

# Minor Penalty or Major Foul? Understanding the NCAA Agreed- Upon Procedures

August 6, 2019

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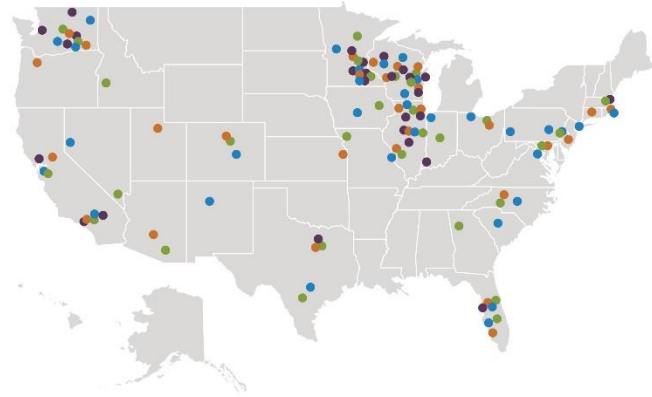
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# About CLA

- A professional services firm with three distinct business lines
  - Wealth Advisory
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- More than 6,100 employees
- Offices coast to coast
- More than 50 years of experience serving institutions of higher education



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# Speaker Introductions

- Yuliya Ostapenko, CPA
  - Manager
- Liz Towne, CPA
  - Senior Associate



# Learning Objectives

At the end of this session, you will be able to:

- Briefly outline the upcoming changes to the NCAA reporting requirements and procedures
- Identify the best practices for performing the annual reporting
- Identify the best practices to prepare for agreed upon procedures
- Recognize the impact of the admissions scandal and review considerations for internal controls





# NCAA Reporting Requirements

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# NCAA Membership Financial Reporting System

Submit financial data  
detailing revenue and  
expenses

Available to report  
beginning September 15  
through January 15  
(deadline)

All information is  
available in spring within  
NCAA Institutional  
Performance Program  
(IPP)

# Financial Data Submission

- Prepare statement using basic accounting and revenue recognition principles using the following:
  - University's GAAP policies
  - NCAA reporting guidelines



# NCAA Reporting Definitions – Revenues & Expenses

## APPENDIX A | 2019 Revised Revenue Categories

Sources of revenue for the athletics program will vary among institutions; however, typical sources of intercollegiate athletics revenues are outlined (each followed by a comprehensive definition) below (\* denotes new or updated content for 2019):

ID	Category	Definition
1	Ticket Sales	<p>Input revenue received for sales of admissions to athletic events. This may include:</p> <ul style="list-style-type: none"> <li>• Public and faculty sales.</li> <li>• Student sales.</li> <li>• Shipping and Handling fees.</li> </ul> <p>Please report amounts paid in excess of ticket's face value to obtain preferential seating or priority in Category 8 (Contributions).</p>
2	Direct State or Other Government Support	<p>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>This amount also includes state funded employee benefits. Corresponding expenses should be reported in Categories 22 and 24.</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>
3	Student Fees	Input student fees assessed and restricted for support of intercollegiate athletics.
4	Direct Institutional Support	<p>Input direct funds provided by the institution to athletics for the operations of intercollegiate athletics including:</p> <ul style="list-style-type: none"> <li>• Unrestricted funds allocated to the athletics department by the university (e.g. state funds, tuition, tuition discounts/waivers, transfers).</li> <li>• Federal work study support for student workers employed by athletics.</li> <li>• 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.</li> </ul>

## APPENDIX B | 2019 Revised Expense Categories

Expenses for the athletics program will vary among institutions; however, typical sources of intercollegiate athletics expenses are outlined (each followed by a comprehensive definition) below (\* denotes new or updated content for 2019):

