



University System of Georgia

Creating A More Educated Georgia

## **Athletics Special Review**

**May 10, 2016 – *Report***

# University System of Georgia (USG) Office of Internal Audit and Compliance

May 10, 2016

*This review included primarily consulting observations. The information contained in this report was obtained from self-reported responses to surveys, interviews from 8 campus visits, discussions with USG personnel, and through data reported in required USG and Federal filings. The review did not constitute a detailed review of all financial transactions. Therefore, it is possible that errors, irregularities, and/or illegal acts may go undetected. However, we believe that our review provides a reasonable basis for our noted observations.*

Board of Regents of the University System of Georgia – sent electronically

Dear Regents:

In accordance with the engagement plan approved by the Board of Regents, we have concluded our special review of intercollegiate athletics. Attached is the final report which includes observations and recommendations.

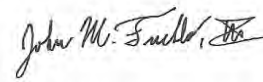
This review was classified as a consulting engagement and specifically addressed Board of Regents Policy 4.5.6 which requires the University System of Georgia to “periodically review institutional intercollegiate athletics programs for financial and program soundness.” In addition, this review aligns with the USG Strategic Imperatives 1 and 3, i.e., plans that commit to collegiate affordability, pursuing operational efficiencies and being a model steward of resources.

This report is intended to provide advice and counsel to the Board of Regents, the Chancellor, USG presidents and directors of athletics and to the leadership of USG institutions. Any recommendations made herein are advisory in nature. They are, however, made in the spirit of cooperative improvement which will benefit the entire system.

Sincerely,



Houston Davis, PhD.  
Executive Vice Chancellor for Academic  
Affairs



John M. Fuchko, III, CIA, CCEP  
Vice Chancellor for Internal Audit & Compliance  
Chief Audit Officer

cc: Henry M. Huckaby, Chancellor  
Chancellor’s Cabinet  
USG Presidents

## Scope & Methodology

To conduct this Athletics Special Review we:

- 1) collaborated with the USG Office of Academic Affairs and a planning group of 10 USG Athletics Directors;
- 2) visited 8 institutions including GA State University, GA College and State University, Gordon State College, Fort Valley State University, Valdosta State University, South Georgia College, GA Southwestern State University and Savannah State University;
- 3) analyzed responses collected from 2 comprehensive questionnaires;
- 4) reviewed data submitted through the required Equity in Athletics Disclosure Act “EADA” filings; and
- 5) reviewed articles and policies about intercollegiate athletics programs throughout the country.

(Note: This Athletics Special Review did not contemplate: obtaining an understanding of internal control; assessing fraud risk; testing accounting records; or other procedures ordinarily performed in an audit.)

## **Executive Summary - Observations**

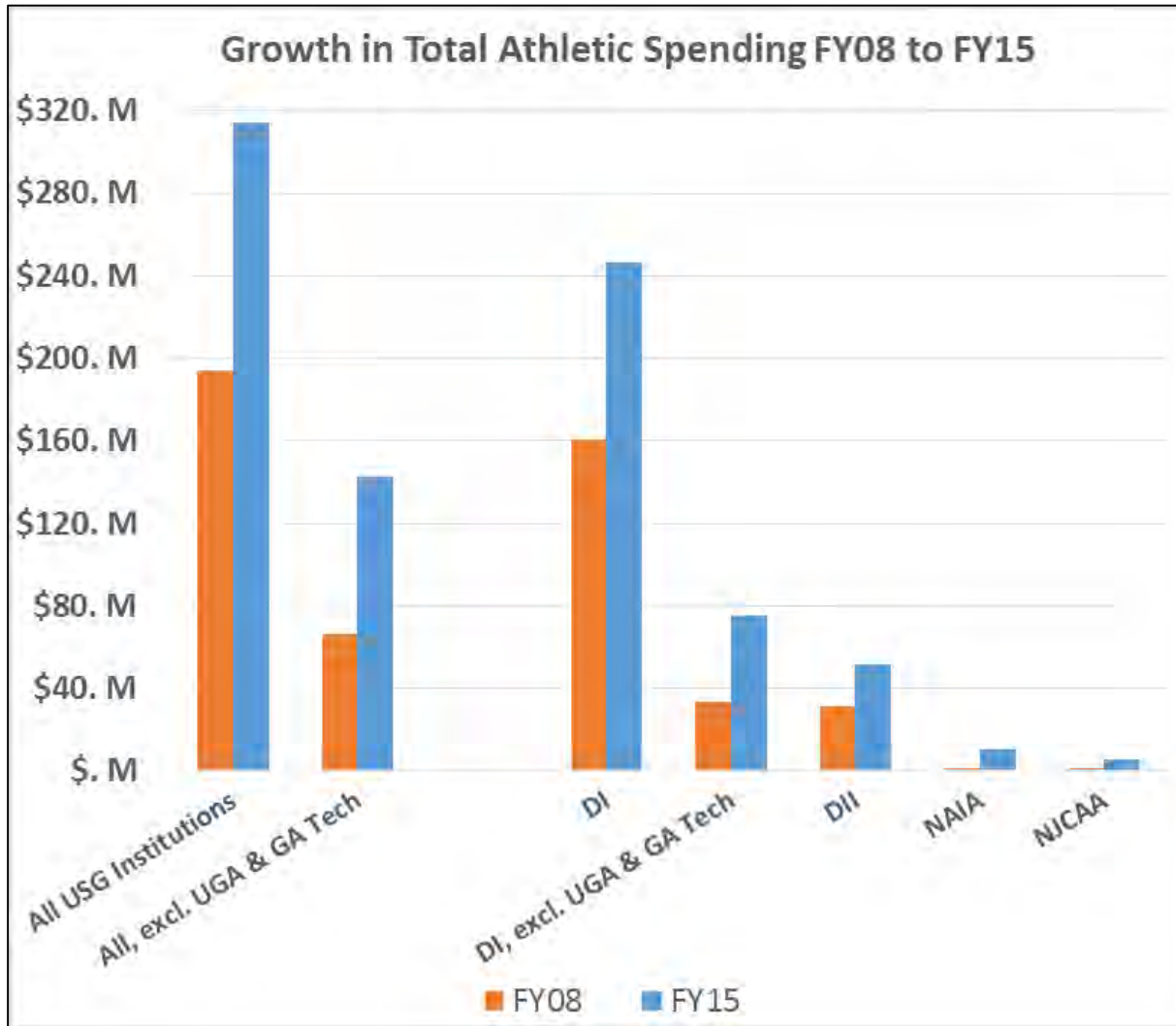
# USG Intercollegiate Athletics Special Review

## Background Information

- Significant support for the positive attributes of athletics:
  - Culture, Brand & Spirit
  - Participation provides Leadership Development
  - Recruitment
  - Effect on Student Athletes
  
- Long, rich history of athletics throughout the USG, including expansion through additional sports and governing body changes.
  - Aspirational goal focus rather than business funding models
  
- Strategic issues for consideration:
  - Disparate Missions
  - Reputational Risk
  - Athletic Business Models
  
- Athletics Special Review focused significantly on the business funding model...operating athletics is a significant expense and costs have been rising quickly.
  - Strategic decisions about the future of athletics must be made. Any changes need to be carefully considered and implemented with sufficient oversight to ensure results.

