Ticking and Tying at the Buzzer: An Analysis of the NCAA Agreed-Upon Procedures for Reporting Financial Data

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National Collegiate Athletic Association (NCAA) By-Law 3.2.4.16 requires its member schools to prepare financial data through an agreed-upon procedure (AUP) engagement. The primary purpose of the AUP engagement is to inform a university's chief executive of its athletic department's financial activity. Specifically, this engagement reviews athletic department financial statements based on approved procedures by NCAA members performed on the subject matter. The NCAA AUP guidelines require institutions to provide an annual report to the NCAA detailing their operating revenues, expenses and capital related to their intercollegiate athletic programs. These items include salaries and benefits for athletic positions, capital expenditures, endowment and pledge values, and the department's fiscal year-end balance. The purpose of this examination is to explain the NCAA's AUP procedures for reporting financial data. This investigation details the minimum AUP for revenues and expenses, compliance, internal controls, and affiliated and outside organizations and makes recommendations for their improvement. Potential suggestions for improvement include adopting Activity-Based Costing (ABC) methodologies for cost allocation, releasing financial information for private school NCAA members, and creating an online database for individuals to access the AUP financial reports. Through these changes, the NCAA can provide society detailed knowledge regarding the financial dynamics of college athletics.

Keywords: athletics, agreed-upon procedures, financial standards

Since the turn of the century, the National Collegiate Athletic Association (NCAA) faced several prominent issues, altering the societal perception one maintains regarding the organization and intercollegiate athletics overall (Southall & Staurowsky, 2013). For example, various workshops at the 2015 NCAA Convention centered on leadership and diversity in intercollegiate athletics as well as the push for autonomy for the "Power Five" (e.g., Atlantic Coast Conference, Big Ten, Big 12, Pac 12, and Southeastern Conference) member schools (Hosick, 2015). While these schools now provide their student-athletes scholarships covering the full cost of attendance (Sherman, 2015), the increase in funding continues the upward trend of total expenses for athletic programs, resulting in many Division I programs operating at an annual deficit (Fulks, 2014). However, much criticism regarding the NCAA is centered on the record levels of revenue generated by the organization and its members as many believe athletic programs serve as a major source of revenue for these entities (Matheson, O'Connor, & Herberger, 2012). While total revenues increase each year for Division I schools, total expenses grow at a quicker rate and create increasing deficits for many schools (Fulks, 2014). Interestingly, many scholars argued it is difficult to analyze the financial impact of athletic departments due to inconsistencies in financial reporting (e.g., Ellzey, 2014; Skousen & Condie, 1988; Tuttle, 2009). For example, Alesia (2006) noted some universities record utilities, maintenance, and debt-service expenses related to athletic facilities in athletic department accounts while others record them in institutional accounts. Similarly, Matheson et al. (2012) addressed inconsistencies of proper expenditure accounting for financial aid to student-athletes.

According to Lawrence, Gabriel, and Tuttle (2010), many of the reporting issues in college sports relate to the inconsistency and inaccuracy of financial reporting standards. For example, O'Reilly and Cahn (2007) detailed all coeducational postsecondary institutions participating in a Title IV federal student financial assistance program and in intercollegiate athletics are required by the Equity in Athletics Disclosure Act (EADA) to report their financial and student-athlete data on all sponsored men's and women's teams annually to the U.S. Department of Education. While this information is beneficial, both McEvoy, Morse, and Shapiro (2013) and Sperber (2000) argued EADA reporting requirements are not well defined, causing institutions to be fairly inconsistent with their reporting practices. Although guidelines for universities exist, they differ from the accounting standards required for publicly traded companies (Matheson et al., 2012). Universities follow non-profit financial reporting standards regarding their non-exchange transactions, which are transactions that do not require the expectation that something will be received in the future (Ruppel, 2006). Common activities on non-profit financial reports include tracking contributions by their restrictions (e.g., unrestricted, temporarily restricted, and permanently restricted) and providing increased transparency and disclosures on financial statements (Scot, 2010).

To address the inconsistency in EADA reporting, the NCAA mandated its members must arrange their financial reports in accordance with non-profit generally accepted accounting principles (GAAP). NCAA By-Law 3.2.4.16 states all Division I institutions must prepare financial data through an agreed-upon procedure (AUP) engagement approved by all Division I members (NCAA, 2014a). Division II also institutes a similar financial report requirement but asks its members to comply once every three years (NCAA, 2014b) while Division III members include their athletic department's financial activity with their university's audited financial statements (NCAA, 2014c). The primary purpose of the AUP engagement is to inform a university's chief executive of all intercollegiate athletic financial activity which are verified through a qualified accountant that is not an employee of the institution (NCAA, 2013, 2014a). In other words, an accountant hired by a university must be independent in both fact and appearance to ensure the accountant's integrity, objectivity, and professional skepticism is not compromised (Ference, 2013).

While the NCAA requires its members to prepare financial reports, the association does not release this data to the general public (Berkowitz, 2014). Instead, the association releases a generalized annual report that monitors the revenue and expense trends of its member schools over time (Fulks, 2014). The *USA Today* annually compiles a financial database of all public Division I schools by collecting their NCAA reports through individual open-record requests (Berkowitz et al., 2015; "Methodology for NCAA Athletic," 2016). Unfortunately, private schools are exempt from open-record request laws due to their classification as private, non-profit organizations (Matheson et al., 2012). Similarly, the NCAA itself is considered a private, non-profit organization and is also not required to disclose its organizational financial reports to the general public. However, in an unprecedented act, the association released its audited financial statements for the year ending August 31, 2015 and 2014 following the results of the O'Bannon and Keller court cases (Berkowitz, 2015a; Deloitte & Touche, 2015).

