "very special" kind of Convention. The Minutes reflect the true and exact nature of the special Convention in the statement of one of the Commission members who said, "...the Convention was called with the intention of taking specific action to convey to all parties that college and university presidents have very serious concerns regarding the conduct of intercollegiate athletics, that presidents are going to be involved in the solutions to the concerns, and that presidents are able to dictate principles and policies in that regard." (April 4, 1985 Minutes) The presidents appeared to be serious about financial reform in their athletic programs, and they wanted that clearly understood by all parties.

On April 5, 1985, a press conference was held in Washington, D.C. by the NCAA Presidents' Commission, to discuss the results of a recent independent survey of 791 Presidents, commissioned by the NCAA. The survey was conducted by the American Institute for Research in the Behavioral Sciences, and the response rate was about 60%. Included in the press conference were summary statements addressing financial control issues that, in order to enhance institutional control, the athletic budget must be subject to final approval by institutional administrators and/or the institution's governing board, and the athletic budget must be audited annually by institutional or independent auditors. In addition, in order to address the integrity problems, the survey found that the Presidents also favored the options of mandatory reporting on coaches' outside income.

It was also noted from the survey that there was strong agreement that the President should have the ultimate control of their respective institution's athletic budget. The survey respondents believed that both the revenues and expenditures for athletic programs would increase in the next two years, but more believed that expenditures would increase faster than revenues than believed revenues would increase faster than expenditures. The respondents also saw increasing expenses as a serious problem for college athletics, but typically did not identify it as a serious problem at their own institutions. (April 5, 1985 NCAA Press Conference Minutes)

The proposed financial control legislation for the fifth special Convention of the NCAA was drafted and presented to the NCAA Council for final review on April 15-17, 1985. Proposed amendment No. 6 from the Presidents' Commission read, "(b) An institution's annual budget for its intercollegiate athletic programs shall be controlled by the institution and subject to its normal budgeting procedures. The institution's Chief Executive Officer/(President) or an institutional administrator from outside the athletic department designated by the Chief Executive Officer/(President) shall approve the annual budget in the event that the institution's normal budgeting procedures do not require such action." (April 11, 1985 NCAA Minutes)

Proposed amendment No. 7 from the Presidents' Commission, as presented to the NCAA Council read, "(c) All expenditures for or in behalf of an institution's intercollegiate athletics program, including those by any outside organization, agency, or group of individuals (two or more), shall be subject to an annual financial audit conducted for the institution by a qualified auditor who is not a staff member of the institution and who is selected either by the institution's Chief Executive Officer or by an institutional administrator from outside the athletic department designated by the Chief Executive Officer in addition to any regular financial audit policies and procedures of the institution. The audit report shall be presented to the Chief Executive Officer." Both of these amendments, if approved, were slated to become effective immediately. (April 11, 1985 NCAA Minutes)

It was noted in the NCAA Council Minutes of April 15-17, 1985 that the NCAA Administrative Committee had met and reviewed the reduced slate of eight special Convention proposals (including the two financial amendments previously cited) and had recommended that the NCAA Council support all eight. It was also noted for the Council that the Presidents' Commission was acting with dispatch to respond to the sense of urgency felt by the Presidents which was clearly reflected in the recent commissioned survey by the NCAA.

The Chair of the Presidents' Commission stated that adoption of the eight proposals at the special Convention would represent a very constructive action, but only a beginning, and that the Presidents had numerous additional concerns. The Chair also stated that he was pleased with the Commission's approach and dedication to do all that rules and regulations could do to treat the problems in intercollegiate athletics, but that rules alone could not solve all the problems. (April 15-17, 1985 NCAA Council Minutes).

