



AUDIT AND ADVISORY SERVICES
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January 27, 2022

To: Distribution

Re: **Athletic Camp Financial Activity
Audit Report No. 08-22-0002**

We have completed a limited review of athletic camp financial activity as part of the 2021-22 annual audit services plan. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Enclosed is the report detailing the results of our work.

We sincerely appreciate the cooperation and assistance provided by Intercollegiate Athletics and Department of Recreation personnel during the review. If you have any questions, please contact me.

Respectfully submitted,

Ashley Andersen
Director
Audit and Advisory Services

Enclosure

Distribution

Intercollegiate Athletics
Kelly Barsky, Interim Athletic Director
Tom Hastings, Deputy Athletics Director

Department of Recreation
Jeff Huskey, Director of Recreation

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cc: Chancellor Henry Yang
Chuck Haines, Associate Chancellor for Finance and Resource Management
Margaret Klawunn, Vice Chancellor for Student Affairs
UCSB Audit Committee
Alexander Bustamante, Senior Vice President and Chief Compliance and Audit Officer

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UC **SANTA BARBARA**
Audit & Advisory Services

Audit Report

Athletic Camp Financial Activity

January 27, 2022

Performed by:

Antonio Mañas-Melendez, Associate Director
Irene Camargo, Senior Auditor

Approved by:

Ashley Andersen, Audit Director

Report No. 08-22-0002

EXECUTIVE SUMMARY

OBJECTIVE

The primary purpose of the audit was to identify how camp net proceeds are being classified and recorded and whether bonus structures are being properly calculated based upon their contractual agreements.

The objective of our audit was to determine whether:

- Coaches and assistant coaches are authorized to participate in athletics camps and are paid based on their contractual agreements and net camp proceeds.
- Athletic camp expenses and revenues are properly calculated and the process is documented.
- Institutional and noninstitutional athletic camps pay the authorized fees for the use of University facilities.

CONCLUSION

Based on the results of the work performed within the scope of the audit, we found that overall coaches and assistant coaches are authorized to participate in athletic camps, and fees for the use of University facilities are adequately charged based on the agreed upon contract. However, our review highlighted opportunities for Intercollegiate Athletics to:

- Ensure net proceeds are being recorded in accordance with GAAP accounting principles.
- Evaluate the most efficient process to calculate net proceeds to properly compensate coaches and assistant coaches for participating in athletic camps and clinics and ensure the methodology agrees with the employment agreement.
- Formalize and document the process and methodology used to calculate athletic camp expenses and revenues, including donations to determine net proceeds.
- Assess whether a department administration fee should be included as a camp expense for Intercollegiate Athletics administrative support.
- Analyze whether it is sustainable to compensate coaches a significant portion of their compensation through stipends from camp net proceeds.

In addition, our work further identified opportunities for the Department of Recreation to:

- Document the process to electronically track camp agreements and invoices in the newly implemented event scheduling software.
- Ensure University facility fees and service agreements are properly signed by all parties.

- Consult with the Office of Budget and Planning to determine whether the use of University facilities managed by the Department of Recreation should be included in the Income and Recharge Program.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CONTRACTUAL AGREEMENTS

OBSERVATION

Employment agreements overall authorized coaches to participate in athletic camps and be compensated for this activity. Compensations are usually paid as a stipend based on the net proceeds of the athletic camp.

We reviewed eight head coach and 19 assistant coach employment agreements and found that one head coach employment agreement did not include the provision for additional compensation for participating in athletic camp or clinics. Of the 27 employment agreements reviewed, we found the following:

- Five head coach employment agreements and all assistant coach employment agreements specified that additional compensation for a camp or clinic will be negotiated separately and paid as a stipend based on the net proceeds of the camp or clinic with the approval of the Head Coach and the Director of Intercollegiate Athletics.
- Two head coaches are eligible to receive up to a specified stipend amount per year at the discretion of the Director of Intercollegiate Athletics.
- One head coach is guaranteed a fixed amount from an account fund outside of camp/clinic funds.
- One head coach did not have the additional athletic camp compensation provision authorizing camp participation within her employment agreement and was compensated for participating in athletics camps.

2. BONUS STRUCTURES

OBSERVATION

The methodology to calculate coach compensation is not formally documented and there is not an adequate process documented to properly calculate camp net proceeds. Additionally, athletic camp net proceeds are not calculated by event. Net proceeds are overall calculated by sport based on available funds at a point in time to determine coach compensation, including camp fund balances from the prior fiscal year that had not been distributed.

