

## SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 1

Audit/Accounting

Title of Finding: UM Decentralized Business Service Functions

Business Services at The University of Montana has decentralized some of the campus's accounts payable and accounts receivable functions. The responsibility for most purchasing and payment of items below \$5,000 (or \$15,000 for some departments, including athletics), procurement card purchases and approvals, receipt and accounting for department specific revenues, and budget and fiscal responsibility are delegated to campus department administrators<sup>1</sup>. Procard charges and related documentation reside within the campus department files. All campus department procurement card purchases, including athletic department procurement card purchases, are reviewed annually by Business Services. The review of procurement card purchases involves checking to make sure the expenditures met campus and state restrictions, that proper documentation is attached, and that the transaction has been properly approved. Whether the travel or the purchase is necessary is up to the judgment of the department administrators (or the athletic director in the case of the athletic department.)<sup>2</sup> Departments process fiscal year-end accounting accruals and adjusting entries. However, large or significant year-end adjustments are reviewed by business services accounting staff to ensure that entries are reasonable and are adequately supported.<sup>3</sup>

Sylvia Weisenburger spoke to the panel on April 30.<sup>4</sup> She also stated that with the adoption of the Banner finance system, many of the business service functions were delegated to the departments. Her opinion was that there were insufficient staff resources in the departments, including athletics, to properly handle these new responsibilities.

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<sup>1</sup> Correspondence with Jim Darcy, UM Director of Business Services

<sup>2</sup> Phone interviews with John McCormick, Assistant Director of Business Services

<sup>3</sup> Comments provided to Panel by Dan Jenko, Financial Manager, Business Services

<sup>4</sup> April 30 statement to full panel.

## SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

### Finding Number 2

Audit/Accounting

Title of Finding: Athletic Reporting Structure

The athletic department at The University of Montana reports directly to President George Dennison.<sup>5</sup> This is a NCAA requirement and a recommendation that resulted from the Knight Commission.<sup>6</sup> This direct reporting line may result in the perception or reality of special status for the athletic department by other campus departments.

### Recommendation Number 2

Audit/Accounting

Title of Recommendation: Athletic Reporting Structure

The University of Montana President should re-assess the risk inherent in the financial operations of the athletic department. Therefore, he should communicate clearly his expectation of enhanced involvement and scrutiny by Administration and Finance (including Business Services and Budget) and Internal Audit, over the financial activity of UM athletics.

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<sup>5</sup> UM Organizational Chart

<sup>6</sup> Knight Commission Recommendations

## SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

### Finding Number 3

Audit/Accounting

Title of Finding: Review of Special Purpose Audit Reports

The Grizzly Scholarship Association contracts for a special purpose audit, as required by the NCAA.<sup>7</sup> The University of Montana also engages an external auditor for the special purpose of auditing athletics to ensure NCAA compliance. Members of the audit subcommittee (Jim Salisbury, Patricia Collins, and Laurie Neils) spoke with the external auditors, Douglas Wilson & Company, PC on April 22,<sup>8</sup> the UM internal auditors on April 6 and April 15, and a staff auditor from the Legislative Auditor's Office<sup>9</sup> on April 23. The UM internal audit staff does not test financial transactions at athletics, except for any special project work (such as cell phone use) that they are engaged in campus-wide.<sup>10</sup> Most of the internal audit work in relation to UM athletics involves testing NCAA compliance in non-financial areas. Both the UM internal auditors and the legislative auditor rely on the work of the external auditors to test financial activity and financial compliance. The University of Montana internal auditors receive a copy of the external athletic audits, both for GSA and UM. An "action plan" is prepared by the athletic department in response to any internal control or other recommendations from the external auditor and is submitted to the Internal Audit Department.