Although the NCAA has made advancements with its financial reporting requirements, many scholars continue to identify issues with the association's standards, particularly issues with standardization. For example, Cheslock and Anderson (2005) highlighted revenue reporting requires significant modifications as reported figures were inconsistent across institutions, with many including student fees or university general fund contributions to these figure. Additionally, Zimbalist (1999) explained expenditure reporting suffers from a lack of clarity regarding commonly accepted accounting standards since EADA reports do not detail the allocation of funds. Again, Cheslock and Anderson (2005) questioned whether student-athlete scholarships are allocated to an athletic department or a financial aid office. However, few scholars explain these issues with relation to accounting and auditing guidelines.

The purpose of this examination is to explain and better educate both scholars and the general public about the accounting and auditing principles utilized within the NCAA's AUP requirements in order to provide solutions for standardization. First, this investigation details the differences between the various assurance and attestation activities accountants provide as many are unfamiliar with the differences in services offered. This explanation is followed by an analysis of the current AUP procedures according to the American Institute of Certified Public Accountants (AICPA), which represents the accounting profession nationally regarding rule-making and standard-setting. These procedures are vital to the profession as independent accountants cannot perform any assurance or attestation task efficiently without consistent guidelines. Finally, this examination explores potential improvements to the NCAA financial reporting framework to determine if additional requirements will enhance or harm the current NCAA AUP reporting standards. In particular, this review advocates for the adoption of an Activity Based Costing (ABC) model, which assigns costs on organizational activities and then to the products based on the usage of resources and activities. Furthermore, many of the issues surrounding the financial guidelines identified by scholars are based upon the lack of access to all financial records for all member schools. Thus, this review also advocates for an online disclosure system to provide the general public with easily accessible financial records for both the NCAA and its member schools. By providing consistent and accessible financial records, sport management scholars and society in general can acquire detailed knowledge of the financial dynamics of the levels of college athletics.

Assurance and Attestation Engagements

According to the AICPA (2012a, 2012b), accountants perform three distinct services based upon the level of attestation, or validation, a client requires. First, accountants perform non-attestation services such as general bookkeeping and tax return preparation (Fried, DeSchriver, & Mondello, 2013). An accountant can also be hired to provide assurance to financial statement users (i.e., investors, stakeholders, etc.) that the company's prepared records provide a true and fair view of the firm's financial performance and information on any significant financial activities (Holmes & Burns, 1979). The most common assurance engagements are financial statement audits and financial statement reviews. These activities require accountants to express an opinion about their evaluation of a company's financial position (Beasley & Carcello, 2014). However, accountants perform other attestation services without providing assurance such as AUP reports (Hayes, Dassen, Schilder, & Wallage, 2005).

Audit

All companies maintaining publicly traded securities are required to file annual financial reports and disclose important financial information (Arens & Loebbecke, 2006; Fried et al., 2013). These reports are filed with the U.S. Securities and Exchange Commission and are examined by independent auditors to verify a firm's financial statements are accurate, truthful, and complete (Doyle, Ge, & McVay, 2007). An audit provides financial statement users with reasonable assurance that the statements are presented fairly, in all material respects, and in accordance with the applicable financial reporting framework (e.g., U.S. GAAP) (Francis, Pinnuck, & Watanabe, 2014). However, an auditor is not responsible for financial statement preparation as an organization's management is tasked with this procedure (Whittington & Delaney, 2013; Whittington & Pany, 2006). In addition to publicly traded companies, Hargrave (2003) noted organizational by-laws as well as lending institutions can require firms to conduct a financial statement audit. When engaged with a client, an independent auditor must follow detailed standards known as the Generally Accepted Auditing Standards (O'Keefe, King, & Gaver, 1994). These standards are classified into three categories: 1) general standards; 2) field work standards; and 3) reporting standards. General standards require auditors to have adequate technical training and proficiency to perform audits, maintain independence in mental attitude relating to an audit, and exercise due professional care in the performance of the audit (Messier, 2000). Standards of field work require auditors to adequately plan and supervise the work, obtain a sufficient understanding of the entity and its environment, and obtain sufficient and appropriate audit evidence to capture a reasonable basis for the auditor's opinion (Beasley & Carcello, 2014; Holmes & Burns, 1979). Finally, standards of reporting note auditors state whether a firm's financial statements are following GAAP, identify circumstances in which GAAP has not been consistently observed, determine when informative disclosures are not reasonably adequate, and express an opinion regarding the financial statements (O'Keefe et al., 1994).

The Generally Accepted Auditing Standards require auditors to obtain reasonable assurance an entity's financial statements are free of material misstatement whether due to fraud or error (Blackwell, Noland, & Winters, 1998). Maijoor et al. (2002) explained reasonable assurance is acquired when an independent auditor collects sufficient and appropriate evidence to reduce audit risk, or the risk an auditor may express an inappropriate opinion when the financial statements are materially misstated, to an acceptably low level. The evidence required for this engagement are the financial records used and maintained by the client to prepare its financial statements (Messier, 2000). The auditor analyzes this evidence to ensure the general public the financial statements prepared by the client are in accordance of GAAP and free of material errors. However, reasonable assurance is not absolute since the evidence an auditor acquires has an inherent limitation of being persuasive opposed to conclusive (Beasley & Carcello, 2014).

In addition to providing an opinion, an independent auditor may examine the effectiveness of a firm's internal controls over financial reporting (Whittington & Delaney, 2013). Internal controls are processes and mechanisms used in the management of a company to assure the effectiveness and efficiency of financial reporting (Meigs, Whittington, & Meigs, 1982). A firm's management designs and implements these controls to detect and correct any potential errors or fraud. Similar to the financial audit, an auditor's responsibility is to express an opinion providing reasonable assurance on the reliability of financial statement preparation (Fried et al., 2013). An internal controls audit can be integrated in a financial statement audit but does create additional responsibilities for the auditor. For example, auditors test controls to obtain sufficient and appropriate evidence to support the opinion on internal control as of the period-end as well as the auditor's control risk assessments for the audit (AICPA, 2012a, 2012b).