The written record shows that after responding to several questions from the NCAA Council members regarding the proposed amendments, it was voted, "...that the Council co-sponsor all eight of the Commission's proposals,..." and the vote was recorded as unanimous. (April 15-17, 1985 NCAA Council Minutes)

The NCAA special Convention was held in New Orleans, Louisiana on June 21-22, 1985, and was attended by a reported record 213 presidents and chancellors. The proposed amendments were presented and a lengthy discussion ensued regarding the financial amendments, as to the cost of the audits and what constituted "outside funds, regular financial audit, normal budgeting procedures" and "independent auditor." Amendment No. 6 on athletic budgetary control was approved by the voting body 436-0. Amendment No. 7 calling for an independent annual athletics financial audit was approved by a vote of 422-14. Both amendments are recorded in the current NCAA Manual as "dominant legislative provisions."

The result of these amendments being approved and now included as part of the Constitution are reflected in Section 6.2 of the NCAA Manual under **Budgetary Control.** Article 6.2.1 of the current NCAA Manual, entitled **Normal Budgeting Procedures**, states that "The institution's annual budget for its intercollegiate athletics programs shall be controlled by the institution and subject to its normal budgeting procedures." (p. 40)

Article 6.2.2 entitled **Chief Executive Officer Approval,** states that "The institution's Chief Executive Officer (or President) or an institutional administrator designated by the Chief Executive Officer (or President) from outside the athletics department shall approve the annual budget in the event that the institution's normal budgeting procedures do not require such action." (p. 40)

Article 6.2.3 of the NCAA Manual, entitled **Financial Aid,** sets forth the actual audit requirement for each of the three NCAA Divisions, including the audit schedule and exceptions allowed for Division II and Division III member institutions. Though the required audit frequency and type varies for the many colleges and universities based on their NCAA Division classification and operating budget, the basic language of the Constitution reflects the very language of proposed amendment No. 7. (p. 40) It was subsequently determined, based upon the amendment language and comments from the special Convention delegates, that the first NCAA institutional financial compliance audit was to be completed for the fiscal year beginning on or after July 1, 1985.

The NCAA Financial Audit Guidelines

The NCAA Financial Audit Guidelines were published and distributed to member institutions in June 1986, and many of the procedural issues were clarified as a result. For example, it was stated in the audit guideline that the primary purpose of the audit report is "...to ensure that the Chief Executive Officer (President) is made aware of all recorded expenditures, both internal and external, for athletics purposes and is intended to assist the institution in exercising control over expenditures made for or in behalf of the intercollegiate athletic programs." (p. 5) It also clarified that the completed audit report shall be presented by the external auditors to the President. It was later clarified in the <u>NCAA Financial Audit Guideline</u> that the audit report for one fiscal year shall be completed and presented to the President prior to the end of the institution's next fiscal year. (p. 4)

<u>Compliance With the 1985 NCAA Financial Legislation</u>

The institutional Presidents now had a mechanism to ensure that they were being fully informed of the sources of all revenues, as well as how and for what purpose those revenues were being expended in their intercollegiate athletic programs. The annual financial audit had to be conducted by qualified non-institutional (external) auditors, and the resulting audit report had to be presented to the President in a timely manner. It is important to note here that the annual financial audit report is <u>not</u> to be submitted to the NCAA by the institution, nor by the auditors.

There is no stated penalty for non-compliance with the NCAA audit legislation. Unintentional non-compliance with the

NCAA regulations as a result of an oversight is addressed as a secondary infraction by the NCAA administrative staff. However, intentional non-compliance is considered a major infraction. Such an incident would be reported to the NCAA Infractions Committee for review and possible assessment of sanctions. (October 12, 1990 NCAA staff interview)

Specific penalties for non-compliance with NCAA program regulations are generally not stated in the NCAA Manual in order to afford a degree of discretion and flexibility by the NCAA staff in handling program violations. To date, the NCAA has no record of institutional non-compliance findings with regard to the financial audit legislation. (October 12, 1990 NCAA staff interview)

On an annual basis, every NCAA member president, athletic director, and all associated coaches are required to certify in writing that they are in full compliance with all the NCAA program regulations, to the best of their knowledge. This is known as the annual Certification of Compliance Statement.

When an institution determines that NCAA program regulations have been intentionally or unintentionally violated by external program supporters, institutional employees or student athletes, then personnel from that institution are required to report the violation to the NCAA. This is referred to as self-reporting. There have been no self-reported violations of the financial audit legislation compliance, according to NCAA administrative staff.

