

NCAA FINANCIAL ACTIVITY REPORT
CONSISTENCY REVIEW
Internal Audit Report

BACKGROUND

The National Collegiate Athletics Association (NCAA) requires Division I member institutions to submit financial data detailing the operating revenues and expenses related to their intercollegiate athletics programs on an annual basis. During the February 2017 meeting of the Board of Regents Athletics Committee, the committee reviewed the most recent submission of data for fiscal year 2015-16. The committee provided direction to the University of Nevada, Reno (UNR) and University of Nevada, Las Vegas (UNLV) concerning their filings, specifically as it related to consistency in how data is gathered and presented to the NCAA. The committee requested the NSHE Internal Audit Department work with the two institutions to determine whether this information is being reported in a consistent manner by the two institutions.

It should be noted, the financial data referenced above is subject to agreed-upon procedures performed by an independent accountant. The reporting legislation is included in the NCAA Division I Manual and is designed to capture all revenues and expenses for or on behalf of an institution's intercollegiate athletics program, salary and benefits data for all athletics positions, capital expenditures, value of endowments at fiscal year-end that are dedicated to the sole support of athletics, value of all pledges at fiscal year-end that support athletics, and the athletic department fiscal year-end fund balance.

The primary purpose of the agreed-upon procedures report is to ensure institutional leadership is made aware of all financial activity for athletics purposes and to assist the institution in exercising control over financial activities of the program. It is not designed to elicit an opinion from the auditors, and the scope of the agreed-upon procedures includes the

revenue and expense reports required to be submitted to the NCAA. According to the NCAA, the definitions used in the agreed-upon procedures provide a consistent means of reporting intercollegiate athletics finances; however, the NCAA also notes that these procedures seek to provide flexibility in complying with the provision of the bylaw requiring submission of financial data.

SCOPE OF REVIEW

The Internal Audit Department has completed its review for consistency in the financial information submitted to the NCAA by UNLV and UNR. The review utilized the most recent submission of data (for fiscal year 2016), and any recommendations should be considered on a prospective basis. Our review program included the following:

1. Interviews with UNLV and UNR Athletics fiscal officers to determine their individual processes for collection and dissemination of data.
2. Developing an understanding of the revenue and expense categories provided by the NCAA and their corresponding definitions.
3. Reviewing each category against institutional processes to determine whether an opportunity exists for improved consistency between the two institutions based on the definitions provided.

As previously mentioned, the NCAA provides definitions to facilitate a consistent means of reporting financial activity, but also notes flexibility. During our review, we did not note any acts or processes that would indicate a violation of NCAA legislation. However, through discussions with institutional personnel, we did find opportunities for improvement in the overall consistency of financial data submitted by UNR and UNLV through re-classification or adjustment of information, as noted in the following sections.

REVENUE CATEGORIES

The NCAA financial activity report, referred to as the NCAA Membership Financial Reporting System, includes 19 separate revenue categories. The categories represent typical sources of intercollegiate athletics revenues as well as indirect institutional support and in-kind contributions. These revenue categories align with the line item submissions of financial data provided to the NCAA. Comprehensive definitions of all line items are provided in the annual NCAA agreed-upon procedures. Of the 19 categories, we recognized eight opportunities to increase consistency in the data submitted by the two institutions. The following table summarizes those categories with a brief NCAA definition, highlighted observations and potential action items.

<u>Revenue Definition Summary (Per NCAA Agreed Upon Procedures)</u>	<u>Observation</u>	<u>Potential Action Item</u>
<p><u>Line 1 (Ticket Sales)</u> - “Input revenue received for sales of admissions to athletic events. This may include:</p> <ul style="list-style-type: none"> • Public and faculty sales • Student sales • Shipping and Handling fees <p>Please report amounts paid in excess of ticket’s face value to obtain preferential seating or priority in Category 8 (Contributions).”</p>	<p>Regarding ticket sales for future periods, it was noted that UNLV defers revenue to next fiscal year for pre-sale tickets, priority sales, etc. UNR includes sales for future periods in the year sold.</p>	<p>To capture ticket sales revenue consistently between the two institutions, UNR should consider an adjusting entry to capture sales for events in the current fiscal year only and deferring revenue for future period events.</p>
<p><u>Line 2 (Direct State or Other Government Support)</u> – “Input state, municipal, federal and other appropriations made in support of athletics.</p> <p>This amount includes funding specifically earmarked for the athletics department by government agencies for which the institution cannot reallocate.</p> <p>Any state or other government support appropriated to the university, for which the university determines the dollar allocation to the athletics department shall be reported in Direct Institutional Support (Category 4).”</p>	<p>The State of Nevada provides an appropriation to the institutions for maintenance of athletics facilities. For UNLV, the appropriation equates to \$11.68 per square foot of athletic facilities. A determination needs to be made whether or not this information is available and/or applicable via UNR facilities / budget office. Currently, UNR athletics is not aware of the calculation methodology for state appropriations.</p>	<p>To capture direct state support consistently between the two institutions, UNR should determine the availability / applicability of the sq. ft. appropriation of its respective athletic facilities.</p>