# USG Intercollegiate Athletics Special Review

**Observation #1: Total athletics spending grew for all segments analyzed for the period FY08 to FY15.**



# USG Intercollegiate Athletics Special Review

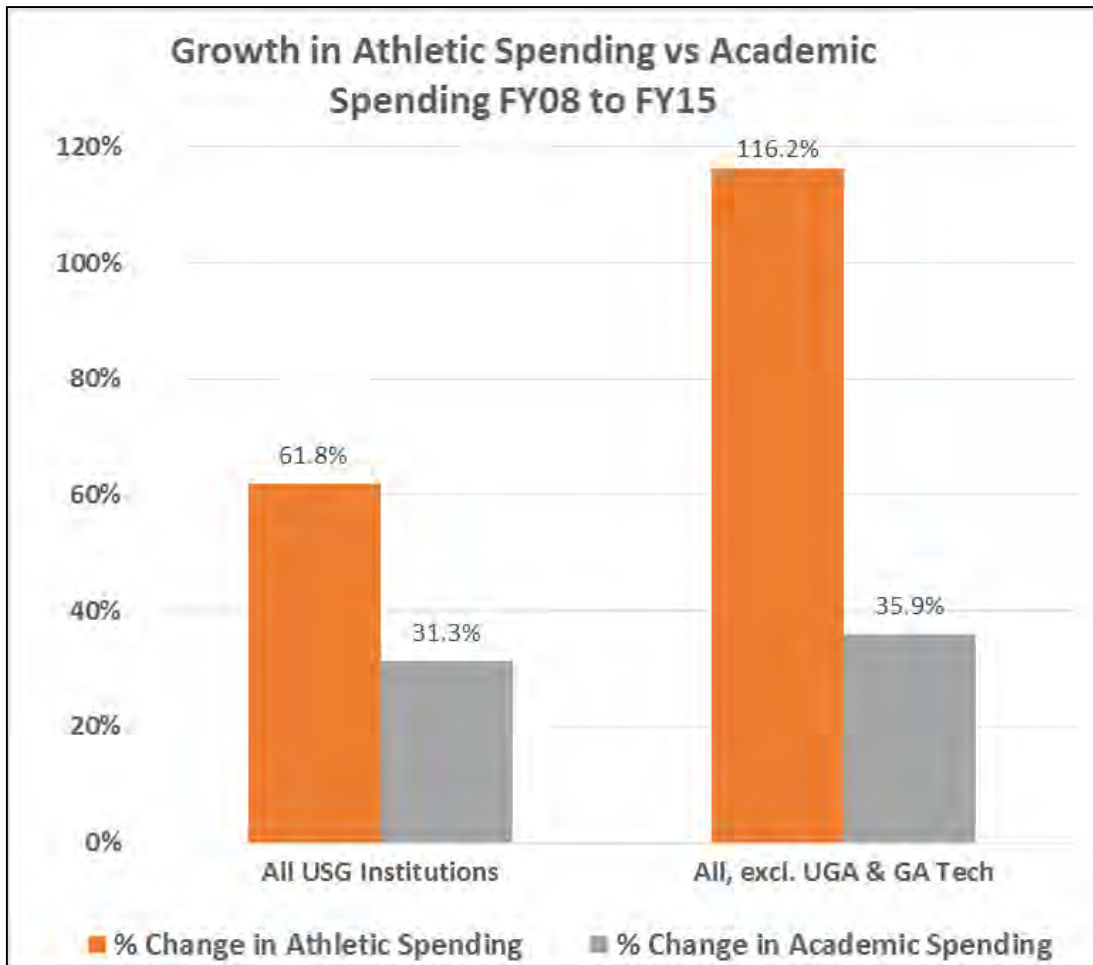
**Observation #2: For FY15, personnel costs and athletic student aid were the largest two expenditure categories for USG athletic departments, except UGA & GA Tech.**

Excluding UGA & GA Tech, the combination of personnel costs and athletic scholarships represent 62% of total operating expense.

	All USG Institutions		w/out UGA & GA Tech		NON DI	
	Total	% of Total	Total	% of Total	Total	% of Total
Total Coaching/Support Staff Personnel Costs	\$106.84 M	34.0%	\$46.33 M	32.5%	\$20.11 M	29.8%
Athletic Student Aid	\$62.78 M	20.0%	\$42.7 M	29.9%	\$21.96 M	32.5%
Direct Facilities/Maintenance/Rental	\$27.72 M	8.8%	\$5.17 M	3.6%	\$3.65 M	5.4%
Team Travel	\$19. M	6.0%	\$10.22 M	7.2%	\$4.03 M	6.0%
Game Expenses	\$11.24 M	3.6%	\$3.59 M	2.5%	\$1.66 M	2.5%
Equipment/Uniforms/Supplies	\$8.59 M	2.7%	\$5.42 M	3.8%	\$2.78 M	4.1%
Indirect Institutional Support	\$10.28 M	3.3%	\$10.28 M	7.2%	\$5.3 M	7.8%
Direct Overhead/Administrative Support	\$28.47 M	9.1%	\$4.25 M	3.0%	\$1.36 M	2.0%
Medical Expenses and Medical Insurance	\$6.41 M	2.0%	\$2.58 M	1.8%	\$1.6 M	2.4%
Recruiting	\$5.26 M	1.7%	\$1.57 M	1.1%	\$.43 M	0.6%
Fund Raising/Marketing/Promotion	\$5.56 M	1.8%	\$1.8 M	1.3%	\$.69 M	1.0%
Guarantees	\$4.63 M	1.5%	\$.67 M	0.5%	\$.03 M	0.0%
Other	\$17.39 M	5.5%	\$8.05 M	5.6%	\$3.89 M	5.8%
<b>Total Operating Expense</b>	<b>\$314.17 M</b>		<b>\$142.63 M</b>		<b>\$67.5 M</b>	

# USG Intercollegiate Athletics Special Review

**Observation #3: Total athletics spending has grown at a quicker rate, 61.8%, versus academic spending, 31.3%, over the period FY08 to FY15. Excluding UGA & GA Tech, the growth rate variance is more noticeable.**



Athletics Spending Includes personnel costs, scholarships, recruiting, travel and all other expenditures related to operating an athletic department. This was self-reported in the Financial Questionnaire.

Academic Spending includes personnel costs, travel, scholarships & fellowships, utilities, supplies & other services and depreciation. This was reported in the Natural Classifications footnote of the AFR.



