UM SPECIAL ATHLETICS INVESTIGATION PANEL

A Report Prepared for the

Legislative Finance Committee

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The purpose of this report is to inform the Legislative Finance Committee of the circumstances that contributed towards the University of Montana athletics deficit, how the Board of Regents and Montana University System are going to address the issues, and what impact, if any, this had or will have on state appropriated funds.

UNIVERSITY OF MONTANA ATHLETICS

HOW ATHLETICS IS FUNDED

University of Montana athletics is funded from several sources, including current unrestricted funds (state appropriated funds, tuition and fees, and interest earnings), designated funds (gate receipts, student athletic fee revenue, game guarantees, etc.), restricted funds (federal and private grants, mostly used for scholarships), and funds from two private, non-profit organizations: the Grizzly Scholarship Association (GSA) and the University of Montana Foundation. Funds from the latter two organizations are expended either via a transfer to a UM athletics restricted fund or directly by the non-profit organization on behalf of the UM athletics program.

The Board of Regents distributes the lump sum appropriation of state funds to the campuses using a cost allocation model. This model sets aside the same amount of state funds for the UM and MSU athletic programs. Each campus in turn allocates funds according to campus plans and priorities. The decision on how much state appropriated funds to allocate to the athletics program is made at the campus level. In fiscal 2003, the current unrestricted fund comprised 31 percent of the total athletics program revenue reported by the University of Montana, designated funds contributed 52 percent, and restricted and other funds made up the remaining 17 percent. Total athletics expenditures from all funding sources in fiscal 2003 was $10.68 million.

UM ATHLETICS DEFICIT HISTORY[1]

The University of Montana has been reporting a deficit in its athletics program (all funds) since fiscal 1999. In May 2000, President George Dennison submitted a three-year plan to balance the athletic budget by fiscal year end 2003. Subsequent submissions of the Comprehensive Athletic Report showed a total funds athletic deficit of $321,650 for fiscal 2001 and $380,562 for fiscal 2002 and a surplus of $136,344 in fiscal 2003. The fiscal 2004 all funds athletic budget was projected to have a $232,805 surplus.

When the former athletics fiscal manager resigned in September 2003, the former athletic director requested financial management assistance from the Office of the Vice President for Administration and Finance. During the time period October 2003 through February 2004, staff from the VP's office, as well as accountants from a certified public accounting firm contracted to conduct both the NCAA-required audit and the annual audit of the Grizzly Scholarship Association, uncovered several accounting and budgeting errors. By the end of February 2004, it was determined that fiscal 2003 revenues were overstated by $381,000 (and need to be corrected in fiscal 2004) and fiscal 2004 budgeted expenditures were understated by $578,000, resulting in an estimated fiscal 2004 deficit of $959,000.

[1] Material in this section of the report is from "A History of the University of Montana Athletics Deficit", Special Panel on the University of Montana Athletic Deficit, May 20, 2004

BOARD OF REGENT ACTION

SPECIAL PANEL APPOINTED

In early March 2004, the Commissioner of Higher Education appointed an 11-member, independent panel to investigate the following in relation to UM Athletics:

1) Deficits and budget controls
2) Accounting errors, practices and controls
3) Accuracy of previous information provided to the Board of Regents
4) Assessment of problems in terms of intention and awareness by chain of command
5) Review of spending guidelines and policies for both public and private funds
6) Recommend general areas in which the University and the Board of Regents should change the system, processes, or policies that allowed these problems to occur

The panel issued 42 findings and 26 recommendations to address the issues uncovered in its investigation. The recommendations are listed in Attachment A of this report. In summary of its findings, the panel concluded:

- The reported million dollars deficit was not a result of missing or misplaced cash. There was no evidence found that anyone intentionally "cooked the books".
- The panel concurs with the time-line presented by President Dennison as to the discovery and reporting of the accounting error related to fiscal year end 2003.
- UM officials did not intentionally mislead the Regents when they said the athletic report was balanced. UM relied on a FY04 budget that was poorly developed. Although UM first learned of budget variances in October, they did not know the full extent until February.
- There was little budgetary control over athletics by anyone at any level.
- Managers at all levels knew or should have known about the structural deficit.
- Established purchasing and ProCard (state-issued credit cards) policies and procedures were in place, but were not followed by athletic department employees.
- The UM Administration focused on eliminating the athletics deficit by applying pressure to increase revenues and not on controlling expenses. They relied on the athletic department to develop reasonable plans and monitor their own budgets (decentralization).
- The president focused on pressuring the athletic director to increase revenues through fundraising and did not adequately address the issue of controlling costs.