Review

If a firm is not required to conduct an audit, the organization may still employ an accountant to provide assurance in the form of a review (Maijoor et al., 2002). A review is less comprehensive than an audit as it provides limited assurance, indicating only a moderate risk of material misstatement (Blackwell et al., 1998; Meigs et al., 1982). Reviews also ensure financial statement users the performing accountant is not aware of any needed material modifications for the firm's financial statements to conform to the applicable financial reporting framework (Beasley & Carcello, 2014). Accountants engaged in reviews are required to follow the principles and procedures contained in the Statements on Standards for Accounting and Review Services (SSARSs) (Whittington & Delaney, 2013). These guidelines state accountants must perform tasks designed to collect sufficient evidence to provide a reasonable basis for obtaining limited assurance regarding material modifications (Tysiac, 2014). However, accountants can perform additional procedures if one determines such procedures to be necessary to obtain the required limited assurance (Hayes et al., 2005; Messier, 2000).

Accountants conducting review engagements should maintain an adequate understanding of the client and its industry and must tailor procedures based on that knowledge (Maijoor et al., 2002). In other words, accountants design analytical procedures and other practices based on their understanding of the client and its industry (Beasley & Carcello, 2014). For example, accountants working on athletic department engagements must possess detailed knowledge regarding the acceptable methodologies of depreciation for capital assets in order to report the client's annual depreciation expense. The review procedures used in the engagement can only be performed successfully when an accountant is familiar with the client's industry-specific principles. This knowledge can be obtained through formal or continuing education, practical experience, or consultation with others (AICPA, 2012a, 2012b). Upon completion, an accountant report is issued stating the engagement was performed in accordance with SSARS and details management's responsibility of financial statement preparation and implementing and maintaining internal controls (AICPA, 2013).

Agreed-Upon Procedures

AUP engagements are attestation engagements where accountants are tasked to report on findings according to a client's requested procedures (Messier, 2000). AUP engagements are requested by companies when a third party, such as a governmental entity, mandates an analysis of certain financial data for the firm to be in compliance with the third party (AICPA, 2012a, 2012b). Unlike audits and reviews, AUP projects do not require accountants to provide any type of assurance, allowing third parties requesting information to form their own conclusions on the client's financial report (Whittington & Delaney, 2013). Instead, the accountant's report states the AUP procedures, its findings, and its use is restricted to the client and respective third parties. Because it is considered an attestation project, accountants hired for AUP engagements must follow the general, fieldwork, and reporting standards for attestation engagements as established in the Statements on Standards for Attestation Engagements (Maijoor et al., 2002).

To perform an AUP engagement, accountants must be independent from both the client and the third party while the client is responsible for the financial subject matter or must be able to provide evidence of a third party's need for information (AICPA, 2012a, 2012b, 2013; Messier, 2000). Once the parties agree on the needed procedures, the client and third parties assume responsibility for the AUP's sufficiency (Whittington & Delaney, 2013). This task is accomplished through communication directly between the accountant and specified parties to obtain affirmative acknowledgment. Finally, an accountant is expected to apply reasonably consistent measurements when applying procedures to the specific subject matter (Hayes et al., 2005). This application should result in consistent findings and provide a reasonable basis for expressing said findings in the accountant's report (Maijoor et al., 2002). Similar to reviews, accountants must possess adequate knowledge in the specific subject matter to which the AUP apply (Messier, 2000; Whittington & Delaney, 2013). However, accountants are not required to perform any procedures that are overly subjective and can leave room for varying interpretations (AICPA, 2013). Instead, accountants obtain evidential matter from applying the AUP to provide a reasonable basis for the findings expressed in the report (Hayes et al., 2005).

Intercollegiate Athletic Financial Reporting

The NCAA maintains an interesting history regarding financial data. Before 1994, the NCAA requested financial and performance data on intercollegiate athletics from its member schools through the use of surveys (Thelin, 2000). However, the response rate from institutions at this time was very low, ranging between 46% and 60% (Suggs, 1999). Further, Thelin (2000) identified several inconsistencies regarding the collected data as the process did not include information on which schools completed the surveys nor were there any sophisticated provisions for scaling, projections, or extrapolations. In order to get schools to disclose athletic department financial information, Congress passed the EADA in 1994. The EADA was instrumental for scholars desiring access to intercollegiate sport financial data including those reviewing Title IX implementation and compliance (e.g., Anderson, Cheslock, & Ehrenberg, 2006; Buzuvis, 2006; Lawrence, Li, Regas, & Kander, 2012; Orszag & Orszag, 2005). However, as noted earlier, the

EADA framework has some ambiguity where each school can implement different policies on certain items, creating financial data inconsistencies.

NCAA Agreed-Upon Procedures

To address this ambiguity, the NCAA amended its by-laws in 2004 detailing the AUP reports each member must complete (NCAA, 2013). Division I members must file two separate and distinct reports for financial data: 1) an AUP report, submitted to the university's chief executive and 2) an online membership report containing financial data, submitted to the NCAA. Both reports include EADA data requirements but contain additional financial information (Berkowitz, 2014). The NCAA membership report is a survey completed by a school's athletic department stating only the revenues and expenses for each individual sport ("NCAA Membership Financial Report," 2014). In comparison, the AUP statements display all financial data regarding revenues, expenses, debt services, and capital related to a school's athletic department (NCAA, 2012a). Further, the AUP report provides information on the value of endowments and pledges supporting athletics at the fiscal year-end as well as the department's fiscal year-end fund balance (J. E. Vance & Company, 2014). These reports are subjected to the agreed-on verification procedures approved by the membership as well as any regular financial reporting policies and procedures of the institution (NCAA, 2013). As such, a qualified independent accountant must be hired to verify the accuracy and completeness of the data.