# USG Intercollegiate Athletics Special Review

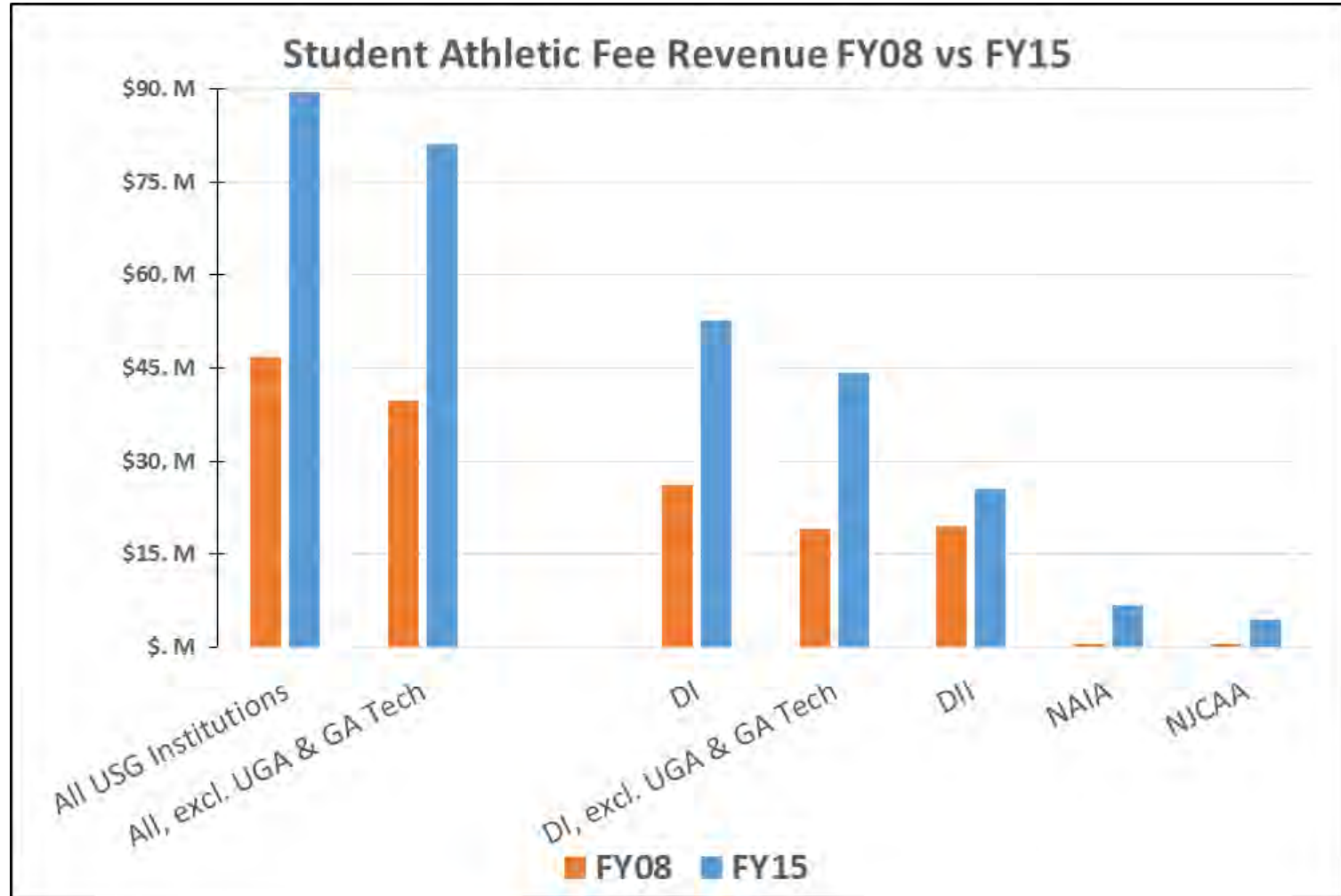
**Observation #4: For FY15, for all segments analyzed (All, DI, DII, NAIA and NJCAA), athletics student fee revenue was the largest funding source for athletics departments. When UGA & GA Tech are excluded, the next largest source was direct institutional support.**

Excluding UGA & GA Tech, Athletics Student Fee Revenue is the largest funding source, representing 56% of total operating revenue.

	All USG		w/out UGA & GA		NON DI	
	FY15 Amt	% of Total	FY15 Amt	% of Total	FY15 Amt	% of Total
<b>Athletics Student Fees</b>	\$89.45 M	26.4%	\$81.09 M	55.9%	\$36.83 M	55.0%
<b>Contributions</b>	\$52.01 M	15.4%	\$6.95 M	4.8%	\$4.06 M	6.1%
<b>Ticket Sales</b>	\$38.16 M	11.3%	\$2.87 M	2.0%	\$.75 M	1.1%
<b>Broadcast/TV/Radio/Internet Rights</b>	\$36.1 M	10.7%	\$.64 M	0.4%		
<b>NCAA/Conference Distributions</b>	\$31.37 M	9.3%	\$4.57 M	3.2%	\$.55 M	0.8%
<b>Direct Institutional Support</b>	\$27.88 M	8.2%	\$25.76 M	17.8%	\$16.38 M	24.5%
<b>Royalties, Licensing, Advertisements and Sponsorships</b>	\$20.6 M	6.1%	\$2.69 M	1.9%	\$.67 M	1.0%
<b>Endowment and Investment Income</b>	\$16.9 M	5.0%	\$.5 M	0.3%	\$.46 M	0.7%
<b>Indirect Facilities and Administrative Support</b>	\$10.28 M	3.0%	\$10.28 M	7.1%	\$5.3 M	7.9%
<b>Guarantees</b>	\$6.37 M	1.9%	\$5.77 M	4.0%	\$.12 M	0.2%
<b>Other Revenue (&lt; 5% individually)</b>	\$9.33 M	2.8%	\$3.98 M	2.7%	\$1.84 M	2.8%
<b>Total Operating Revenue</b>	\$338.44 M	100%	\$145.09 M	100%	\$66.96 M	100%

# USG Intercollegiate Athletics Special Review

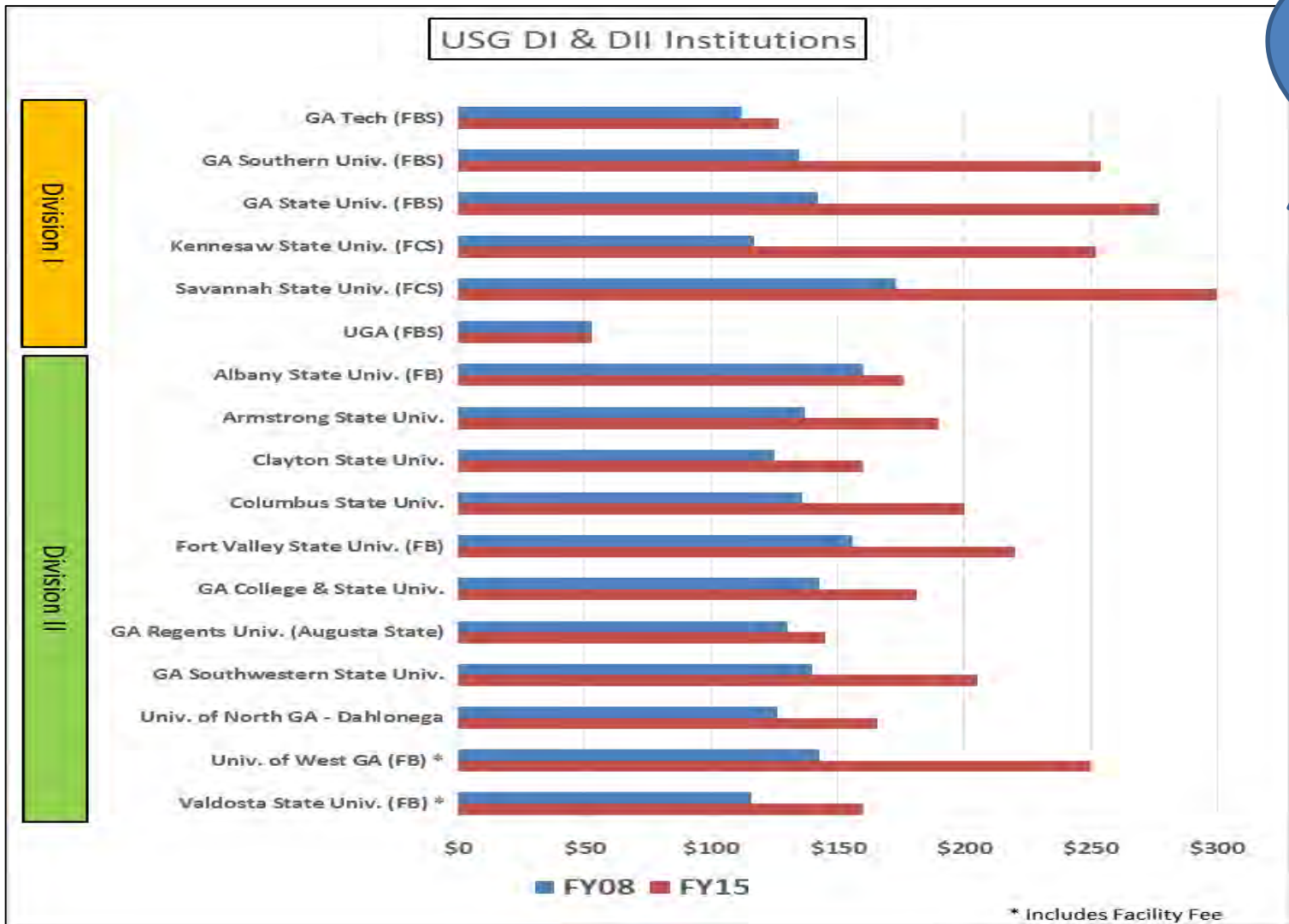
**Observation #5: Student athletics fee revenue has grown for all segments analyzed over the period FY08 to FY15.**