ID	Category	Definition
20	Athletic Student Aid *	<p>Input the total amount of athletic student aid for the reporting year including:</p> <ul style="list-style-type: none"> <li>• Summer school.</li> <li>• Tuition discounts and waivers (unless it is a discount or waiver available to the general student body).</li> <li>• Aid given to student-athletes who are inactive (medical reasons) or no longer eligible (exhausted eligibility).</li> <li>• <b>Other expenses related to attendance.</b></li> </ul> <p>Note: Division I Grants-in-aid <u>equivalencies</u> are calculated by using the revenue distribution equivalencies by sport and in aggregate. (Athletic grant amount divided by the full grant amount).</p> <p><u>Other expenses related to attendance</u> (also known as gap money or cost of attendance) <u>should not be included in the grants-in-aid revenue distribution equivalencies</u>. Only tuition, fees, room, board and course related books are countable for grants-in-aid revenue distribution per Bylaw 20.02.7.</p> <p>Athletics aid awarded to non-athletes (student- managers, graduate assistants, trainers) should be reported as Expenses Not Related to Specific Teams. It is permissible to report only dollars in the Expenses Not Related to Specific Teams row as long as you have reported non-zero entries for Equivalencies, Number of Students, and Dollars (all 3 required for at least one sport).</p> <p>Note: Pell grants are provided by the government, not the institution or athletics department, and therefore should be excluded from reporting in this category. This information can be managed within the NCAA's Compliance Assistance (CA) software. The information entered into CA will automatically populate to the athletic student aid section within the NCAA Financial Reporting System when the CA import feature is selected.</p>
21	Guarantees	Input amounts paid to visiting participating institutions, including per diems and/or travel and meal expenses.

# Agreed-Upon Procedures Requirements

## Division I institutions (NCAA Bylaw 3.2.4.15)

- Subject to agreed-upon procedures performed by qualified independent accountant annually

## Division II institutions (NCAA Bylaw 6.2.3)

- Subject to agreed-upon procedures performed by qualified independent accountant at least once every 3 years

## Division III institutions

- No bylaw-mandated financial reporting requirements are currently in place

# Agreed-Upon Procedures

Institution prepares the Statement of Revenues and Expenses

Statement must include expenses for or on behalf of intercollegiate athletics programs by affiliated and outside organizations not under the institution's accounting control

Independent auditor must understand the control environment specifically for intercollegiate athletics

Auditors perform minimum agreed-upon procedures as outlined by the NCAA and any other procedures requested by management

# Minimum Agreed Upon Procedures - Summary

Agree balances to  
supporting schedules

Budget to actual  
comparison

Current year to actual  
year comparison

Revenues - 28  
different procedures  
(for balances over 4%  
of total revenue)

Expenses - 38  
different procedures  
(for balances over 4%  
of total expenses)

# Report on Agreed-Upon Procedures

## Independent auditor will draft a report

- Addressed to the President
- A title that includes the word “independent”
- A statement that the procedures performed was those agreed to by the specified parties identified in the report
- List of procedures and reportable items/findings



# NCAA 2019 Changes

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# Reporting Categories

- New Reporting Category 13A to break out conference distributions of revenue generated by post-season bowls

# Athletics Student Aid

Clarification within AUP steps for Grants-in-Aid, Sport Sponsorship and Pell Grant procedures related to validation of data used in Revenue Distribution calculations (for D1 institutions only)

- Additional calculations required
- Additional comparisons to prior year information



# Best Practices

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## Assembling the Team

Include team members from business office,  
financial aid office, and athletic department



Assign roles in building report and collecting  
supporting information

# Potential Team Responsibilities

## Business Office

- Gathering detail from general ledger
- Capital asset, debt, and endowment support
- Invoice & contribution support

## Financial Aid Office

- Gathering student award information for financial aid testing
- Aiding in providing support for athletic student fee

## Athletics Department

- Gathering team rosters
- Producing ticket sale revenue, sports camp revenue, and bowl revenue support



# Preparing NCAA Annual Workbook (Statement of Revenue & Expenses)

As information is prepared for submission, retain detail source data used to populate workbook.

Do this annually regardless of whether or not an AUP is being completed.

Tie detail source data reports directly to final number used in the report

## Review of Documentation

- Have an independent employee review completed NCAA workbook and all supporting documentation to ensure accuracy and proper completion
- Do this prior to submission and/or prior to providing information to independent auditor for AUP



# Reporting Results

In agreed-upon procedures, auditors are required to report all differences/exceptions noted during procedures performed.

No materiality threshold UNLESS defined by management in engagement letter.

- Suggest considering whether or not your institution would like to define a materiality threshold (example: Only exceptions over \$5,000 will be reported.)