<p><u>Line 4 (Direct Institutional Support)</u> – “Input direct funds provided by the institution to athletics for the operations of intercollegiate athletics including:</p> <ul style="list-style-type: none"> • Unrestricted funds allocated to the athletics department by the university (e.g. state funds, tuition, tuition discounts/waivers, transfers) • Federal work study support for student workers employed by athletics. • Endowment unrestricted income, spending policy distributions and other investment income distributed to athletics in the reporting year to support athletic operations. Athletics restricted endowment income for athletics should be reported in Category 17.” 	<p>We noted UNLV includes concessions at “gross” amounts; however, UNR includes concession at “net” amounts because concessions are outsourced to a private vendor.</p> <p>The NCAA notes that “whenever possible, provide revenues in the revenue section of the report and expenses in the appropriate expense line item” (i.e. gross vs. net amounts).</p>	<p>To capture direct institutional support consistently between the two institutions, consideration should be given to the applicability of gross versus net for items like concessions. If both reporting methods are appropriate, based on the difference in business models, we recommend a footnote be included in the report noting the difference.</p>
<p><u>Line 6 (Indirect Institutional Support)</u> – “Input value of costs covered and services provided by the institution to athletics but not charged to athletics including:</p> <ul style="list-style-type: none"> • Administrative services provided by the university to athletics but not charged such as HR, Accounting and IT. • Facilities maintenance. • Security. • Risk Management. • Utilities.” 	<p>Some discrepancies were noted between what was included in this line item for each institution. In our discussions with institutional personnel, UNR does not capture certain cost centers such as its compliance and academic services offices while UNLV was including these and other sources of institutional support. It should be noted the NCAA provides an option to account for these costs through a cost allocation methodology (examples include headcount, effort to auxiliaries, federal facilities & administrative rate, etc.), that may be worth consideration in future periods should both institutions deem it appropriate.</p>	<p>To capture indirect institutional support more consistently, UNR should consider additional inputs to this line item such as costs associated with its athletic compliance and academic services offices. For future periods, consideration should be given to discussing an appropriate indirect cost allocation methodology.</p>
<p><u>Line 9 (In-kind)</u> – “Input market value of in-kind contributions in the reporting year including:</p> <ul style="list-style-type: none"> • Dealer-provided automobiles. • Equipment. • Services. • Nutritional product. <p>All in-kind contributions that are made as a result of a licensing or sponsorship agreement should be reported in Category 15. Please offset in-kind values in the appropriate expense category.”</p>	<p>We noted UNLV is reporting its trade-out and cars programs within this line item, while UNR has not previously done so.</p>	<p>To capture in-kind contributions consistently, we recommend UNR include its trade-out and cars program in this category.</p>

<p><u>Line 12 (NCAA distributions)</u> – “Input revenues received from all NCAA distributions including NCAA championships reimbursements and payments received from the NCAA for hosting a championship.</p> <p>In some cases, NCAA distributions may be provided by the conference office. Consult with the conference office for the amount if you do not have it available and include in this category.”</p>	<p>UNLV reports NCAA distributions that flow through the Mountain West Conference in this category. UNR reports these distributions in the Conference Distributions category. Based on discussions, UNR will report the same as UNLV.</p>	<p>We recommend UNR report NCAA distributions that flow through the conference in this category.</p>
<p><u>Line 15 (Royalties, Licensing, Advertisement, Sponsorships)</u> – “Input revenues from:</p> <ul style="list-style-type: none"> • Sponsorships. • Licensing Agreements. • Advertisement. • Royalties. • In-kind products and services as part of sponsorship agreement. <p>An allocation may be necessary to distinguish revenues generated by athletics versus the university if payments are combined.”</p>	<p>Regarding royalties, licensing, advertisement and sponsorships, both departments should be consistent in reporting values at retail.</p>	<p>To capture Royalties, Licensing, Advertisement and Sponsorships in a consistent manner, market value should be reported for both institutions. This will allow for consistency with in-kind contributions reported in line 9.</p>
<p><u>Line 17 (Athletics Restricted Endowment and Investments Income)</u> – “Please report spending policy distributions from athletics restricted endowments and investment income used for athletics operations in the reporting year.</p> <p>This category includes only restricted investment and endowment income used for the operations of intercollegiate athletics; institutional allocations of income from unrestricted endowments qualify as “Direct Institutional Support” and should be reported in Category 4.”</p>	<p>UNR is currently reporting endowment income in the “Contributions” revenue category. We were informed UNR can reclassify and report in this revenue category.</p>	<p>To report endowment income consistently, we recommend UNR reclassify and report restricted endowment income in this revenue category.</p>