# USG Intercollegiate Athletics Special Review

**Observation #6: Except for UGA & ABAC, the student athletic fee charged to students has increased over the period FY08 to FY15. <sup>1</sup>**

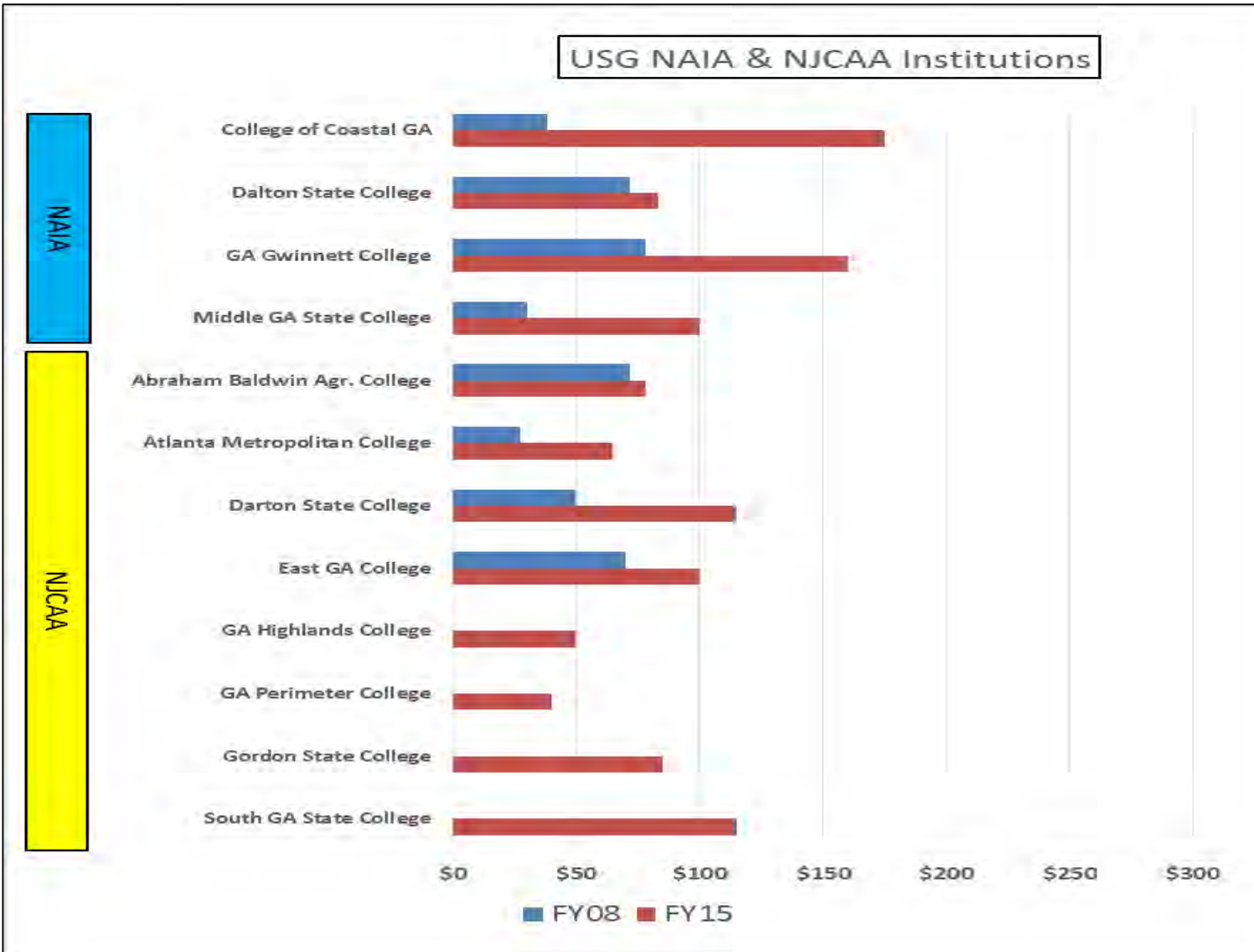
Amounts charged for athletic fees has grown significantly.



<sup>1</sup> Fee represents fee charged for traditional academic semester

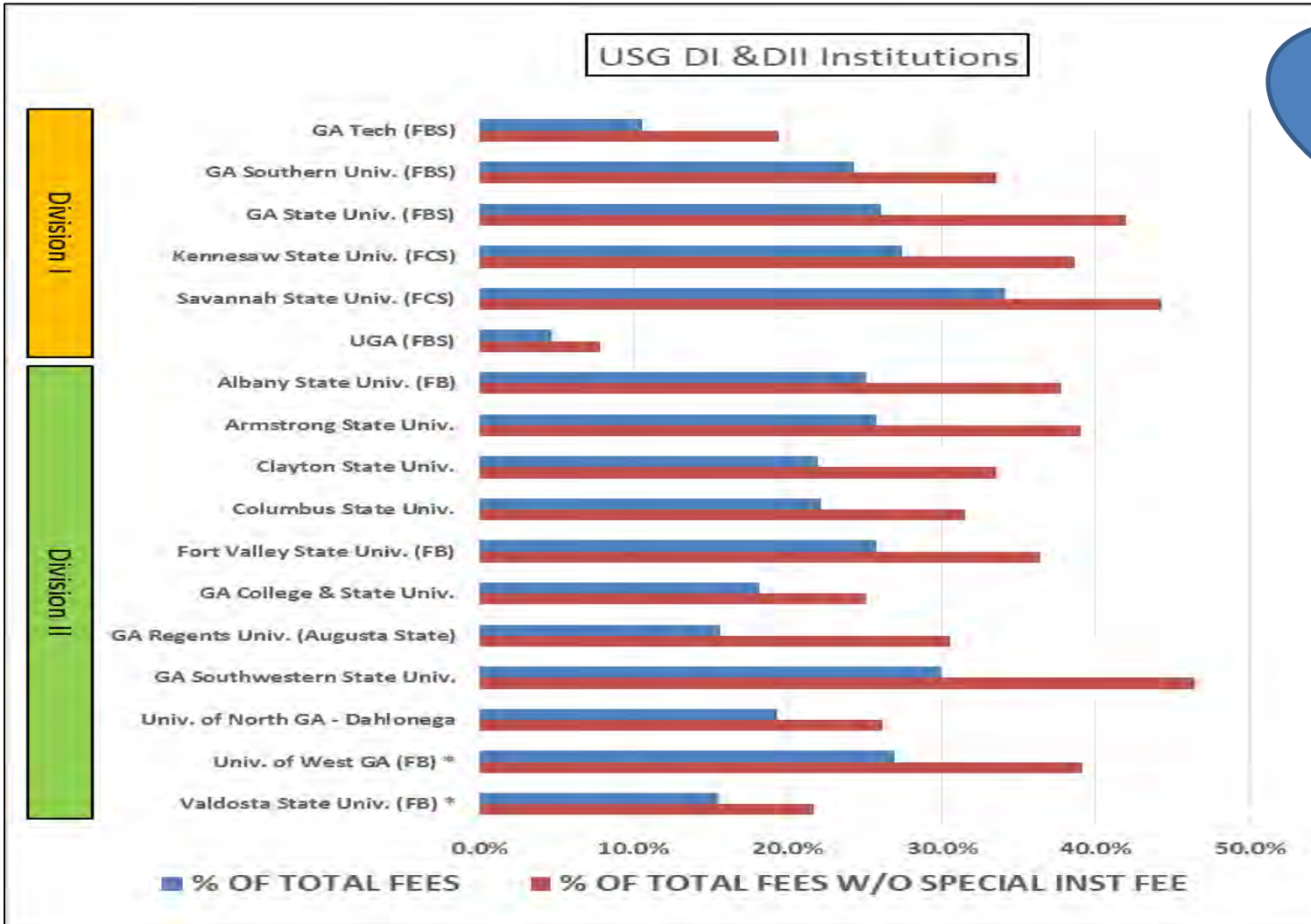
# USG Intercollegiate Athletics Special Review