The NCAA Audit Scope and Associated Costs

One specific point raised in the NCAA special Convention deliberations regarding the financial audit legislation was that an annual audit requirement may be duplicative, as well as possibly prohibitively expensive for some institutions. There remains a wide-ranging latitude of cost for this type audit engagement. The cost of the required annual audit must reflect the state of the internal accounting control structure within the institution, the organizational structure of the athletic department(s) and their relationship with the institution, and the institution's financial records system. Other cost determinants may include how much external funding flows through to the athletic programs and in what manner, and whether those resources come from a single central booster organization or from a plethora of outside groups and other external sponsors.

During discussions in September 1990 with several college and university internal audit directors at the annual Association of College and University Auditors conference held in Baltimore, Maryland, it was revealed that annual costs of the NCAA financial compliance audit varied from as low as $5,000 to as high as $35,000. These rough figures represent only the direct costs of engaging an external auditor, and are dependent to some degree upon the extent of the internal preparatory work done, and the support work completed by institutional personnel, as well as whether the engagement for audit work was above and beyond the minimum necessary to meet the <u>NCAA Financial Audit Guideline</u> requirements.

Auditing is typically identified in a college text as being generally a discipline independent of accounting or the measuring and communicating of financial and business data. Auditing is most often viewed by the general public as a private profession rendering a public service. Auditing reviews and reports on the propriety or impropriety of how management measures and reports financial data. It is foremost an attestation function involving the objective examination of the financial statements of an entity which have been prepared by management. (Holmes & Overmeyer, p. 2)

The primary objective of an audit is to provide a basis for the rendering of a professional opinion on the fairness, integrity, and authenticity of the financial statements of the entity or entities being audited. Thus, by accepting and implementing the financial amendments as Constitutional legislation, the institutional presidents appeared to have the expectation that they would be provided an annual set of accurate and technically correct financial statements for their respective intercollegiate athletic programs, which clearly and concisely summarized the sources and amounts of support revenues and summary expenditures by program, and which showed the ultimate use of those resources provided, regardless of source.

It is important to note here that an audit basically constitutes after-the-fact accountability when dealing with financial matters. Audits serve the function of detective, post-expenditure internal control measures for an institution, rather than as a direct preventive control. In other words, if revenues are accepted or improperly used not in strict accordance with NCAA and/or institutional or State guidelines, an audit would not serve directly to prevent such an occurrence. Instead, an audit may serve to point out that such an event did occur so that corrective action could be taken by institutional management and possibly by the NCAA, to prevent a recurrence or perhaps even to penalize an institution for non-compliance with program regulations if warranted.

The NCAA Financial Audit Guideline prescribes the minimum audit procedures which must be applied by the external auditors, but allows almost uncurtailed flexibility for additional audit work if an institutional representative so desires and is willing to pay for it. Thus, one direct result of implementing the NCAA financial audit legislation is the expenditure of funds required to engage the independent auditors. The direct result of that expenditure is the preparation and presentation of a concise, accurate, all-inclusive, and timely set of audited intercollegiate athletic program financial statements for that institutional president to use.

The Problem Statement

As stated earlier, members of the Presidents Commission, on behalf of member institutional presidents, expressed a collective concern over the issues of institutional control and integrity facing their respective institutions. They were concerned with the influence of non-institutional funds on their athletic personnel and programs, and on their institution. They were specifically concerned that these often unrecorded monies and benefits were being received directly and indirectly by their intercollegiate athletic programs and personnel, and they did not always know how much was being spent or used on which programs or personnel, directly or indirectly, and in what form.

Jointly related were the presidents' collective concerns that the repeated and highly publicized violations of the NCAA program regulations by member institutions could undermine the integrity of higher education in general, in a uniquely devastating manner. The loss of public trust by a few select and highly visible institutions as a direct result of their intercollegiate athletic program financial misdealing could easily and foreseeably result in a dark shadow of doubt and mistrust being cast not only over NCAA member institutions, but also potentially over the entire higher education community. There was widespread genuine concern by NCAA member institution presidents that the entire higher education community might suffer from the actions of a few, through a loss of public confidence and, equally important, a loss of funding and booster support.