## Example of Reportable Items

*We obtained a schedule of travel expenses from management, recalculated the total per the schedule and noted the Statement was \$146.18 higher than the the schedule.*

*We obtained a direct overhead and administrative expenses detailed schedule. We recalculated the total for the schedule without exception. The detailed showed a balance of \$474,943.11 and the amount reported on the Statement was \$478,870.96.*

## Example of Reportable Items - Budgeting

*We were unable to compare the actual revenue to the budgeted revenue for the year ended June 30, 2018, because the University's athletic department does not budget for revenue.*

*We were unable to compare the actual expense to the budgeted expense for the year ended June 30, 2018, because the University's budget process does not have a budget that correlates to NCAA categories.*

## NCAA Budgeting

- Consider utilizing the NCAA's reporting categories for budgeting categories
- Does not need to be incorporated into the master budget; however, it could be a separate budget for NCAA purposes



# Example Reportable Items – Ticket Sale Revenue

*Baseball, softball, swimming, and track did not have an individual detailed schedule because they are off campus venues and the off campus venues do not have access to the ticketing system; therefore, CLA was unable to recalculate their ticket sales. Sales for these four sports was reported as \$7,847.*

*Volleyball's detailed schedule was \$6,642 less than the recap schedule amount.*

*The University is not tracking ticket sales by game, so there is no way to recalculate the ticket sales.*



# Ticket Sale Revenue

Consider implementing a process that includes a reconciliation of the # of game tickets sold by type

Ticket data should match the revenue recorded by game and corresponding deposit slips

Needs to be able to be recalculated by sport

## Student Fee Revenue

- Independent auditor is required to recalculate student athletic fee revenue
- If possible, run a report showing the # of students and the # of credits each student is taking

## Example Reportable Items – Student Fee Revenue

*For student fees, we compared and agreed the student fees reported by the institution in the Statement to student enrollments during the same reporting period. We noted the student fees are only assessed on the first 12 credits a student takes each term. We recalculated the student fees within \$106,057.98.*

# Direct & Indirect Institutional Support

## Direct Support

- Direct funds provided by the institution to athletics for operations of intercollegiate athletics

## Indirect Support

- Costs covered and services provided by the institution to athletics but not charged to athletics





# Example Reportable Items – Direct/Indirect Support

*For indirect institutional support, we obtained a schedule of revenue from management and agreed the total to the Statement without exception. CLA recalculated the totals and calculated \$263,234.45. The Statement reported \$405,240.*

*For direct institutional support revenue, we obtained a schedule of direct institutional support revenue from management and recalculated the totals and tied amounts to the Statement within \$3,747.*

# Sports Camp Revenue

Requires sports camp revenue listings by participant

Consider implementing a process to reconcile camp participants and cash receipts by each camp

- Participants pay by cash, check, credit card, etc.
- This must be reconciled and tied to the general ledger

## Example Reportable Items – Sports Camp Revenue

*We noted the various schedules of camp participants did not tie to the Statement by \$19,536.44. We noted there were four sample selections where management could not provide any supporting documentation.*

# Athletics Student Aid

Significant sample size per procedures

If utilizing NCAA's Compliance Assistant (CA) software, squad list will be provided for selection

Tie student's award disbursement in the software to the student's account detail

## Athletics Student Aid – D1 Only (New in 2019)

Check each student to ensure information is reported accurately into the NCAA's CA software

- Calculation of equivalency value
- Students should not receive a revenue distribution equivalency greater than 1.00
- Ensure Pell grant is not included in calculation of equivalencies

# Example Reportable Items –Athletics Student Aid

*We also received the listing of athlete rosters from the NCAA software and noted the amount on the rosters was \$765,558 and the detail listing provided by management listed aid at \$764,138.*

*One student was noted on the squad listing to have \$7,500 for a football scholarship; however, per review of the student's award letter, he was awarded \$9,943 for the entire school year. The student withdrew after one semester, so he was only paid \$4,972. That amount was in agreement with his student account activity. Therefore, this student's aid per the squad listing did not tie to the supporting documentation by \$2,528.*



# Salaries Expense

May need to inquire with IT in order to pull payroll amounts for fiscal year

Amount reported to NCAA must tie to payroll summary registers and employment contracts

Procedures include tying out benefits

## Example Reportable Items – Salaries Expense

*Head Men's Basketball Coach salary tied within \$1,022.07 to the payroll register and tied within \$1,701.94 to the contract.*

*The Associate Athletic Director's salary tied within \$1,219.83 to the payroll register.*



# Minimum Agreed-Upon Procedures for Other Reporting Items

## Total Institutional Debt & Total Athletics Related Debt

- Utilize audit work as applicable and be able to break out athletics & tie total debt to audited financial statements

## Total Institutional Endowments & Total Athletics Dedicated Endowments

- Utilize audit work as applicable, break out athletics, and tie listing to the audited financial statements for total institutional endowments