## Observation #6: continued



# USG Intercollegiate Athletics Special Review

**Observation #7: For FY15, the athletic fee as a percent of total mandatory fees ranges from 4.7% - 34.1%. Excluding institutional fees, it ranges from 7.9% - 46.5%.**

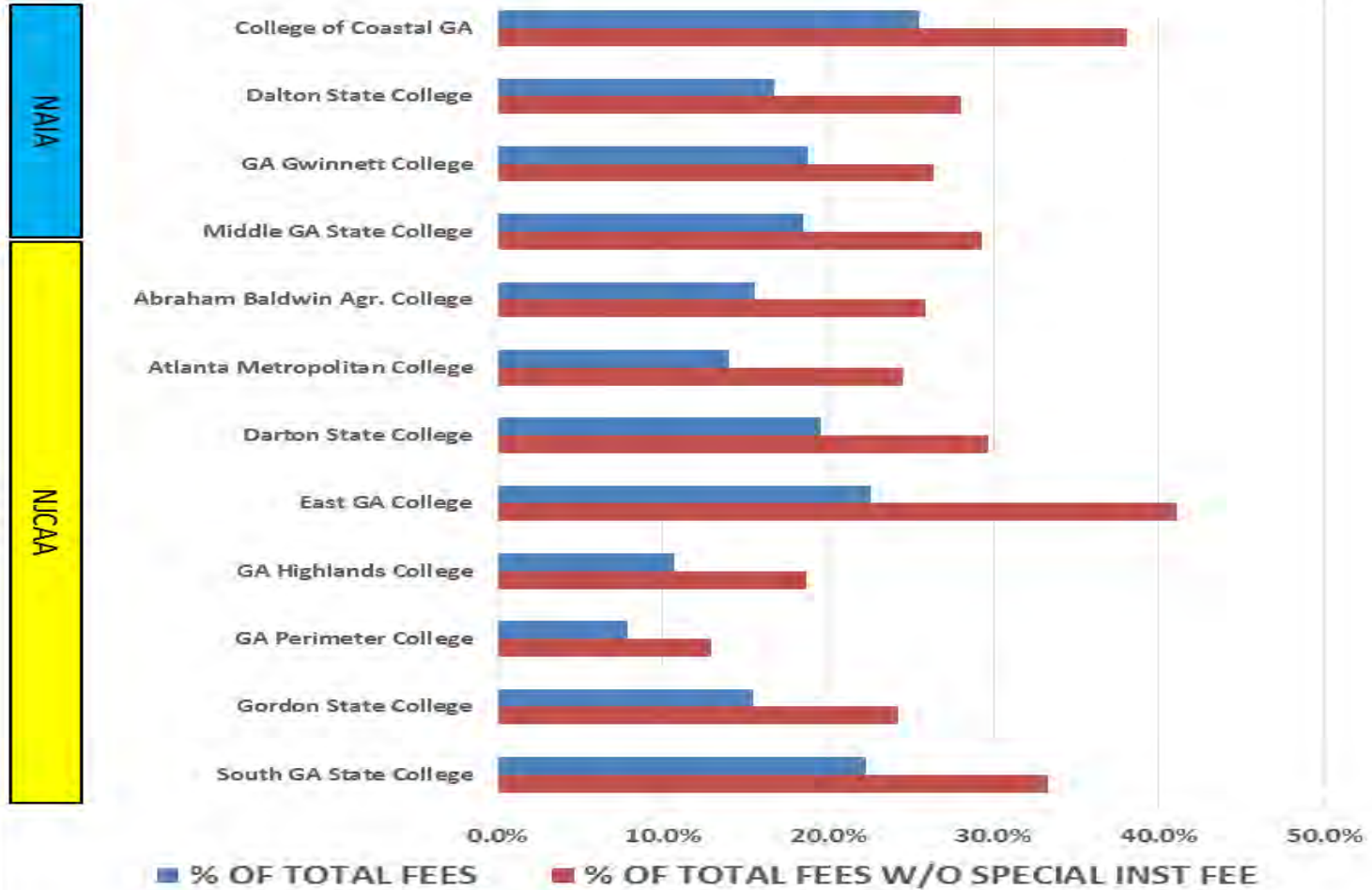


For many institutions, athletic student fees represent a large percentage of total mandatory fees.