The specific stated purpose of the NCAA intercollegiate athletic annual financial compliance audit report is set forth in the NCAA Financial Audit Guide, to be:

> To ensure that the Chief Executive Officer (President) is made aware of all recorded expenditures both internal and external for athletics purposes and is intended to assist the institution in exercising control over expenditures made for or in behalf of the intercollegiate athletic program.

Five years later, the problem being posed in this study is, does the NCAA financial audit legislation adequately address and resolve the issues and concerns associated with the loss of institutional financial control over athletic programs which ultimately prompted the development of the NCAA financial legislation by members of the Presidents' Commission?

The Purpose of This Study

Though previous as well as present concern over institutional control deals with both academic and financial issues, the focus of this study is specifically on the 1985 NCAA financial audit legislation. The need for this study is multipurpose. In order to address the problem statement posed in this report, there exists a need to determine whether the NCAA member presidents believe that the NCAA financial audit legislation has served its intended purpose, and if so, to what extent, from the perspective of the institutional presidents themselves.

If the annual financial audit report on the athletic programs is not meaningful and useful to the presidents in keeping abreast of the revenue streams and how those monies are being spent in support of the institutional athletic programs, then the objective of gaining financial control over their respective athletic programs has not been met by the new financial audit legislation. That is to say, the legislation would be found to be ineffective in addressing their loss of institutional financial control over their athletic programs.

Many years ago while Chairman of the Securities and Exchange Commission, William E. Casey made an interesting observation which still holds true today. He stated,

> If financial statements are to be useful, they must communicate. They must mean what informed people think they mean. Formulas cannot be applied blindly that defy common sense. Form cannot be allowed to triumph over common sense. (Journal of Accountancy)

Thus, another purpose of this study is to determine whether the institutional presidents believe that the annual athletics program audit report is meaningful and useful in its present form as designed jointly by the NCAA and the American Institute of Certified Public Accountants (AICPA).

To that end, this study will also attempt to determine: (1) the extent to which the required annual NCAA financial compliance audits are being conducted, (2) the extent to which the NCAA Division I member Presidents are receiving and using the audit reports, (3) the extent to which the financial weaknesses noted in the audit reports are being addressed and in what manner, and (4) the annual individual and collective costs of compliance with the NCAA audit legislation for the Division I member institutions.

Another purpose of this study is to determine whether actually conducting the annual NCAA financial compliance audit and receiving the report aids the athletic personnel or other responsible institutional representatives in identifying violations of NCAA regulations which can and should be then self-reported by NCAA Division I member institutions. Since the institutions generally fare better if they self-report NCAA program violations, according to the NCAA staff, then there may be an added incentive for institutions to conduct the annual athletic program financial audits.

In addition to determining whether the intended spirit of the NCAA audit legislation is being met for the Division I presidents by having the audit report serve as a useful tool to address their financial control and integrity concerns, this study will determine whether statistically significant relationships exist between three independent variables and a series of fourteen dependent variables associated with the required annual audit report form, content, and various uses.

The institutional presidents will be able to use the summary statistical data developed as a result of this study to determine where their institution stands in comparison with others in the same NCAA Division classification with regard to a series of different attributes. For example, among other things, included will be the annual average cost of the NCAA audit, the extent of distribution of the audit report, and which organizational position is assigned the task of formally responding to the noted audit weaknesses if a formal response is prepared.

This study will solicit individual value judgments from Division I institutional presidents regarding the NCAA financial audit legislation. The collective results will provide the presidents with an idea of whether there is consensus that the audit report has meaning and value as a management oversight tool for the presidents. If the audit is not being regularly conducted, then perhaps the audit report and athletic program financial statements are not communicating in a meaningful manner and the spirit of the legislation is being thwarted. On the other hand, if this study reveals that the institutional presidents believe that the financial audit legislation has indeed addressed their financial control and integrity concerns, both in form and in function, then the legislation has indeed proven effective.