Donations are included as revenues in the calculation of net proceeds for the only two athletics camps with charitable contributions. Net proceeds of athletics camps are mainly used for coach and staff compensation purposes.

Net Proceeds

As mentioned above, athletic camp net proceeds are not calculated by event. Net proceeds are overall calculated by sport and based on the process described below in this section, including revenue from the prior fiscal year that had not been distributed.

We found that the current process directly affects the ability to calculate actual net proceeds by camp because:

- Some expenses and revenues could be posted to the general ledger in the previous or the following fiscal year of when the camp was hosted. Revenues and expenses posted during the fiscal year exclude earned¹ camp revenues and actual expenses incurred outside of the fiscal year the athletic camp is hosted.
- Expenses incurred can span over multiple camps within the same sport, because in most cases there are multiple athletics camps that are hosted throughout a fiscal year per sport.

Based on the information provided by Intercollegiate Athletics, coaches request a distribution from the camp net proceeds to the Business Office. The Business Office evaluates total funding available at the point and time of the request, pending revenue, revenue received in the prior fiscal year, expenses to date and pending expenses, and the history of the camps for the sport. The department uses an internal historical 5-year report to obtain a sense of how the camp is performing compared to previous years. Once it has been determined enough funding is available, a request goes to the Athletic Director for approval. The review process is outlined in the background section of the report.

Our review of the process to calculate camp net proceeds found athletic camps are usually scheduled during summer months and camps could require a promotional and registration time frame leading up to the actual date of the camp, therefore, part of the registrations received could overlap between two fiscal years; during the previous or following fiscal year the camp is hosted.

Registrations collected, in the prior year of when the camp is taking place, are included in carryforwards without properly earmarking as registration revenue. Additionally, some camps retain a balance from the prior year that had not been distributed and are included in the calculation of net proceeds as carryforwards. Only carryforwards coming from camp registration revenues posted in the prior fiscal year should be included in the calculation of net proceeds for the fiscal year in which the camp was hosted to accurately calculate net proceeds.

Due to registrations and expenses overlapping between fiscal years, there is not adequate documentation to calculate the economical sustainability of the athletic camps hosted during fiscal year 2019-20.

During the audit we found that earned revenues by camp can be determined through the ARMS² registration tracking system. A system report is available summarizing registration revenue obtained by camp. However, we found identifying camp expenses is more challenging and would need an additional level of classification to properly identify and calculate expenses by camp.

To properly calculate net proceeds by camp, expenses incurred for several camps would need to be adequately distributed by camp. Based on the complexity of classifying actual expenses associated with each camp, there is a need to evaluate how to document an additional level

¹ Earned revenue: Income derived from camp registrations.

² ARMS: Athletic compliance and automated electronic business processing and reporting.

of control to identify camp expenses in the general ledger.

Furthermore, we found charitable contributions in two sports were appropriately included as revenue. However, it is important to note that donations can vary from year to year and this could cause a misconception of whether the camp is sustainable in its current financial structure.

Compensation Methodology

We found Intercollegiate Athletics does not have a documented methodology to calculate the amount coaches and other staff are being compensated for participating in athletic camps. Additionally:

- Head coaches negotiate the stipends to be paid without providing documentation to support their decisions. Stipends are not always calculated at the end of each camp. We were informed that in some cases stipends are paid at interval times throughout the year based on a projection and evaluation of revenues and expenses or fund balances at the time of the payout. The Intercollegiate Athletics financial personnel evaluates revenues and expenses at that time and provides the assessment to the Director of Intercollegiate Athletics for approval.
- Intercollegiate Athletics does not maintain a list of coaches and staff participating in each athletic camp to support payroll expenses.

We reviewed four head coach and ten assistant coach camp compensations during fiscal year 2019-20 and their annual salaries. We found head coaches are compensated between 7% and 15% of their annual salaries, while assistant coaches are compensated between 15% and 47% of their annual salaries. Of the ten assistant coaches, the average annual salary was \$46,914. Camp compensation is helping supplement annual salaries for assistant coaches.