# USG Intercollegiate Athletics Special Review

## Observation #7: continued

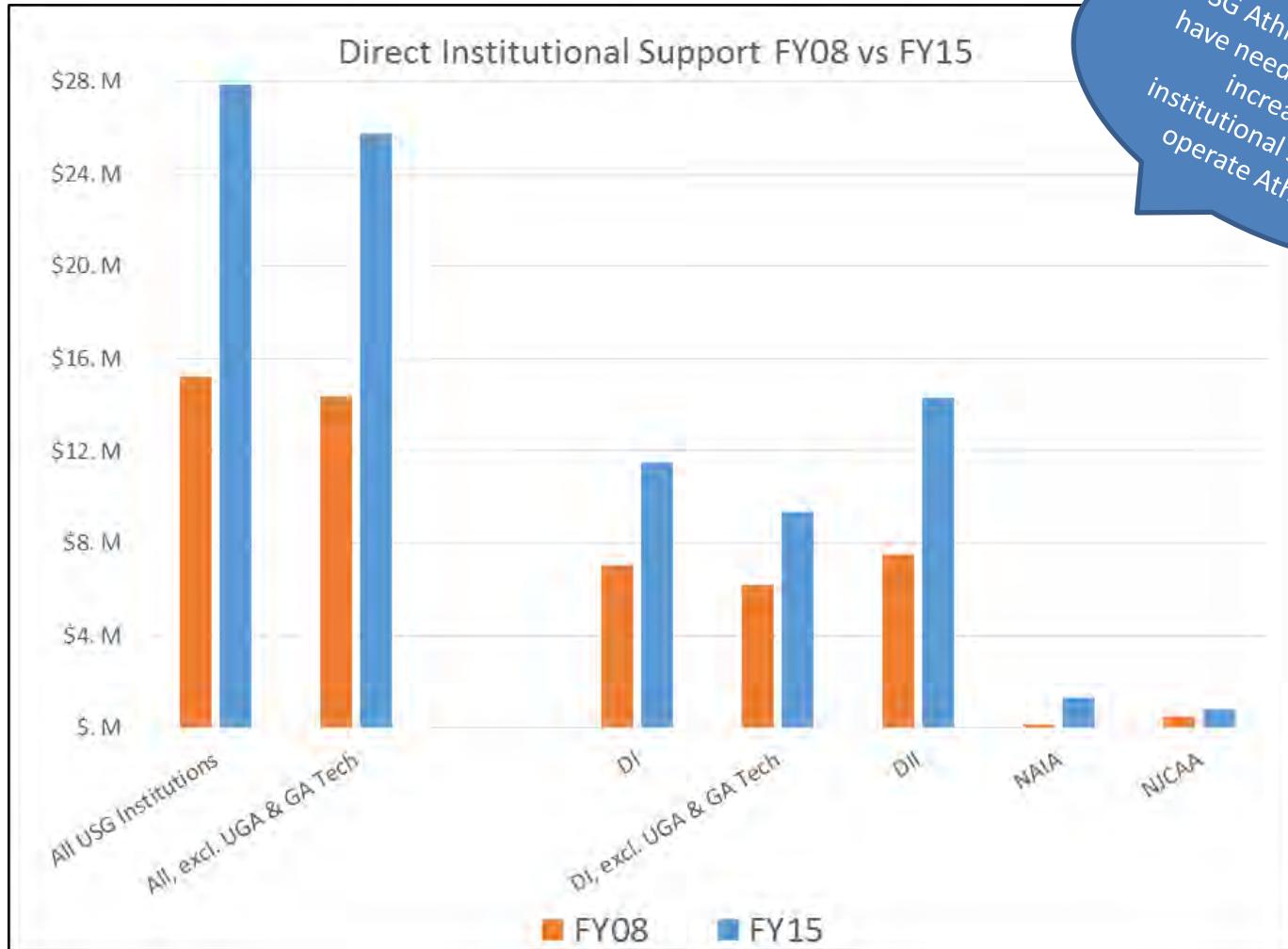
USG NAIA & NJCAA Institutions





# USG Intercollegiate Athletics Special Review

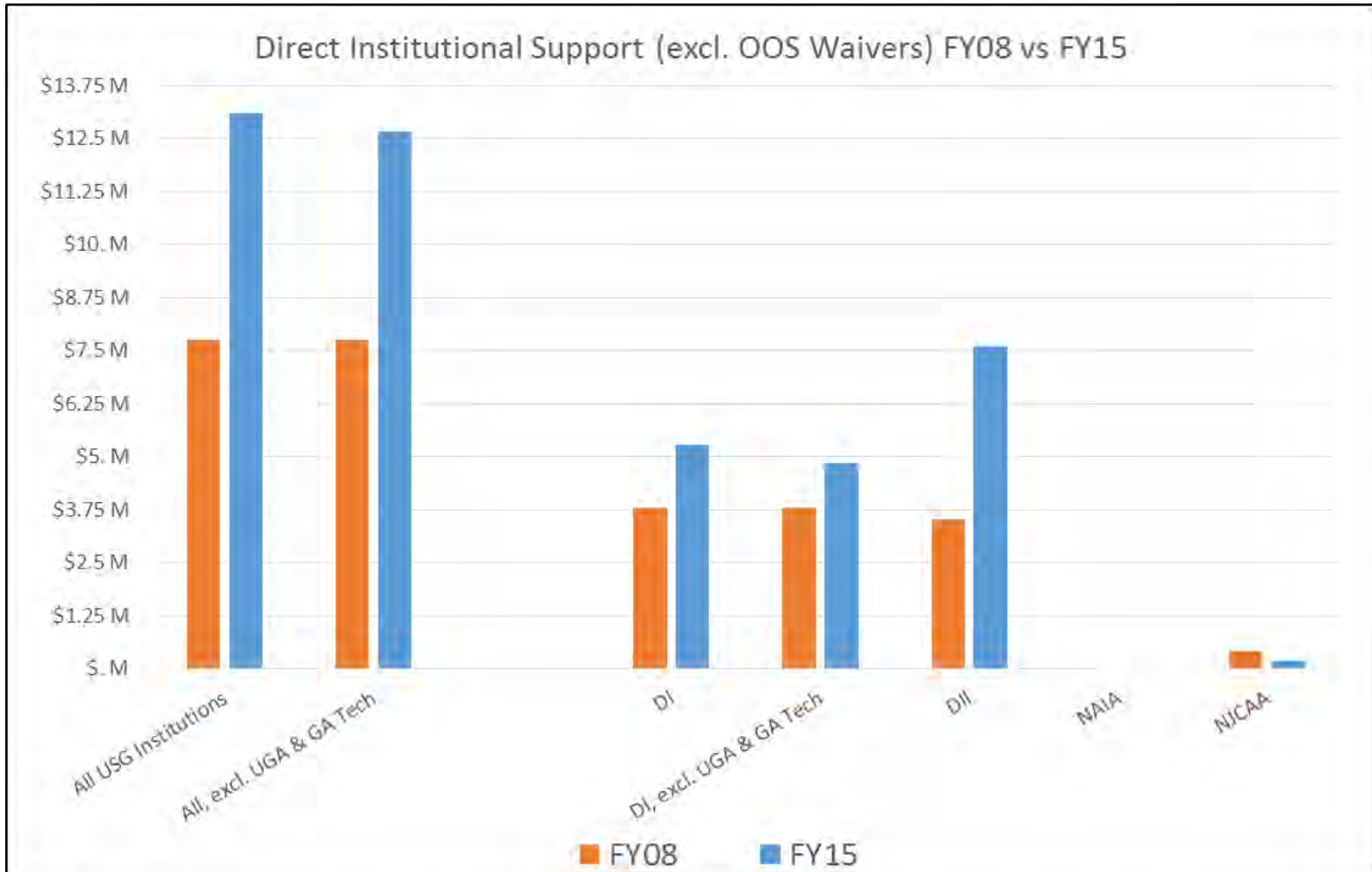
**Observation #8: Direct institutional support revenue has increased for all segments analyzed over the period FY08 to FY15.**



USG Athletics Programs have needed significant increases in institutional support to operate Athletics.

# USG Intercollegiate Athletics Special Review

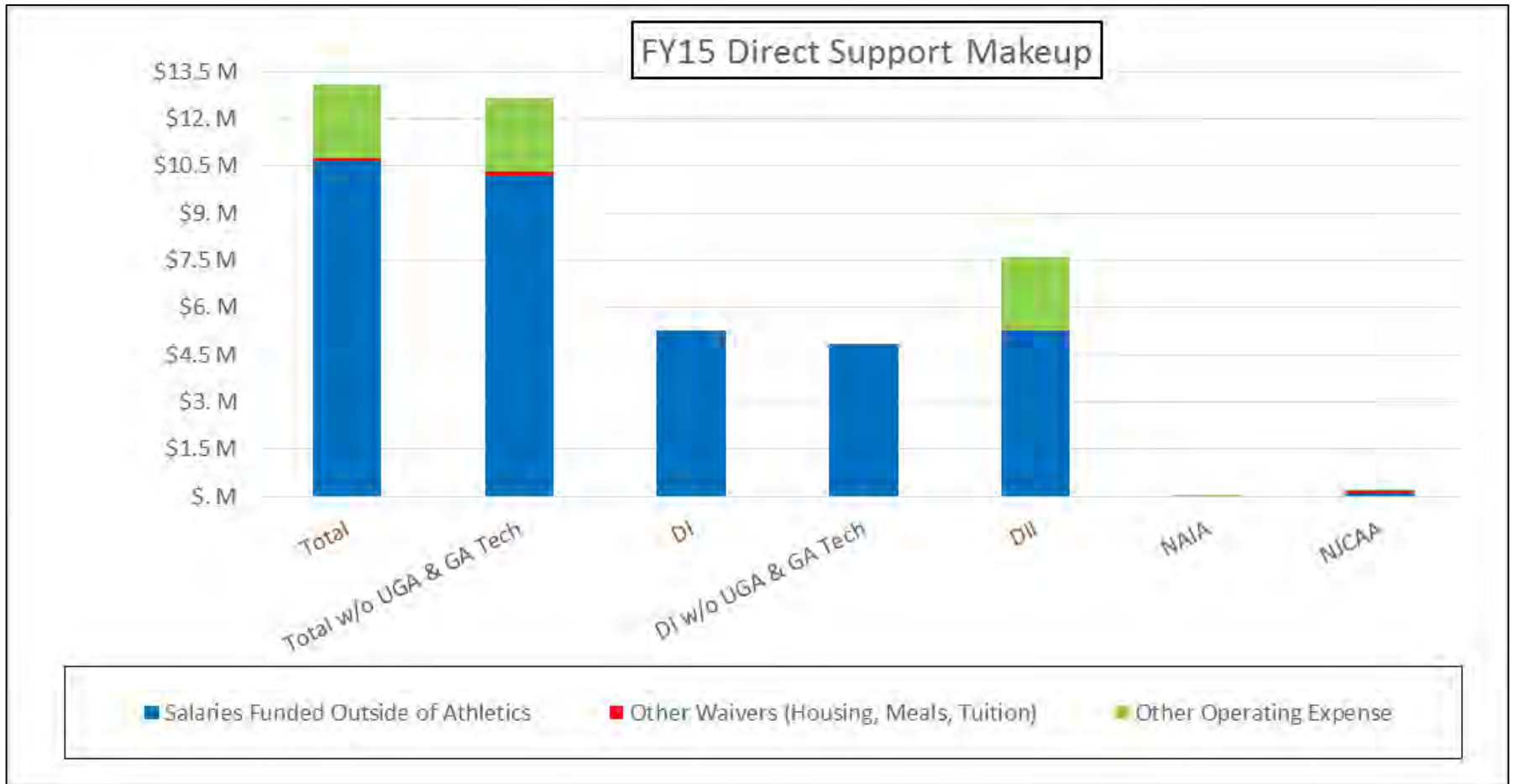
**Observation #8, cont.: Direct institutional support revenue, excluding out of state (OOS) tuition waivers, has also increased over the period FY08 to FY15.**