Division II members are bound by By-Law 6.2.3.1.1, which states the expenses and revenues for or on behalf of a Division II member's athletics programs are subjected to AUP engagements at least once every three years (NCAA, 2014b). Similar to Division I schools, Division II employ a qualified independent accountant and perform an identical submission process. However, if a Division II member institution conducts an overall school audit that includes the athletic department, then the Division II member is not required perform a separate AUP engagement (NCAA, 2013). Division III members are not required to complete AUP reports (NCAA, 2014c). Instead, Division III By-Law 6.2.3 states "all expenditures and revenue for or on behalf of a Division III member institution's intercollegiate athletics programs shall be subject to the institution's regular financial audit" (NCAA, 2014c, p. 42).

Since athletic department organizational structures differ, the financial reporting procedures and internal controls also vary among schools (NCAA, 2013). For example, the Louisiana State University (LSU) Athletic Department is a separate entity from the institution (Louisiana Legislative Auditor [LLA], 2015) while the University of Alabama classifies its athletic department as an auxiliary service such as food services and student housing (PricewaterhouseCoopers, 2014). Similarly, the procedures schools utilize regarding the inclusion of cash or in-kind contributions from affiliated and outside organizations also vary considerably (NCAA, 2013). Practices also differ for particular line items such as indirect facilities, grants-in-aid costs, and student-activity fees. Due to these differences, the NCAA adheres to the AICPA (2012a, 2012b) guidelines that require independent accountants to have a detailed knowledge of the member school and operations in intercollegiate athletics. These individuals must recognize differences among programs since the NCAA does not mandate a particular organizational structure or budgetary approach (NCAA, 2013).

The information athletic departments submit to the NCAA include a comparison of actual revenues and expenses related to their programs. These items contain budgets, evaluations of internal controls affecting the operations of the department, and explanations of the relationship of expenses for or on behalf of college athletics by affiliated or outside organization (e.g., booster groups, alumni organizations, independent or affiliated foundations) to institutional expenses for similar purposes (NCAA, 2013).

Revenues and Expenses

Although revenue sources may differ among institutions, the NCAA AUP report identifies 14 categories that are typical sources of intercollegiate athletics revenue (NCAA, 2013). Table 1 provides the listing and definitions for these categories. Because some categories provide ambiguity, the NCAA AUP explains what should be considered in each category. For example, ticket sales should include all event admission sales from the public, faculty, and students as well as money received for shipping and handling of tickets. However, amounts received in excess of a ticket's face value as well as money received from conference and national tournaments through pass-through transactions should be incorporated within the contributions and NCAA/conference distributions categories respectively (NCAA, 2013). The AUP guidelines also define 20 different expense categories, 19 of which are considered operating expenses. Table 2 details each expense category.

Regardless of classification, the independent accountant must verify the amounts reported on the financial statements agree with a school's general ledger. To accomplish this task, the accountant first compares each revenue and expense figure with any supporting schedules provided by the institution (NCAA, 2013). As an example, Moss Adams, LLP (2014) obtained the schedule for intercollegiate athletics prepared by the University of Oregon Athletic Department in the 2012-13 fiscal year, proved the arithmetical accuracy of the schedule, and compared the amounts reported to the revenue recorded in the general ledger. Next, the accountant randomly selects a predetermined number of receipts from each category and agrees the amounts provided on the receipts to supporting documentation. Moss Adams (2014) haphazardly selected five athletic operating revenue receipts and compared the sample items to the supporting documentation provided by the University of Oregon.[i] Finally, the accountant analyzes each account that is either over $1 million or 10% of total revenues/expenses to the prior period amount (NCAA, 2013). BKD CPAs and Advisors (2014a) reviewed documentation from The University of Louisville Athletic Department detailing increases of $1 million in ticket sales, distributions, coaching salaries, and game expenses in the 2012-13 fiscal year.

In addition to these general procedures, each revenue and expense account has separate procedures related to the nature of the account itself. For example, accountants select a sample of student-athletes from a list of student aid recipients and compare the total aid allocated to each student-athlete to the student's award letter for the athletic student aid account (NCAA, 2015). Once verified, the accountant recalculates the totals to confirm the correct amount is reported for each sport and overall. The University of Kentucky Athletic Department (2012-13 fiscal year) report noted three students were chosen by their student identification numbers from the listing of student aid recipients (BKD, 2014b). Each student's account detail was then compared to the total aid allocated from their individual reward letters. However, if any category is less than .5% of the total revenues or expenses in the fiscal year, no procedures are required (NCAA, 2015).

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[i] Haphazard sampling is a non-statistical technique used to approximate random sampling by selecting sample items without any conscious bias and without a specific reason for including or excluding items (AICPA, 2012).

Capital Expenditures

The NCAA (2013) does not require procedures to review or verify any capital expenditures (i.e., addition or removal of an asset or debt) a program incurs in the fiscal year. Instead, each school completes a Capital Expenditure Survey, which shows the additions and deletions of capital assets as well as any related debt to these facilities. However, accountants are asked to review the survey content and develop procedures for these items as requested by the institution (NCAA, 2013). Thus, several schools provide information on their capital expenditures and debt instruments (BKD, 2014a; 2014b; LLA, 2015). Accountants take this information and perform procedures similar to those of the revenue and expense accounts. For example, J. E. Vance and Company (2014) obtained The University of Mississippi Athletic Department's schedule for long-term debt and amortization schedule in the 2012-13 fiscal year for the retirement of debt and recalculated the reported totals.