## Total Athletics Related Capital Expenditures

- Consider breaking out athletics separately on fixed asset detail



## Overall Reporting Considerations

- If applicable, internal audit could do spot checking on higher risk NCAA reporting categories annually
- Orientation and training could be done for anyone new to the NCAA reporting process each year
- Consider reaching out to your independent auditor or other college and university contacts to discuss processes, reporting, and learn from each other

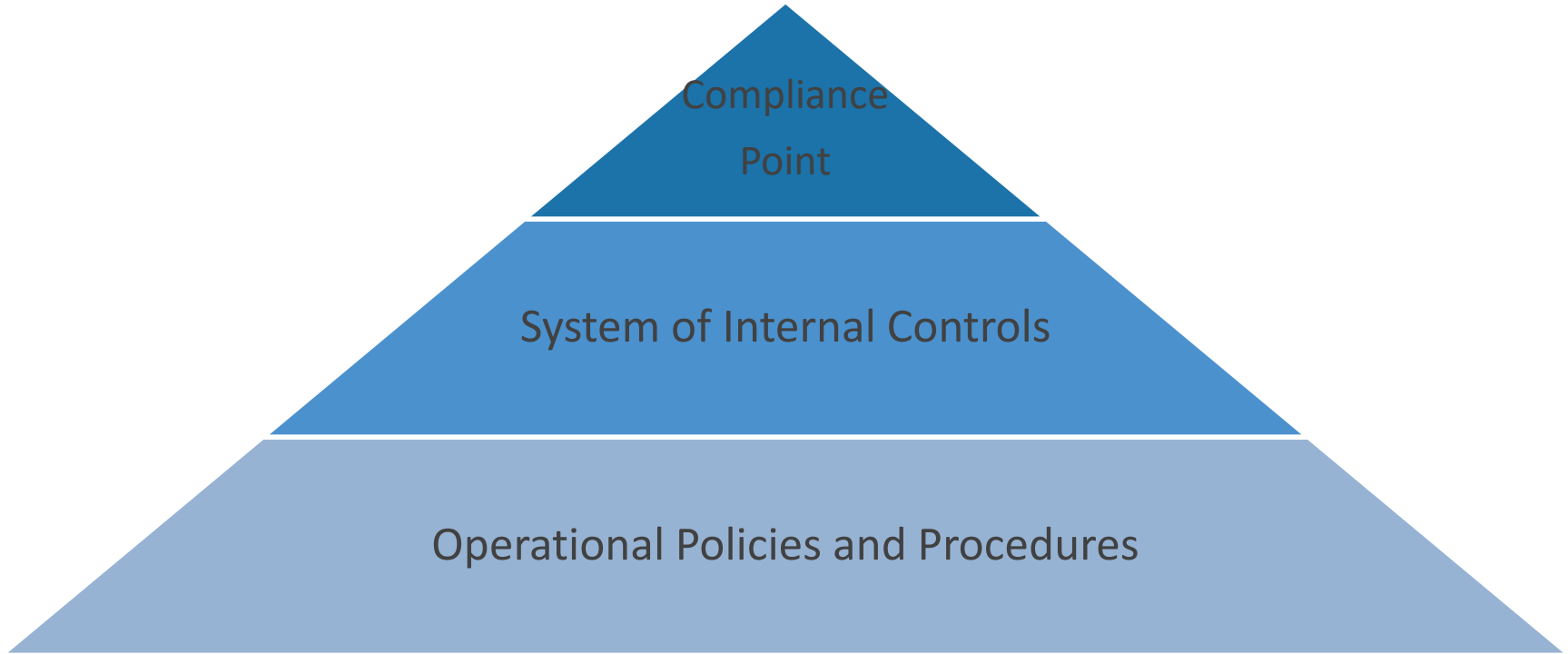


# Internal Control Considerations: Past and Present Collide Under Impact of Varsity Blues Scandal

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# Internal Controls In An Organization



## Why Internal Controls Matter?

- Any company or organization is required to follow an internal controls framework
- COSO Committee of Sponsoring Organizations of the Treadway Commission) or Green Book (for governmental organizations) are the most common frameworks