# USG Intercollegiate Athletics Special Review

## Observation #8: continued



## USG Intercollegiate Athletics Special Review

### Observation #9: The operating expense/team or total department expense/team for several USG athletic programs is below the EADA median for their segment.

- We calculated the Operating Expense/Team and Total Department Expense/Team for all institutions by segment based on the FY13 Equity in Athletics Disclosure Act “EADA” Federally mandated data reported. Then we identified the High, Median<sup>2</sup> and Low of these calculations.
- Possible reasons for institutions being below the median:
  - Spending is lean compared to competition level
  - Not capturing all athletically related expenses
- The median provides one guideline for spending. It may represent the financial investment necessary to field teams appropriately and expect them to be reasonably competitive.

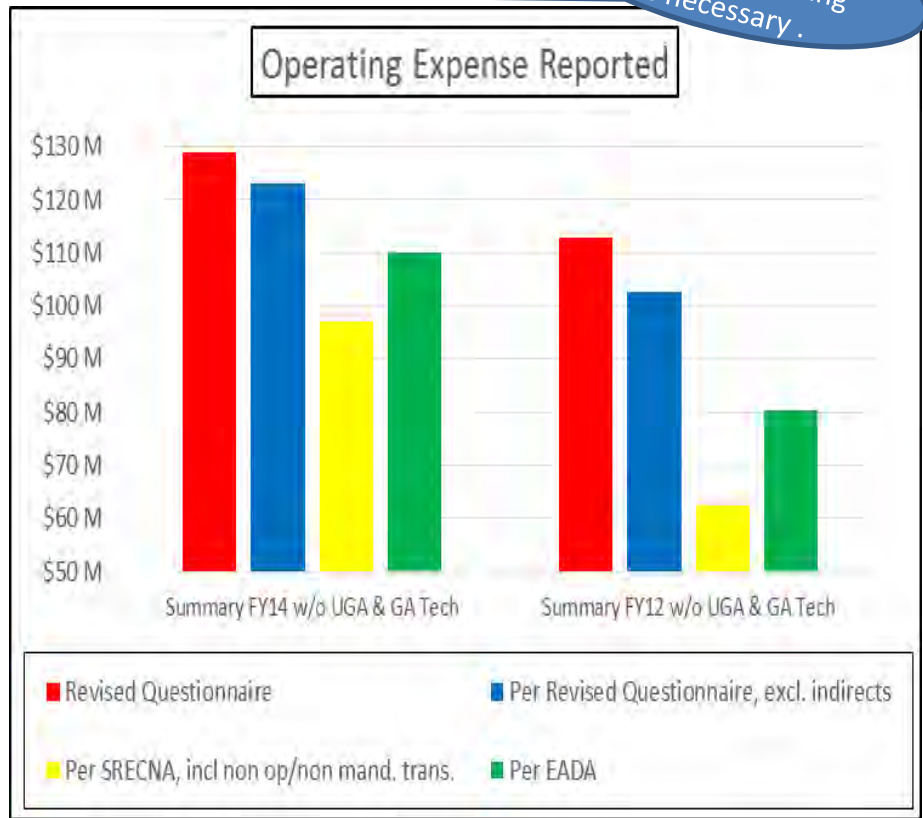
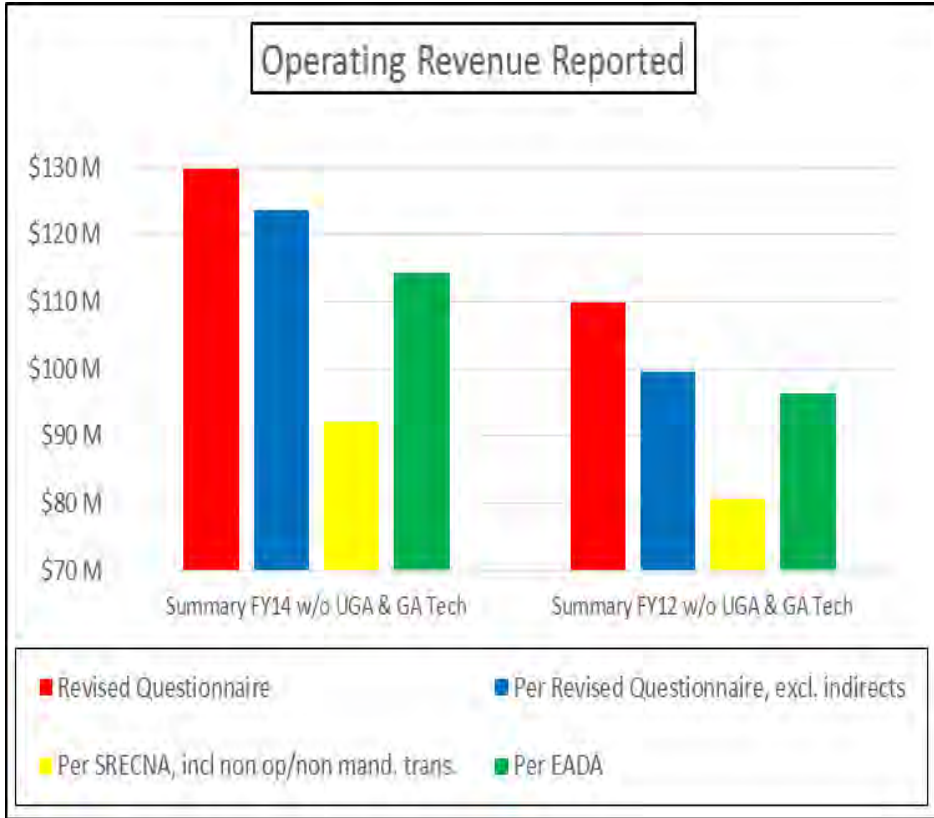
Despite spending growth, several USG institutions are below the national median for their segment.

<sup>2</sup> Median provides a more meaningful measurement when the distribution is skewed with outlier values.