EXPENSE CATEGORIES

The NCAA financial activity report includes 22 expense categories representing typical sources of intercollegiate athletics expenses. These expense categories align with the line item submissions of financial data provided to the NCAA. Comprehensive definitions of all line items are provided in the annual NCAA agreed-upon procedures. Of the 22 categories, we recognized five opportunities to increase consistency in the submissions between the two institutions. The following table summarizes those categories with a brief NCAA definition, highlighted observations and potential action items.

<u>Expense Definition Summary (per NCAA Agreed Upon Procedures)</u>	<u>Observation</u>	<u>Potential Action Item</u>
<u>Line 26 (Severance Payments)</u> – “Input severance payments and applicable benefits recognized for past coaching and administrative personnel.”	We noted UNR includes payments to past coaches in the coaching salaries, benefits, and bonuses expense category.	To capture severance payments consistently, UNR should reclassify the appropriate amounts being paid to coaches who no longer work at the institution in this line item.
<u>Line 27 (Recruiting)</u> – “Input transportation, lodging and meals for prospective student-athletes and institutional personnel on official and unofficial visits, telephone call charges, postage and such. Include value of use of institution’s own vehicles or airplanes as well as in-kind value of loaned or contributed transportation.”	We noted UNLV includes the full lease value of loaned vehicles as part of coaches’ recruiting expenses. For non-coaches, UNLV reports this expense in “Other Operating Expenses”. UNR includes the lease value in other operating for coaches and non-coaches.	To capture recruiting expenses consistently, UNR should consider reporting coaches loaned vehicle expenses in this line item. For both institutions, additional consideration should be given as to whether the full lease value should be reported in this line item, or whether it should be an estimate based on lease expenses incurred during eligible recruiting periods.
<u>Line 29 (Sports Equipment, Uniforms and Supplies)</u> – “Input items that are provided to the teams only. Equipment amounts are those expended from current or operating funds. Include value of in-kind equipment provided.”	We noted some uncertainty as to whether or not certain in-kind items were being captured at wholesale or retail. Both institutions should report market value of in-kind items to be consistent with related revenue categories.	To capture sports equipment, uniforms, and supplies expenses consistently, both institutions should capture in-kind items at market value.

<p><u>Line 31 (Fund Raising, Marketing and Promotion)</u> - “Input costs associated with fund raising, marketing and promotion for media guides, brochures, recruiting publications and such.”</p>	<p>Adjustments to this column will be the expense portion that corresponds with the addition of related trade items in the In-Kind revenue category.</p>	<p>Note: Adjustments to this column should naturally occur with the corresponding updates to the In-Kind revenue category.</p>
<p><u>Line 36 (Indirect Institutional Support)</u> – “Input overhead and administrative expenses NOT paid by or charged directly to athletics including:</p> <ul style="list-style-type: none"> • Administrative/Overhead fees not charged by the institution to athletics. • Facilities maintenance. • Security. • Risk Management. • Utilities. • Equipment Repair. • Telephone. • Other Administrative Expenses. <p>Do not report depreciation.</p> <p>Note: This category should equal Category 6.”</p>	<p>As noted in the agreed-upon procedures definitions provided by the NCAA, this category should equal the Indirect Institutional Support revenue category (see line 6 for adjustment discussion).</p>	<p>Note: Adjustments to this column will be consistent with the Indirect Institutional Support revenue category.</p>

CONCLUSION

As noted, the NCAA provides these definitions within the agreed-upon procedures in the spirit of flexibility in complying with the provision of the bylaw requiring submission of financial data. While one Athletics Department may run operations slightly different than another, striving for consistency in financial data presentation wherever feasible is important so that stakeholders are given a useful comparison when reviewing such reports. Internal Audit appreciates the cooperation and assistance received from both Athletics departments on this project, and we encourage continued dialogue as the financial statements are finalized and ultimately submitted to the NCAA.