Administrative Process

Additionally, we found that the administrative process to manage athletic camps requires a considerable amount of time and effort that is not compensated by the Athletics camps. Intercollegiate Athletic personnel spends time scheduling camps/clinics, creating brochures, administering registrations, processing camp expenditures, preparing financial reconciliations, and processing coaches and camp staff payroll. There may be a need to evaluate whether an administration fee should be included as an expense to be paid to the department for the time and effort to manage athletic camps.

RECOMMENDATION

We recommend that Intercollegiate Athletics:

- Ensure net proceeds are being recorded in accordance with GAAP accounting principles.
- Evaluate the most efficient process to calculate net proceeds to properly compensate coaches and assistant coaches for participating in athletic camps and clinics and ensure the methodology agrees with the contractual agreement.

- Formalize and document the process and methodology used to calculate athletic camp expenses and revenues, including donations to determine net proceeds.
- Assess whether a department administration fee should be included as a camp expense for Intercollegiate Athletics administrative support.
- Analyze whether it is sustainable to compensate coaches a significant portion of their compensation through stipends from camp net proceeds.

MANAGEMENT RESPONSE

Intercollegiate Athletics will:

- Ensure net proceeds are being recorded in accordance with GAAP accounting principles.
- Evaluate the most efficient process to calculate net proceeds to properly compensate coaches and assistant coaches for participating in athletic camps and clinics and ensure the methodology agrees with the contractual agreement.
- Formalize and document the process and methodology used to calculate athletic camp expenses and revenues, including donations to determine net proceeds.
- Assess whether a department administration fee should be included as a camp expense for Intercollegiate Athletics administrative support.
- Analyze whether it is sustainable to compensate coaches a significant portion of their compensation through stipends from camp net proceeds.

Audit and Advisory Services will follow up on the status of these issues by June 30, 2022.

3. DEPARTMENT OF RECREATION CAMP FEES

OBSERVATION

The use of University facilities for athletic camps is stipulated in memorandum of understandings (MOUs) between the Department of Recreation and Intercollegiate Athletics and not through the Income and Recharge Program. Additionally, we found that two MOUs were not fully executed.

We found a need to evaluate whether charges for the use of University facilities managed by Department of Recreation should be included in the Income and Recharge Program to guarantee campus recharge facilities are authorized and they operate on a break-even basis. The Department of Recreation manages MOUs for institutional³ camps and Facility Use Agreements for non-institutional⁴ camps that stipulate an agreed upon facility usage fee and service costs to be paid to the University.

³ Institutional Camp: Sports camp or clinic affiliated with UCSB's athletics department.

⁴ Non-institutional Camp: Sports camp or clinic owned or operated by an individual or organization not affiliated with the UCSB's athletics department.

We reviewed a sample of Memorandum of Agreements between the Intercollegiate Athletics Department and the Department of Recreation to determine if fees are adequately stipulated and agreed upon. We found that camp fees and service costs are adequately documented within the agreements. However, we identified one institutional agreement was not signed by Intercollegiate Athletics and one non-institutional agreement was not signed by the Department of Recreation.

In addition, we compared a sample of agreement fees to invoices and found overall participant and service charges were consistent with the fees stipulated in the Memorandum of Agreements. However, we were unable to compare a number of non-institutional camp fees to the Facility Use Agreements, due to the Department of Recreation's inability to locate hard copies of invoices. During our audit, we were informed that the department has implemented a new event scheduling software to improve their ability to track agreements and invoices electronically.

RECOMMENDATION

We recommend that Department of Recreation document a process to:

- Ensure both parties sign the agreed upon terms and fees of athletic camp agreements.
- Track contracts and invoices electronically in the new event scheduling software.
- Consult with the Office of Budget and Planning to determine whether the use of University facilities managed by the Department of Recreation should be included in the Income and Recharge Program.

MANAGEMENT RESPONSE

The Department of Recreation will document a process to:

- Ensure both parties sign the agreed upon terms and fees of athletic camp agreements.
- Track contracts and invoices electronically in the new event scheduling software.
- Consult with the Office of Budget and Planning to determine whether the use of University facilities managed by the Department of Recreation should be included in the Income and Recharge Program.

Audit and Advisory Services will follow up on the status of these issues by June 30, 2022.