Internal Controls

Opposed to reviewing all university or athletic department internal controls, the accountant analyses controls unique to intercollegiate athletics (LLA, 2015). These controls include department organization, staff consciousness and competency of controls, internal auditor use, adequate safeguarding of records, and information technology (NCAA, 2013). During the 2012-13 fiscal year, Grant Thornton, LLP (2014) tested the organizational chart and the policies and procedures manual in the Oklahoma State University Athletic Department and toured equipment rooms in Boone Pickens Stadium to analyze the controls protecting football equipment. In situations where the accountant performs control testing in connection with the audit of the institution's financial statements, the accountant is free to expand the scope of these tests to include athletic department transactions. For example, the Office of the Utah State Auditor (2014) reviewed specific elements of the University of Utah Athletic Department control structure in the 2012-13 fiscal year including testing transaction samples for compliance with internal control policies within the Ticket Office, Business Office, and Payroll Office.

Affiliated and Outside Organizations

Because university athletic departments maintain associations with third-party organizations like athletic foundations and booster clubs, accountants are responsible for applying AUP procedures to the revenues and expenses attributed to these organizations outside of the institution's accounting control (NCAA, 2013). To perform these tasks, the institution must first identify all affiliated and outside organizations and obtain their respective financial statements for the athletic department's reporting period. Once made available, accountants can either agree the amounts reported in the statement to the affiliated organization's general ledger or confirm the revenues and expenses directly with a responsible official of the affiliated organization (NCAA, 2013). For example, the LLA (2015) obtained from the LSU Athletic Department's summary of revenues and expenses from the Tiger Athletic Fund (TAF), an LSU booster organization, highlighting which accounts are impacted by TAF in the 2013-14 fiscal year. In addition, accountants can obtain and review the affiliated organization's audited financial statements and any reports regarding its internal controls if the organization is audited independent of the AUP procedures (NCAA, 2013). The LLA (2015) performed this process by collecting auditor's reports for TAF, noting their financial statements were audited by an independent certified public accounting firm and did not include a report on internal controls.

Summary of NCAA AUP Procedures

Upon review of these guidelines, the NCAA AUP Procedures appear to inform the general public of the financial affairs of its member schools. However, some ambiguity exists with the procedures due to the different ways universities classify their athletic departments as well as some differentiation between certain account names. This ambiguity also seems to cause issues when attempting to compare universities rather than comparing financial records. As such, the standards appear to be efficient and effective in providing stakeholders sufficient information on the inner workings of a university's athletic department. Still, many scholars and lawmakers have called for changes to the NCAA's financial reporting practices.

The Standardization of Collegiate Oversight of Revenues and Expenditures Act

Although NCAA AUP reports provide significant detail regarding athletic department financial affairs, current litigation does not require all schools to release their financial data to the general public (Berkowitz, 2014; Matheson et al., 2012; Zimbalist, 1999). These entities include the NCAA organization, all private schools, all athletic conferences, all bowl game organizations, and the College Football Playoff organization (Wiseman, 2014). Thus, in 2014, Representatives David Price (Democrat - North Carolina) and Tom Petri (Republican – Wisconsin) proposed the Standardization of Collegiate Oversight of Revenues and Expenditures (SCORE) Act (Berkowitz, 2014). This act proposed all schools, regardless of size or if private, as well as the aforementioned entities release wide-ranging and easily accessible financial reports to provide the general public with a better understanding of the money behind college athletics.

The intent of the SCORE Act (2014) is to amend Sections (§) 485(g) and 487(a) of the Higher Education Act of 1965 in order to require all schools to report revenue generated by each of their sponsored sport teams. Section 485(g) discusses how each institution sponsoring intercollegiate athletics programs must prepare an annual report detailing items such as the number of male and female full-time undergraduates, the varsity teams sponsored, the total amount of money spent on athletic student aid, and the total amount of revenues and expenditures for men's and women's sports (Higher Education Act, 1965). The SCORE Act (2014) would add to these reporting requirements by requiring a comprehensive explanation of the revenue and expenses generated for each sponsored sport. While the bill identifies the same revenue and expense categories within the NCAA AUP report, the SCORE Act would require schools to provide more information regarding certain items such as broadcast revenue. Specifically, each school would specify the revenue received for television, radio, Internet, and print media in separate lines for each sponsored sport.

The additions to §485(g) would also require the Secretary of the Treasury to assemble a task force of nonprofit and higher education accounting experts, professionals, and organizations representing the members of each NCAA division (SCORE Act, 2014). This task force would review the proposed revenue and expense categories annually and update these categories in accordance with changes to U.S. GAAP and the intercollegiate athletic field. Interestingly, members of other intercollegiate athletic governing bodies such as the National Association of

Intercollegiate Athletics were not included in this proposed task force, which may be based on how they are viewed at a similar level to Division I. In other words, the pervasive influence of the highly visible Division I programs overshadows the true importance of college athletics and may corrupt the overall relationship with higher education (Vincent & Williams, 2016). Thus, only the NCAA is explicitly mentioned in the bill. Finally, the bill would require schools to submit the report asked by §485(g) but must be verified through an independent audit opposed to the AUP procedure. If the school did not comply, the school would be restricted from joining an intercollegiate athletic association or participate in any competition (SCORE Act, 2014).

The National Collegiate Athletics Accountability Act

The SCORE Act received great appreciation from the media but ultimately did not pass in the U.S. House of Representatives in July 2014 (Wiseman, 2014). Despite this setback, other Congress members have proposed legislation to create additional regulation for the NCAA. In 2013, Representatives Charlie Dent (Republican – Pennsylvania) and Joyce Beatty (Democrat – Ohio) introduced the National Collegiate Athletics Accountability Act (NCAA Act) of 2013 as another measure to amend §487(a) of the Higher Education Act of 1965 (Wogenrich, 2015). Unlike the SCORE Act, the NCAA Act sought to provide detailed concussion protocols to players and universities (Solomon, 2013). These measures include requiring annual baseline concussion tests for all athletes participating in full contact/collision or limited contact/collision sports; guaranteed and irrevocable (based on athletic skill or injury) four-year scholarships for student-athletes participating in contact/collision sports, preventing schools from installing policies that would prohibit paying stipends to athletes, and creating a formal administrative hearing for student-athletes and universities prior to any NCAA punishment for an alleged violation (NCAA Act, 2013). Despite its good intentions, the bill did not advance past the House Subcommittee on Higher Education and Workforce Training (Berkowitz, 2015b).

