Accounting holds sports accountable

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If university presidents and their faculties believe that expenditures on big-time sports are out of control, then it is time they accepted responsibility for the budgets of their athletics departments. They can no longer hide behind two common, but nonetheless dubious, excuses: the first that athletics departments are independent entities that are expected to take care of their own fiscal affairs; the second that athletics are governed by "market forces" that are beyond their influence.

The first excuse has seeming credibility because universities account for their operations using "fund accounting." Athletics departments, like food and housing services, college bookstores and student unions, are almost always accounted for in a separate "fund" (accounting entity) called an "enterprise fund." That is, they are accounted for as if they were independent businesses. In theory at least, they are expected to be self-sustaining enterprises that pay their own way. For accounting purposes, that makes sense. Their expenses are matched against their revenues so as to determine their overall profit and loss. Properly interpreted, their financial statements provide a reasonable measure of the entity's fiscal performance.

Where universities go wrong, however, is that they permit the accounting to drive both managerial decision-making and budgeting. They allow athletics departments to be independent budgetary and managerial entities, administered apart from the rest of the university. In effect, they say to them: "Your goal is to break even; you control your own revenues; you control your own expenditures."

This approach is a perversion of accounting. Nothing in the practice or theory of accounting suggests that the budgets of athletics departments cannot be integrated with those of academic units.

The consequences of managing athletics departments as independent units can be profound. Both presidents and faculty (assuming shared governance) absolve themselves of their responsibility to make the tough operating and capital budgetary decisions required to slow down the athletics arm race. They avoid comparing the needs and expenditures of athletics programs with those of the rest of the university.

The result can be a degree of athletics extravagance that is totally out of whack with what transpires in the rest of the university:

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- Practice facilities and lounges for football and basketball are beyond opulence -- wood paneling carved with the university logo, custom-made furniture, plasma screen TVs, etc.

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- Coaches' offices that make the offices of university presidents look like those of English professors.

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- Academic counselors and other support personnel drawing salaries that far exceed those performing comparable tasks in academic departments.

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- Amenities and perks for coaches and their assistants (such as country club memberships) that are unheard of in other campus divisions.

On the revenue side, athletics departments typically are permitted to keep all the revenue that they produce. They are able to spend whatever revenue they generate -- and correspondingly they are given license to generate whatever revenues they need to spend. Thus, for example, 50-yard-line seats at some major football powers are "sold" for thousands of dollars, with the entire amount going to the athletics department. Arguably, however, the interests of the university as a whole might be better served by permitting the various academic units to offer the premium seats as donor incentives.

There are neither accounting conventions nor principles of sound management dictating that the organizational division that collects the cash gets to keep it. Indeed, current university practices of revenue distribution and budgeting, if applied in industry, would permit sales departments to spend all the revenues they take in as if the manufacturing and administrative departments made little or no contribution to overall company productivity.

One of the most significant steps that universities can take to bring athletics spending under control would be to tear down the fiscal wall between athletics and academics. This means that both administrators and faculty must change their mind-set. They should be no less responsible and accountable for athletics budgets and expenditures than they are for those of other campus activities. And their involvement must be de facto as well as de jure. Moreover, if faculty and other administrators have a say in how the budgetary pie is divided, then so too should athletics directors. They all are members of the same institution and share a common interest in its well-being.

University administrators and faculty must acknowledge that money is fungible; it can readily be moved from one unit to another. Except for certain restricted revenues, resources generated by athletics can just as properly be used to pay for library books as for play books.

Presidents and others involved in the budgetary process should evaluate and rank spending requests from the athletics department side by side with those from elsewhere around the campus. Thus, for example, an athletics director's plea for three new athletic trainers should be considered the same way as the dean of liberal arts' request for three new assistant professors for the English department.

Responsibility, of course, does not imply micromanagement. As a general rule, presidents and faculty should no more get involved with the intricacies of athletics department budgets than they should with those of, say, the law school or business school.

The second pretext by which responsible officials disclaim accountability is that athletics expenditures are governed by market forces. Equally untenable, this excuse is that extravagant athletics expenditures are, in fact, both necessary and reasonable. They are both a sound investment and a rational response to market exigencies, it is asserted. A university needs top-rated facilities, coaches, and academic counselors to attract the best players and to field a winning team. To obtain them, the argument goes, a university has to pay the prevailing market price. A winning team, in turn, generates the revenues required to support not only the football and basketball programs but also the nonrevenue sports. Accordingly, fiscal reforms and spending controls are neither desirable nor will they be effective.

The contention that universities must spend money to make money rings hollow in light of the small number of universities at which even the revenue sports are self-sustaining. Indeed, from a profit-and-loss perspective the "business" of intercollegiate sports is second only to the airline industry in terms of being dysfunctional.

More importantly, the argument ignores the consequences of athletics profligacy. What universities are is what they pay for. Through their expenditures they establish their values. They express to their students and other constituents what is important to them. The market rate for top-tier football coaches is five to 10 times greater than that for Nobel Prize physicists because many universities strive to be No. 1 in football, but few aim for the top spot in the sciences.

The Sarbanes-Oxley Act, passed by Congress in response to the Enron and other corporate scandals, makes it clear that corporate presidents will be held accountable for all financial-related matters within their corporations. University presidents, along with faculty senates or similar governing bodies, should be held to no less of a standard. Sarbanes-Oxley does not, of course, apply to universities. However, organizations, such as the NCAA, the Association of Governing Boards, and the Coalition on Intercollegiate Athletics can encourage them to adopt its underlying principles.

Integrating the fiscal affairs of athletics programs with other activities of the university is by no means anti-athletics. Quite the contrary -- it is a compelling statement that athletics is integral to, and supportive of, the university's main academic mission.

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Back To Main Menu