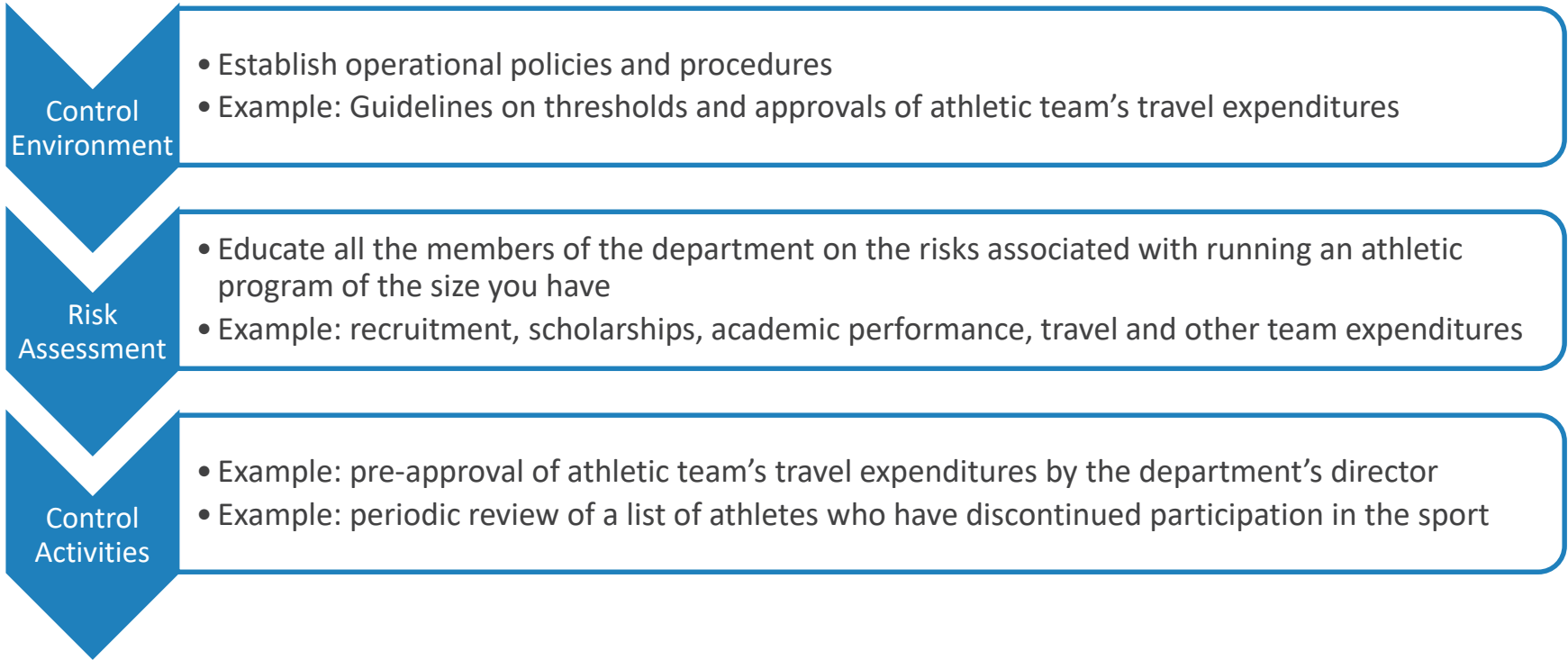


# COSO



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Sponsoring Organizations  
of the Treadway Commission  
COSO

# Apply COSO to Athletic Departments



# Apply COSO to Athletic Departments (continued)

## Information and Communication

- Take a stock of various interdepartmental and external communication policies and reports: revise guidelines as needed
- Example: Revisit communication policy between athletics department and advancement department to avoid appearance of conflict of interest

## Monitoring

- Discuss with your internal audit department various areas of department's operations they can include into their internal audit plan
- In the absence of internal audit department, consider engaging an outside consultant to evaluate various policies and procedures



# Control Activities Example

- Athletic department maintains a petty cash account in the amount of \$2,000 for urgent unexpected expenditures. Soccer team was getting ready to travel to a game and the coach asks for access to \$1,000 of cash for unanticipated potential expenses. He always asks and department's director always approves the request
- Upon return from the game, same as always, the coach submits a written statement that cash was used for travel snacks, one-time purchase of emergency over-the-counter medical supplies at the local pharmacy, and Uber transportation for after the game reception
- As it is a petty cash account, the department's chair does not ask for a set of receipts that support the amounts spent. He does not verify if any change remains from \$1,000 after all the expenditures. After all, he knows that team participated in the game and for that they had to have traveled
- Department's director submits a request to the accountant to replenish petty cash account. On the submission form he signs a statement that all the money were used for legitimate department's activities and pre-approved by him