Two years later, Representatives Dent and Beatty reintroduced a revised NCAA Act in 2015 and were joined by Representatives Bobby Rush (Democrat – Illinois), John Katko (Republican – New York), and Glenn Thompson (Republican – Pennsylvania) (Bromberg, 2015). The 2015 bill contained the same proposals as its 2013 counterpart but also called for the establishment of the Presidential Commission on Intercollegiate Athletics. This committee would be comprised of 17 members selected by President and Majority and Minority Leaders of the Senate and House of Representatives and tasked with overseeing the various activities of intercollegiate athletics (NCAA Act, 2015). These activities include interactions between athletics and academics, financing and taxation, recruitment, governance, and health and safety protections. According to Wogenrich (2015), lawmakers argued the bill was necessary "to protect the health and safety of athletes, provide them with due process during infractions proceedings and return the NCAA to its original mission" (para. 4).

Similar to 2013, the NCAA Act of 2015 was referred to the Subcommittee on Higher Education and Workforce Training. Although the bill was recommended to the same subcommittee, Representative Dent believes this new edition has a greater chance of getting consideration (Berkowitz, 2015b). However, the act may have been proposed not for the benefit of student-athletes but rather a reaction to the NCAA's punishments to particular schools within the Representative's districts. Specifically, Bromberg (2015) questioned the motives of Representatives Dent and Katko as both representatives have been critical of the NCAA following its stance on Penn State University following the Jerry Sandusky sex abuse scandal and Syracuse University after discoveries of academic misconduct, drug testing violations, and impermissible benefits from boosters. As such, the NCAA Act of 2015 may suffer a similar fate as the 2013 bill.

While the NCAA Act does not directly discuss the NCAA's financial reporting standards, its potential impact could alter the reporting standards for each member school. For example, the Presidential Commission on Intercollegiate Athletics has the ability to recommend any changes deemed necessary such as requiring all schools participating in intercollegiate athletics to be audited annually opposed to the NCAA's current requirement for AUP financial statement engagements. Although the recommendation would be under the guise of providing public assurance, this potential suggestion could cause increased deficits for athletic departments as costs to conduct audits are higher than costs for AUP engagements (O'Keefe et al., 1994). Further, the committee could also impose penalties to universities not complying with this standard by stripping Title IV funding, damaging the school's ability to provide financial aid to its students.

Recommendations

The concerns of these various lawmakers are shared by several sport management scholars who argue the NCAA's financial reporting framework needs improvement (Lawrence et al., 2010; Matheson et al., 2012). Specifically, both the SCORE Act and NCAA Act make suggestions to require athletic departments to provide audited financial statements annually. While audits do provide the highest level of assurance (Beasley & Carcello, 2014; Doyle et al., 2007; Holmes & Burns, 1979), the standards of reporting and information required for the AUP reports appears to be sufficient and consistent for all university stakeholders. Furthermore, the change from an AUP engagement to an audit or review would be more expensive as accountants would be tasked with providing additional services at a higher cost without a significant difference in assurance. This increase in expenses would only continue the current trend of increased expenditures from athletic departments (Fulks, 2014). The NCAA AUP requirements provide important protocols to correct the financial reporting issues scholars have identified and can help guide athletic departments how to properly disclose their financial information. Furthermore, the AUP reports showcase a significant level of financial data and are more detailed than the EADA requirements.

However, the NCAA AUP reporting standards are not without their issues. One of the major issues scholars identify with intercollegiate athletic financial reporting relates to cost allocation. Several scholars note inconsistencies with EADA data in regards to expense reporting among athletic departments (Lawrence et al., 2010; Thelin, 2000; Tuttle, 2009). Specifically, athletic departments are not required to allocate or attribute particular expenses to the individual sports that accrue them. For example, universities often have several teams host events such as practices and games in one facility (e.g., men's and women's basketball; volleyball; gymnastics, etc.). While some utilities, staff, and maintenance costs for the facility can be directly tied to the individual sport, there exist indirect expenses that must be allocated to the different programs under the athletic department. Continuing the example, the facility staff salary and wages are reported as an expense but could be allocated to any or all programs participating in the facility. Furthermore, the facility will have indirect costs such as overhead staff expenses that must be allocated. Unfortunately, the EADA or NCAA AUP guidelines do not provide a required cost allocation framework, leaving universities allocate costs in an inconsistent manner and creating difficulties when trying to compare institutions.

To address this issue, Lawrence et al. (2010) and Tuttle (2009) suggested athletic departments should adopt ABC costing methodology. As mentioned earlier, ABC is a cost methodology that assigns costs first to an organization's activities and then to the products based on each product's usage of resources and activities (Maher, 2005). Activities include any discrete task that firms undertake to make or deliver a product such as placing a purchase order. ABC relies on the concept that products consume activities and activities consume resources (Awasthi, 1994; Cooper & Kaplan, 1988). This methodology helps managers identify the activities that go into making goods and providing services and the cost for those activities (Maher, 2005). The cost of activities is discovered through the use of cost drivers, which capture overhead costs into overhead pools and allocate them to products based on activities possessing a cause-effect relationship with cost occurrence (Brown, Myring, & Gard, 1999). ABC provides more accurate cost information for a company's products and does not create distorted data that results from traditional costing systems (Lawrence et al., 2010). Further, ABC creates more reliable information allowing officials to make informed choices regarding important company decisions (Cooper & Kaplan, 1988).