A detailed description of the panel findings may be found in the "Findings & Recommendations" section of the panel's report, available online at http://www.montana.edu/wwwoche/UMathletics.htm or by request.

CORRECTIVE ACTION

After hearing the panel's report at their May meeting, the Board of Regents unanimously accepted the panel's recommendations and requested an internal audit of the athletic department's use of state-issued credit cards. Following extended discussion, the Board modified and approved the University of Montana's plan to eliminate the athletic deficit by fiscal 2009. Increased ticket prices, student fee increases, diverting current revenues from non-academic programs, increased institutional support, and expenditure reductions will be used to achieve financial solvency in the athletic program. More details of the deficit reduction plan are presented in Attachment B of this report.

IMPACT ON STATE APPROPRIATED FUNDS

The option to seek additional state funds from the legislature to solve the athletic deficit was not an option presented by the University of Montana administration or raised by the Montana Board of Regents. Unless the topic is discussed and approved at a future Board of Regents meeting, it is unlikely the legislature will see a request for additional state funds to solve the athletic deficit. However, the campus has concluded that increased institutional support, which could include state general fund garnered through internal reallocation, will be necessary to eliminate the athletic deficit.

ATTACHMENT A -- RECOMMENDATIONS

Auditing and Accounting:

- The UM President should re-assess the risk inherent in the financial operations of the athletic department. Therefore, he should communicate clearly his expectations of enhanced involvement and scrutiny over the financial activity of UM Athletics.
- The level of risk in athletics necessitates a closer review of special purpose audit reports and action plans.
- The Board of Regents should review the relationship of the GSA and UM.
- The President should provide written guidelines as to what is acceptable for campus personnel to seek reimbursement or pay for out of UM Foundation accounts.
- The UM Administration should monitor and control both the revenue and expenditure portions of the athletic operating budget throughout the fiscal year. The President should provide a realistic funding package for athletics that includes adequate institutional support.
- The Regents should review the revenues and expenses related to concessions, royalties, and collegiate licensing at UM to determine if adequate profits are being realized and subsequently allocated to the athletics budgets.
- The UM should establish and monitor a receivable from GSA for the amount of pledged scholarships donations for the fiscal year. GSA should establish a corresponding payable. These two entities should communicate with each other to make certain they are in agreement on the amount outstanding.
- The Panel recommends that the Board of Regents ask the Legislative Auditor to review the structure, functions, and staffing of the internal audit departments. The Board of Regents may want to consider establishing an audit oversight committee.
- The special purpose audit (NCAA) of athletics should be completed by December of each year and submitted to the Office of the Commissioner of Higher Education.
- The new athletics fiscal officer should develop a standard reporting format for athletics and develop automated systems that monitors revenue and expenses from all sources, including GSA and Foundation funds.
- All game guarantees should be contractually documented and recorded on the University's accounting records.
- The Board of Regents and UM should analyze the costs incurred versus the value received for trade-outs, comp tickets, and courtesy cars. Although the amounts seemed excessive to Panel members, we are not experts and do not have a reasonable basis for comparison.
- The new athletics fiscal officer should report to the athletic director as soon as is practicable. The Office of Administration and Finance should provide increased level of monitoring and oversight of athletics finances.
- Once the Board of Regents has approved a deficit reduction plan for UM, the University should review actual variances from the plan at least semi-annually.
- The UM should ensure that Athletic Department employees comply with policies and procedures regarding ProCard use and ensure that only appropriate travel and university related expenses are charged to the ProCard.
- The University should re-evaluate the number of ProCards issued in the Athletic Department.
- We recommend that the Regents require a thorough audit of UM Athletic Department ProCard charges for FY02 through FY04.