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<sup>7</sup> Interview with Kathy Burgmeier, UM Internal Auditor, April 6, 2004

<sup>8</sup> Interview with auditors from Douglas Wilson & Co., April 22, 2004

<sup>9</sup> Interview with John Fine, April 23, 2004

<sup>10</sup> Interview with Kathy Burgmeier, UM Internal Auditor, April 6, 2004

Recommendation Number 3

Audit/Accounting

Title of Recommendation: Review of Special Purpose Audit Report

We believe the level of risk in the athletic department necessitates a closer review of both audit reports and submitted action plans. We don't know whether UM participates in the GSA audit exit, but given the close nature of the two organizations (**See Finding #5**) UM should participate. Even without participating in the GSA audit exit, a copy of their financial report was submitted to The University Internal Audit Department. The FY02 prepaid was clearly identified in the GSA financials. The UM did not discover this, or check for a related deferred revenue entry, until their review of FY03 transactions, sometime in the October-December 2003 time period. Additionally, many of the identified internal control weaknesses identified by the external auditors were repeated for one or more audits. These weaknesses were clearly identified in the annual audit letter of internal control structure and status of prior audit recommendations. We recommend that UM internal audit verify that the audit action plans have been implemented by making an unannounced visit to athletics. Findings of that visit should be relayed in writing to the President.

The NCAA Audit Guides states the following on page 2:

*"The institution's audit report should not be filed with the NCAA national office. Its primary purpose is to ensure that the chief executive officer is made aware of all recorded expenditures (both internal and external) for athletics purposes and is intended to assist the institution in exercising control over expenditures made for or in behalf of the intercollegiate athletics programs."*

The University of Montana should utilize the athletic report as intended by NCAA.

Recommendation Number 3.1

Audit/Accounting

Title of Recommendation: Review of Special Purpose Audit Report

The same external audit firm prepares the audit for both the GSA and audited NCAA report for the athletic department. The external audit firm should have recognized the \$216,000 accounting error related to prepaid GSA fees in FY02 on the UM athletic department's records. The panel believes the audit firm should also expand its disclosures in the NCAA audit report to encompass contract obligations of the athletic department. Examples are Adams Center commitments and North End Zone repayment agreements. These disclosures would be beneficial to the readers of the financial statements, especially when a balance sheet is not presented. In addition, the external audit firm should be more aggressive in requiring the audit findings and recommendations of the GSA and UM athletics be addressed and the audit completed in a timely manner.

## SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

### Finding Number 4

#### Audit/Accounting

Title of Finding: Interview with UM Internal Audit, Kathy Burgmeier

The Audit Subcommittee interviewed Kathy Burgmeier, Director, UM internal audit on April 6. The discovery chronology of the athletic department accounting errors and deficit as reported by the University administration is verified in this interview. In December, 2003, Kathy Burgmeier,<sup>11</sup> called a meeting to discuss the problems that were discovered by Douglas Wilson & Co., external auditing firm conducting the audit for GSA and NCAA.

The UM Internal Audit Department reports directly to President Dennison.<sup>12</sup> The department is responsible for setting the auditing procedures on the UM campuses and generally focuses on compliance and cash handling procedures of individual departments. This department reviews the special purpose audit reports performed by external auditors. Other than some NCAA compliance issues and cash handling procedures, UM Internal Audit Department did not discover problems associated with the athletic department budget until called to the December 2003 meeting.<sup>13</sup>

### Finding Number 4.1

#### Audit/Accounting

Title of Finding: Interview with UM Internal Audit Department, Marlene Wyatt, Auditor

The Audit Subcommittee met with Marlene Wyatt from the Internal Audit Department on April 15. Ms Wyatt has performed several internal audit procedures for the Athletic Department. Most of these audits were of a compliance or cash handling nature. Ms. Wyatt was unaware of errors or a deficit in the athletic department budget until it was brought to light by the external auditing firm of Douglas Wilson & Co.<sup>14</sup>

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<sup>11</sup> Interview with Kathy Burgmeier, April 6, 2004

<sup>12</sup> UM Organizational Chart

<sup>13</sup> Interview with Kathy Burgmeier, April 6, 2004

<sup>14</sup> Interview with Marlene Wyatt, UM Internal Audit staff, April 15, 2004

## SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

### Finding Number 5

Audit/Accounting

Title of Finding: Relationship of The University of Montana and GSA

The Grizzly Scholarship Association (GSA) is a 501(c)(3) non-profit organization whose purpose “is to provide athletic scholarships and promotional support for The University of Montana athletic programs.” The three employees of the GSA are employees of The University (and therefore State employees). They are paid on UM payroll and the payroll expense is reimbursed by the GSA and subsequently deposited into a restricted fund at UM.<sup>15</sup>

The fiscal officer did not fulfill his responsibilities with regard to budgeting for the Grizzly Scholarship Association (GSA). The fiscal officer in the athletic department was assigned approximately one-quarter time and was paid for this time by the GSA.