Within higher education, several universities have adopted an ABC model in efforts to improve university management systems (e.g., Cropper & Cook, 2000; Pernot, Roodhooft, & Van den Abbeele, 2007; Pittman & Wilhelm, 2007). According to Valderrama and Sanchez (2006), one of the advantages of an ABC model is the institution itself determines its most important activities, the cost of those activities, and their output and means of measuring it. For example, the cost objects in an ABC model for universities would be the various outputs in research, teaching, and services. For teaching, activities could include postgraduate courses, doctoral programs, or the teaching provided in class toward a particular degree. This process would provide a greater understanding to the kinds of activities occurring in the academic world and their associated costs (Valderrama & Sanchez, 2006). However, the ABC model does have difficulty measuring productivity and quality among academic programs as well as issues with assigning faculty costs to activities (Paulus, Van Raak, & Keijzer, 2002). Despite these limitations, the ABC framework provides a feasible methodology to assign costs to all activities.

However, many university departments do not have adequate accounting information systems to immediately implement such a model (Lawrence et al., 2010). According to Granof, Platt, and Vaysman (2000), the use of an ABC cost allocation model was the first real measurement system employed for many universities. Within their investigation of a school's accounting department, Granof et al. (2000) noted the primary benefit of incorporating an ABC model was providing structure for proper accounting. Lawrence et al. (2010) stated athletic departments are organized in a similar manner, where both have administrative and support divisions that do not benefit all programs uniformly. Thus, significant modifications to an athletic department's accounting information systems would be needed, potentially creating a high initial cost during implementation. However, the benefits would outweigh the associated costs as the NCAA AUP framework would provide consistent and transparent financial reporting that would be free from potential public scrutiny. Furthermore, the NCAA AUP methodology could establish uniformity among all athletic departments to allow for easier financial data comparisons and increasing public confidence (Arens, Elder, & Beasley, 2008).

Along with cost allocation, the NCAA AUP could also improve its methodology through establishing a reliable definition of profit and a true understanding of athletic department subsidization. Matheson et al. (2012) noted accurate reporting of profits and losses is not readily available due to the lack of uniformity in applying accounting standards as well as the characteristics of the university environment. Specifically, many universities participating in intercollegiate athletics must rely on institutional support to fund their programs. These subsidization sources come either directly or indirectly from the student body, the institution itself, or state governments (Matheson et al., 2012). Without this funding, very few institutions are able to finance their athletic departments (Fulks, 2014). As such, many athletic departments associated with the NCAA are competing at a net cost to their institutions. Because this money is directly generated from public sources (e.g., state government funding, student fees, direct payments from universities, etc.), it would be beneficial to the general public to understand how this money is utilized and allocated within the athletic department.

Unfortunately, only public schools affiliated with the NCAA provide financial data from their athletic departments to the general public as private schools are exempt from releasing this data. With pressures emerging from society regarding the rise in revenues (Berkowitz, 2014), the NCAA should revisit this policy and encourage private schools to release their financial data. As a measure to encourage these schools to do so, the NCAA could release its own financial statements to the general public since the association itself is tied directly to most societal issues in intercollegiate athletics (e.g., amateurism, concussions, paying student-athletes, etc.) (Edelman, 2014). By releasing its own information annually, the NCAA could create goodwill similar to the National Football League's decision to forego its favorable §501(c)(6) tax position and pay corporate income taxes (Williams, 2016). In addition, the NCAA financial statements provide sufficient details about the financial structure of its organization as it provides information on its revenue generation and distribution to its member schools (Deloitte & Touche, 2015). To entice private schools further, the NCAA could offer an incentive to private schools to get their full cooperation such as reduced annual membership dues.

Finally, the NCAA AUP reporting procedures should incorporate the SCORE Act's (2014) suggestion and display the revenues and expenses for each sport sponsored by a member school. The NCAA already requires its members to provide this information through its online survey requirement. However, this financial data should be more readily available to the general public through an online database. This database can mirror the Securities and Exchange Commission's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) System, which is comprised of the submissions by companies and others required by law to file forms with the Securities and Exchange Commission in order to increase the effectiveness and efficiency of the securities market (Hannon, 2003). These forms include a company's Form 10-K, which describes to stakeholders a firm's financial health and provides audited financial statements (Beasley & Carcello, 2014). Because the NCAA requires annual financial reporting, the NCAA could easily develop its own version of EDGAR where individuals can access a school's NCAA AUP and EADA reports along with other required annual NCAA forms.

Conclusion

The NCAA AUP procedures are a sufficient form of reporting that provide the general public assurance the information contained in the financial statements are in accordance with GAAP and in compliance with NCAA By-Law 3.2.4.16. As such, a change from attestation service to assurance service is not necessary. However, this framework could be improved to provide the public with increased details about their favorite sports. Through the development of a consistent and reliable ABC model, the NCAA could provide society with a better understanding of the financial dynamics of intercollegiate athletics. University officials could make sound decisions regarding their athletic department programs through a detailed understanding of each program's major sources of revenue and expenditures. Finally, consistent financial policy would help clarify the perception many have regarding intercollegiate athletics as a cash cow for a university and highlight areas schools could explore to fund their programs.