GENERAL INFORMATION

BACKGROUND⁵

UCSB Intercollegiate Athletics

The primary mission of UC Santa Barbara Intercollegiate Athletics is to provide an opportunity

⁵ UCSB Intercollegiate Athletics and the Department of Recreation website.

for widespread participation in intercollegiate athletics and to enhance the student-athlete's education through competition at the Division I intercollegiate level. Because it demands the successful integration of intercollegiate competition with an academic program, the educational experience of the student-athlete is unique.

In addition, Intercollegiate Athletics is intended to foster a sense of community among faculty, staff, and students on campus and to help provide a reason for friends, alumni, and supporters in the local area and throughout the state to feel a part of UCSB.

The university expects its Intercollegiate Athletics program to provide competitive opportunities for both men and women in a variety of sports.

Intercollegiate Athletics at UCSB is based upon an educational model, not upon a business model. The Intercollegiate Athletics program does not seek to make a profit from its athletic events, but does seek to generate a considerable portion of the revenue necessary to support itself at a level of excellence consistent with the university's standards.

Camps and Clinics

Intercollegiate Athletics administers several sports camps and clinics that provides specialized instruction in a particular sport for middle to high-school aged athletes mostly held in the summer months. In addition, the campus supports camps organized by UCSB coaches and other outside institutions. Camps hosted at the University include both institutional and private non-institutional camps that rent the facilities from the Department of Recreation.

Coach Compensation Process

At interval times throughout the fiscal year, coaches request a distribution of the net proceeds of the camp to the department Business Office. The department Business Office evaluates the following as it reviews each request:

- Total revenue received at the point in time of the request, including donations.
- Pending revenue that has been received by campus, but not recorded in the General Ledger.
- Revenue received in the prior fiscal year (camps that are held July for example, may receive revenue in April or May of the same calendar year. That money may be held and "Carried Forward" to the fiscal year in which the camp will occur.)
- Expenses to date as shown on the General Ledger.
- Any known pending expenses which may not have hit the General Ledger at the point of the Coach request.
- The history of the camps for the sport, and a sense of how the camp is performing compared to previously, as well as any potential camps scheduled.

Department of Recreation

The UCSB Department of Recreation provides programs, services, and facilities which promotes athletic camps and clinics. Camps held during the summer months must submit a request to host a camp or clinic at the University. These athletic camps can either Intercollegiate sponsored where all profit goes to the athletic department or non-institutionally supported, owned/operated by coaches, outside club teams, or other organizations where all the profit goes to the external entity. Upon approval of the use of University facilities, the Department of Recreation will provide a facility use memorandum of agreement to camps sponsored by the Intercollegiate Athletics or a facility use agreement contract to the coach for coach sponsored camps. Approval by UCSB Procurement Services is required for non-institutionally supported, coach owned camps/clinics only. An established rates sheet will be approved and agreed upon annually at the beginning of each calendar year. Intercollegiate Athletics sponsored camps/clinics will only be charged a facility rental fee during the summer quarter. All non-institutionally supported, coach owned/operated camps/clinics will be charged a facility rental fee at all times.

SCOPE

The scope of our review was focused on athletic camps during fiscal year 2019-20. To accomplish our objectives, our work included interviews, review of documentation, testing, and other steps. Specifically, we:

- Researched UC and UCSB policies, best practices, and other guidance concerning the camp or clinic compensations.
- Conducted interviews with Intercollegiate Athletics and Department of Recreation management to gain an understanding of department processes, policies, and procedures.
- Evaluated management business practices in the calculation of net proceeds to determine whether they incorporate adequate internal controls and reviewed for opportunities to enhance operational and financial accuracy.
- Performed a risk analysis that considered business related policy and procedures, roles and responsibilities, separation of duty, data integrity, and monitoring audit logs.
- Tested a sample of employment agreements to determine whether coaches are authorized by the University to participate in and be compensated for camps or clinics.
- Recalculated net proceeds from camp revenues and expenses to determine whether donations were included in the net revenue.
- Compared athletic camp stipends to annual salaries for compensation reasonableness.
- Selected a sample of institutional and non-institutional facility rental and labor charges to determine if fees charged comply with the Memorandum of Agreements and Facility Use Agreements.

CRITERIA

Our audit was based upon standards as set forth in the UC and UCSB policies, best practices, and other guidance relevant to the scope of the audit. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

AUDIT TEAM

Ashley Andersen, Audit Director
Antonio Mañas-Melendez, Associate Director
Irene Camargo, Senior Auditor