## Control Activities Example (continued)

- This goes on until the new director of internal audit is hired. Athletics department audit is one of his first projects based on his previous experience
- A major finding is reported on the internal audit department's report, accountant is reprimanded for not requesting the receipts, department's director is mandated to revisit and update all the department's policies and procedures and provide them to the internal audit department for review and subsequently to the institution's president for approval

## Control Activities Example (continued)

- At the point of discovery of the gap in the internal control system, there is no way to prove whether the entire amount for every occurrence was in fact spent appropriately. Consequently, there is no way to prove/disprove that the fraud has occurred
- POLICY existed in this situation, INTERNAL CONTROL did not exist

# Control Activities Example (continued)

## Bad Control

Accountant approves replenishment of athletics department's petty cash amount based on internal funds transfer form signed by athletics director. As it is petty cash account, no receipts are required to be submitted with the request

## Good control

Athletic department's petty cash account is included into a set of cash accounts subject to monthly reconciliations. Each reconciliation is supported by the internal funds transfer form signed by the director and original receipts. Controller reviews all cash reconciliations.

## Question to Ask

When was the last time athletic department's operational policies and procedures were reviewed and not just updated for change in personnel for NCAA AUP engagement?



# If No One Currently Employed Can Answer That

- Consider the increased risk of potential non-compliance
- Consider the increased risk of litigation
- Consider the increased risk of bad publicity



## If Answer Is Before:

- Internet of Things
- Twitter
- Instagram
- Facebook
- YouTube
- Cell phone with good camera

Think  
Varsity  
Blues  
Scandal

# Operation Varsity Blues

Admissions fraud isn't entirely new to higher education but the magnitude and reach of Operation Varsity Blues is jarring:

- Bribes to athletic coaches and school administrators
- Bribes to admissions test monitors
- Falsification of exam scores
- Fabrication of student biographies



# Actions To Consider

## With admissions department

- Connect with admissions department to understand any revisions to the overall institution's admissions policies that are being made
- Enhance controls over athletic recruits with one additional independent level of review outside of admissions and athletics department

## Actions To Consider (continued)

- With human resources department
  - Connect with HR department to understand any revisions to the overall institution's incentive compensation policies that are being made
  - Revisit any additional athletic department incentive compensation policies, procedures, and job descriptions for any position related to the recruitment, admission, and administration of financial aid

BEST PRACTICE: There shouldn't be any incentive compensation plans related to any of the above activities



## Actions To Consider (continued)

- With advancement department
  - Connect with advancement to understand purpose and currently existing/missing limitations on the communication between the two departments about any donations that could have appearance of influencing athletic department admission decisions. Revise as deemed necessary

BEST PRACTICE: No communication that pertains to the identity of the donor should be taking place unless naming rights or other types of recognition was requested by the donor



## Actions To Consider (continued)

- With internal audit department
  - Connect with internal audit department to understand best practices in setting up various policies and procedures
  - Engage internal audit department to include athletics department audit into their plan for the current or next year

BEST PRACTICE: In the absence of internal audit department, consider engaging an independent consultant, especially if policies and procedures have not been independently reviewed for many years



# Actions To Consider (continued)

## Within athletics department

- Shore up policies governing conflicts of interest, ethics, and disclosure requirements in your admissions and athletic employee hiring and training practices
- Audit your athletic rosters at the start and conclusion of every academic year, and cross-check rosters with admitted students list and admitted students exceptions
- Periodically review recruits or new athletes who have discontinued their participation in a sport

# To Cheer You On

- We want to say:
  - Be diligent
  - Take action now
  - Engage with all the stake holders
  - Communicate, communicate, communicate

# Resources

- Link to CLA NCAA Best Practice article
  - <https://www.claconnect.com/resources/articles/2019/ncaa-agreed-upon-procedures-best-practices-for-di-and-dii-programs>
- Link to CLA Admission Fraud Considerations article
  - <https://www.claconnect.com/resources/articles/2019/prevent-admissions-fraud-at-your-higher-education-institution>
- Link to 2019 Agreed-Upon Procedures
  - [https://ncaaorg.s3.amazonaws.com/ncaa/finance/2019NCAAFIN\\_AgreedUponProcedures.pdf](https://ncaaorg.s3.amazonaws.com/ncaa/finance/2019NCAAFIN_AgreedUponProcedures.pdf)





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# Questions?

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