# USG Intercollegiate Athletics Special Review

## Observation #10: Significant variances were noted in the financial data reported in the Financial Questionnaire, the SRECNA and the EADA database.<sup>3</sup>

Transparency in financial reporting is necessary.



<sup>3</sup> The SRECNA (now SRECNP) is the standard financial statement used by institutions to report their financial activities in the institution’s annual financial report (AFR). The EADA database contains athletic financial information reported across the United States.

- The EADA/NCAA reporting is meant to capture the “full-cost” of athletics. However, the EADA system does not allow the reporting of a loss as it is assumed that the loss is covered by the institution or by reserve funds.

## **Executive Summary - Recommendations**

## **USG Intercollegiate Athletics Special Review**

### **Recommendation #1: We recommend allowing the use of Institutional Funds to support athletics within established parameters.**

- We recommend the established parameters outline an allowable percentage for revenue inclusive of 1) student athletic fee revenue and 2) other institutional support, exclusive of the value of out of state tuition waivers. This will allow adjustments when enrollment fluctuations impact fee revenue.
  - Virginia recently established allowable subsidy percentages at Virginia State NCAA institutions only. The subsidy percentage includes student fee revenue and is tiered by competitive segment.

### **Recommendation #2: We recommend that an annual athletic report be required, to provide on-going oversight, that would include financial information along with additional questions and key indicators.**

- From a financial perspective, the goal is to capture a fully-costed athletics model.
  - A descriptive reconciliation must be provided between the EADA (NCAA, as applicable) and SRECNA
- Other information to capture might include: GPA and Graduation Rates of Athletes versus the Campus At-Large, Clustering of Classes, Presidential Admission Exceptions, Confirmation whether Athletic compliance items have been completed and Details of governing body reports/violations/penalties

## **Recommendation #3: We recommend a thorough review of several USG programs to determine financial viability and proper division alignment.**

- Questions to resolve: 1) should the program continue as is, 2) should certain sports be eliminated to become more financially viable, 3) should the program move to a different division of competition or 4) should the program be eliminated
- What should the footprint in DI, the most expensive division, look like? Does it make sense to have any programs in FCS? What is the Return on Investment for FCS Institutions where the investment is much larger than DII?

## **Other Considerations:**

### **1) We recommend guidance be provided to address athletic “governance” risk. A sample of topics include:**

- Reporting structure for athletic director, compliance & business officers
- Allowable additional duties for compliance & business officers at the DI level that generally have more “at stake”
- Training for those charged with institutional governance related to athletics
- Performing a risk assessment of the internal controls of the athletic department in conjunction with internal audit
- Suggesting minimal organization structure to enhance desired governance

**2) We recommend guidance be provided to address athletic “financial” risk. A sample of topics include:**

- Proper financial reporting of transactions
- Review of benefits received by athletics to address financial reporting implications
- Appropriateness of existing/future employment contracts according to Board policy
- Camp policies & guidance, for athletics and other campus areas,
- Student athlete insurance and secondary insurance,
- Eligibility matters and athletic scholarship awarding
- Student athlete welfare topics including First Aid/CPR training, trainers, staff driving

**3) We recommend a task force of athletic and other leaders be formed to identify best practices and cost savings opportunities for athletics.**

- Based on feedback received from campus visits and the questionnaires, we identified additional topics to be researched/vetted.
  - Best Practices regarding life skills programming for athletes, encouraging faculty involvement, establishing internal controls for athletic academic matters, recognition programs, proper handling of athletic scholarships, registration considerations for athletes, and monitoring of athletic Title IX compliance efforts
  - Consideration of centralized support/sharing for efforts related to Title IX, compliance, taxes, insurance, travel and uniforms/equipment

## **FY15 Proposed Policy Subsidy Compliance**



## Current Subsidy Percentage Compared to Proposed Caps (1 of 2)

Competitive Segment	Institution	FY15 Subsidy Percentage Actual	Subsidy Percentage Proposed Limit
NCAA: DI – FBS (Power 5)	University of Georgia	2.8%	10%
	Georgia Institute of Technology	7.2%	
NCAA: DI – FBS Other	Georgia Southern University	62.5%	65%
	Georgia State University	67.8%	
NCAA: DI - FCS	Savannah State University	58.7%	75%
	Kennesaw State University	74.3%	
NCAA: DII	Valdosta State University	62.2%	80%
	Albany State University	68%	
	Augusta University	69.3%	
	Clayton State University	69.5%	
	University of North Georgia	69.8%	
	Georgia Southwestern State University	69.9%	
	Columbus State University	73.1%	

## Current Subsidy Percentage Compared to Proposed Caps (2 of 2)

Competitive Segment	Institution	FY15 Subsidy Percentage Actual	Subsidy Percentage Proposed Limit
NCAA: DII (continued)	Georgia College & State University	74.1%	80%
	University of West Georgia	77.1%	
	Fort Valley State University	78.8%	
	Armstrong State University	81.4%	
NAIA	Dalton State College	33%	85%
	College of Coastal Georgia	67.8%	
	Georgia Gwinnett College	79.2%	
	Middle Georgia State University	87.4%	
NJCAA	South Georgia State College	65%	85%
	Darton State College	80%	
	Abraham Baldwin Agricultural College	82.6%	
	Georgia Highlands College	84.1%	
	East Georgia State College	89.7%	
	Gordon State College	91.1%	
	Atlanta Metropolitan State College	99.3%	

# USG Intercollegiate Athletics Special Review

## Summary of Compliance with Policy Proposal: Division I

Competitive Segment	Institution	Policy %	FY 15 Subsidy %
NCAA: DI - FBS "Power 5"	GA Tech (DI - FBS)	10%	7.2%
	Univ of GA (DI - FBS)		2.8%
NCAA: DI - FBS Other	GA Southern (DI - FBS)	65%	62.5%
	GA State (DI - FBS)		67.8%
NCAA: DI - FCS	KSU (DI - FCS)	75%	74.3%
	Savannah St (DI - FCS)		58.7%

Out of Compliance with Policy in FY15

# USG Intercollegiate Athletics Special Review

## Summary of Compliance with Policy Proposal: Division II

Competitive Segment	Institution	Policy %	FY 15 Subsidy %
NCAA: DII w/ FB	Albany State (DII w/ FB)	80%	68.0%
	Ft Valley St (DII w/ FB)		78.8%
	Univ of W GA (DII w/ FB)		77.1%
	Valdosta St (DII w/ FB)		62.2%
NCAA: DII w/o FB	Armstrong Atl (DII w/o FB)	80%	81.4%
	Clayton St (DII w/o FB)		69.5%
	Columbus St (DII w/o FB)		73.1%
	GA College & St (DII w/o FB)		74.1%
	Augusta (DII w/o FB)		69.3%
	GA SW St (DII w/o FB)		69.9%
	Univ of N GA (DII w/o FB)		69.8%

Out of Compliance with Policy in FY15

# USG Intercollegiate Athletics Special Review

## Summary of Compliance with Policy Proposal: NAIA & NJCAA

Competitive Segment	Institution	Policy %	FY 15 Subsidy %
NAIA	College of Coastal GA (NAIA)	85%	67.8%
	Dalton St (NAIA)		33.0%
	GA Gwinnett (NAIA)		79.2%
	Middle GA St (NAIA)		87.4%
NJCAA	ABAC (NJCAA)	85%	82.6%
	Atl Metro (NJCAA)		99.3%
	Darton St (NJCAA)		80.0%
	E. GA St (NJCAA)		89.7%
	GA Highlands (NJCAA)		84.1%
	Gordon College (NJCAA)		91.1%
	South GA St (NJCAA)		65.0%

Out of Compliance with Policy in FY15