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Table 1

NCAA Agreed-Upon Procedures Classification of Revenues

Category	Definition
Ticket Sales	Revenue received for sales of admissions to athletics events from the public, faculty and students as well as money received for shipping and handling of tickets.
Student Fees	Student fees assessed and restricted for the support of intercollegiate athletics.
Guarantees	Revenue received from participation in away contests.
Contributions	Amounts received directly from individuals, corporations, associations, foundations, clubs, or other organizations that are designated, restricted, or unrestricted by the donor for the operation of the athletics program. Includes amounts paid in excess of ticket's value.
In-Kind	Market value of in-kind contributions such dealer-provided automobiles, equipment, services, and nutritional products.
Compensation and Benefits Provided by a Third Party	Amounts provided by a 3rd party and contractually guaranteed by the institution, but no included on the institution's W-2 (e.g., car stipend, country club membership, speaking fees, etc.).
Direct State or Other Govt. Support	State, municipal, federal, and other government appropriations made in support of the operations of intercollegiate athletics.
Direct Institutional Support	Value of institutional resources for current operations of intercollegiate athletics and all unrestricted funds allocated to the athletics department by the university (e.g., state funds, tuition, tuition waivers, and transfers). Includes Federal Work Study Support for student workers employed by athletics.
Indirect Facilities and Administrative Support	Value of facilities and services provided by the institution not charged to athletics such as allocations for institutional administrative cost, facilities and maintenance, grounds and field maintenance, security, and risk management.
NCAA Distributions	Revenue received from bowl game and tournament participation, all NCAA distributions (including hosting NCAA championships).
Conference Distributions	Revenue received from conference distribution, excluding portions of distribution relating to media rights or NCAA distributions.
Broadcast Rights	Revenue received directly for radio and television broadcasts as well as Internet and e-commerce rights received through institution-negotiated contracts.
Program Sales, Concessions, Novelty Sales, and Parking	Revenue received from the sale of game programs, novelties, food or other concessions, and parking revenues.
Royalties, Licensing, Advertisements, and Sponsorships	All revenue from corporate sponsorships, licensing, sales of advertisements, trademarks and royalties. Includes value of in-kind products and services provided as part of the sponsorship (e.g., equipment, apparel, soft drinks, etc.).
Sports-Camp Revenues	Amounts received by the athletics department for sports-camps and clinics.
Endowment and Investment Income	Endowment spending policy distribution and other investment income in support of the athletics department. Includes only restricted investment and endowment income for the operations of intercollegiate athletics.
Other Revenue	Catch-all category for less than 5% of total revenues.

Table 2

NCAA Agreed-Upon Procedures Classification of Expenses

Category	Definition
Athlete Student Aid	Amount of athletically related student aid awarded to athletes including summer school, tuition discounts, waivers, and aid given to athletes who have exhausted their eligibility or who are inactive due to medical reasons.
Guarantees	Amount paid to visiting participating institutions.
Coaching Salaries and Benefits paid by University and Related Entities	Gross salaries, bonuses, and benefits provided to all coaches including all wages and benefits attributable to coaching and reportable on university and related entities (e.g., foundations, booster clubs) W-2 and 1099 forms (e.g., car stipend, country club membership, speaking fees).
Coaching Salaries and Benefits paid by Third-Party	All compensation paid to the coaching staff by a 3rd party and contractually guaranteed by the institution, but not included on the institution's W-2.
Support Staff/Admin Salaries and Benefits paid by University and Related Entities	Gross salaries, bonuses and benefits provided to all administrative staff (i.e., football secretary, sport-specific trainer) that would be reportable on university and related entities W-2 and 1099 forms.
Support Staff/Admin Salaries and Benefits paid by Third-Party	All compensation paid to the support staff by a 3rd party and contractually guaranteed by the institution, but not included on the institution's W-2.
Severance Payments	Severance payments and applicable benefits recognized for past coaching and administrative personnel.
Recruiting	Transportation, lodging and meals for prospective student-athletes and institutional personnel on official and unofficial visits.
Team Travel	Air and ground travel, lodging, meals and incidentals for competition related to preseason, regular season and postseason. Amounts incurred for food and lodging for housing the team before a home game are also included.
Equipment, Uniforms, and Supplies	Amount paid for items provided to teams.
Game Expenses	Game-day expenses other than travel that are necessary for intercollegiate athletics competition, including officials, security, and event staff.
Fund Raising, Marketing, and Promotion	Costs associated with fund raising, marketing and promotion for media guides, brochures, and recruiting publications.
Sports Camp Expenses	All expenses paid by the athletics department, including non-athletics personnel salaries and benefits, from hosting sports camps and clinics.
Spirit Groups	Support for spirit groups including bands, cheerleaders, mascots, dancers, etc.
Athletic Facilities, Debt Service, Leases and Rental Fees	Debt service payments (principal and interest, including internal loan programs), leases and rental fees for athletics facilities for the reporting year regardless of entity paying (athletics, institution, or other). Does not include depreciation.
Direct Overhead and Administrative Expenses	Overhead and administrative expenses paid by or charged directly to athletics including administrative/overhead fees, facility maintenance, security, risk management, utilities, equipment repair, telephone, and other administrative expenses.
Indirect Institutional Support	Overhead and administrative expenses NOT paid by or charged directly to athletics including administrative/overhead fees not charged by the institution to athletics, facility maintenance, security, risk management, utilities, equipment repair, telephone, and other administrative expenses.
Medical Expense and Medical Insurance	Medical expenses and medical insurance premiums for student-athletes
Memberships and Dues	Memberships, conference and association dues
Other Operating Expenses	Includes printing and duplicating, subscriptions, business insurance, telephone, postage, operating and equipment leases, non-team travel and any other expense not reported elsewhere. Limited to 10% of total operating expenses.
Transfers to Institution	The amount of athletic-generated revenues or athletic reserves contributed back to the institution for institutional initiatives outside of athletics
Conference Realignment Expenses	One time amounts paid by athletics and by the institution above normal operating expenses for conference realignment (e.g., exit fees, consulting fees, legal fees, signage, advertising, public relations).

Appendix A

Table A1
Abbreviations

Abbreviation	Name
ABC	Activity Based Costing
AICPA	American Institute of Certified Public Accountants
AUP	Agreed Upon Procedures
EADA	Equity in Athletics Disclosure Act
GAAP	Generally Accepted Accounting Principles
LLA	Louisiana Legislative Auditor
NCAA	National Collegiate Athletic Association
NCAA Act	National Collegiate Athletics Accountability Act
SCORE Act	Standardization of Collegiate Oversight of Revenues and Expenditures Act
SSARS	Standards for Accounting and Review Services
TAF	Tiger Athletic Fund