Budget:

- The athletics fiscal officer should develop an operating budget plan in sufficient detail to evaluate the reasonableness of its assumptions. Input from coaches and other athletics department staff should be solicited and used in developing the budget. The budget should include all funding sources.
- The athletics fiscal officer should provide timely and meaningful budget status reports to athletic department management and head coaches on a regular basis. The budget status report should incorporate all funding sources.
- The athletics fiscal officer should not be responsible for advance travel for games.
- The athletic director should ensure that the operating budget is prepared in sufficient detail, with input from coaches and staff, and that includes all funding sources. The athletic director needs to be attentive to budget variances, provide appropriate oversight over the athletics fiscal officer, and communicate frequently with the President and the Office of Administration and Finance.
- Even though budget responsibilities are decentralized, given the history of athletics deficits, the Office of Planning, Budgeting, and Analysis (OPBA) should provide more thorough analysis of athletics budgets. The President and VP must develop comprehensive analysis tools that allows for better monitoring of the athletics fiscal operations for Administration and Finance.
- The President should have required the athletic director to be more accountable for presenting an operating plan in sufficient detail for OPBA to analyze and should have investigated when the athletic director and fiscal manager did not respond to OPBA's requests for information regarding the athletics budget. The President should have required the athletic director to not only raise revenues, but to control costs.
- The Board of Regents should engage in public discussion and feedback on the athletic reports in November each year. The policy on negative fund balance should be re-evaluated to determine if the current policy provides disincentive to acknowledge deficits and problem areas.
- The University should evaluate the number of courtesy cars that are provided to the athletic department.
- Head coaches should be more involved in the budget development process and should receive monthly-standardized budget assessment reports.

A detailed description of the panel findings may be found in the "Findings & Recommendations" section of the panel's report, available online at http://www.montana.edu/wwwoche/UMathletics.htm or by request.

ATTACHMENT B -- UM ATHLETICS DEFICIT REDUCTION PLAN AS APPROVED BY THE MONTANA BOARD OF REGENTS

The University of Montana presented a two-part deficit reduction plan:

1. Part one addresses the fiscal 2004 deficit of approximately $960,000
    a. Five-year plan
    b. Student fee increases are not used to solve this deficit
    c. Additional revenue from increased football ticket prices
    d. Reallocation of other funds that will not impact students or academic programs (concessions, Coke contract, collegiate licensing)
    e. Begin building a reserve fund for athletics once the deficit is eliminated

2. Part two addresses the on-going, structural deficit of approximately $680,000 (which reflects development of a zero-base budget and base cuts of $360,000)
    a. Four-year plan, inflationary cost increases are built in
    b. Additional expenditure reductions - $40,000
    c. Student fee increases
        1. $15 athletic fee (new) for students under 7 credits
        2. $7 per ticket (new) for students attending games
        3. $2 per semester athletic fee increase for full time students each year, FY05-08 **(Amended by Board on 5/21/04, see below)**
    d. Increased ticket revenue from football and basketball
    e. Increased contributions from the Grizzly Scholarship Association
    f. Increased Sky Box revenue upon lease renewals in FY07
    g. Reallocation of other funds (collegiate licensing, license plate revenue, concessions)
    h. Increased institutional support

The Montana Board of Regents approved the UM Deficit Reduction Plan with the following modifications:

1. Delay implementation of $2 per semester athletic fee increase for full time students until FY06
2. Allocate $40,000 from the Regents' discretionary fund to offset the $2 per semester athletic fee increase in FY05
3. Public commitment by President Dennison to comply with all findings and recommendations in the Special Panel report and submit written responses to each of the findings and recommendations to the Board at the July 8-9, 2004 meeting
4. The $2 per semester athletic fee increase for full time students at UM-Missoula will be reviewed every March until this condition is removed by the Board
5. If the plan does not stay on track, the next anticipated fee increase will not be implemented and this component will be self enforcing

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