The GSA executive director and a board member informed the athletic panel that there was no formal budget process including scholarship commitment for the last couple of years, even though they had pressed the fiscal manager to perform this duty.<sup>16</sup>

The athletic panel obtained the by-laws of the Grizzly Scholarship Association. The by-laws state: “*The Grizzly Scholarship Association shall annually, at its spring meeting, approve the following: A budget for the upcoming year. Such budget shall, (i) estimate the expenses that are anticipated to be incurred for the operations of the Grizzly Scholarship Association (ii) include the amount the Grizzly Scholarship Association anticipates it will raise through its membership contributions, and (iii) specify the amount the Grizzly Scholarship Association intends to transfer to the University of Montana Athletic Department to assist it in providing scholarships to athletes at the University of Montana.*”<sup>17</sup>

The athletic department does not account for payroll processing as identified in the GSA By-Laws. The GSA By-Laws state “*All professional and support staff of the Association shall be employees of the University. Association-generate funds shall provide for salaries, benefits and operation expenses through fiscal year 1991, after which the Athletics Department will assume such responsibilities.*” GSA staff is still paid from GSA funds, not from athletic department funds.<sup>18</sup>

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<sup>15</sup> Statement before April 9, 2004, Panel by Bryan Newton, GSA President

<sup>16</sup> Minutes of April 9 Panel meeting

<sup>17</sup> GSA By-Laws

<sup>18</sup> GSA By-Laws

Recommendation Number 5

Audit/Accounting

Title of Recommendation: Relationship of The University of Montana and GSA

The Board of Regents should review the relationship of the campuses booster clubs to assess whether the regents have appropriate oversight in regard to the fact that GSA employees are University employees. The GSA board should update their by-laws to reflect current practices. The GSA should formally establish an annual budget, including the amount for scholarship commitments and account for payroll as defined in their by-laws.

## SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

### Finding Number 6

Audit/Accounting

Title of Finding: The University of Montana Foundation and Opportunity Fund

The University of Montana Foundation was established in 1951 on the “founding principle that higher education at UM is greatly enhanced with the infusion of private gifts.”<sup>19</sup> The UM Foundation is an independent non-profit organization under Internal Revenue Service 501(c)(3) designations and is the official development office for The University of Montana. A 40-member board of trustees maintains fiduciary and operational responsibility for the Foundation and embraces its goals.

The UM Foundation provides support to UM athletics in the form of scholarships or aid to the University for student athletes. The foundation also provides funds for use by the athletic department that has been established by donors to be spent at the discretion of the athletic director. Detailed information regarding the amount of funds available for these purposes was not available to the panel. Although the foundation protects their donors’ privacy and the separation between the University and the foundation assets, the foundation director has offered to provide aggregate numbers regarding athletic donations. The UM Foundation both transfers funds to The University to pay for athletic related expenditures and spends foundation monies directly out of the Foundation funds designated for UM athletics.<sup>20</sup>

On April 16, 2004, Brad Kliber and Bob Minto from the National Advisory Board for Grizzly Athletics spoke to the panel. The National Advisory Board provided the UM Foundation (UMF) with the majority of the financial resources for the Athletics’ Opportunity Fund. According to Bob Minto, the opportunity fund has three main functions, the third of which is to help provide operating funds for the athletic department. In the words of Bob Minto, “It is actually not a large part but does provide money for things not budgeted such as recruiting costs, plane tickets, and unexpected expenses. Those monies come from the board itself—each member makes a commitment annually to the Opportunity Fund.” “We deposit the money in the UMF and they provide the funds to the athletics director. There are a few restrictions but mostly this money is to give the athletic director the ability to do what needs to be done.” A panel member asked Mr. Kliber and Mr. Minto the following question, “As a point of clarification, regarding Opportunity Funds, from what you have said I understand that you have no problems with how that money is spent.” Bob Minto responded, “The money in the Opportunity Fund needs to be spent consistent with UM policy and NCAA guidelines—beyond that it is totally up to the discretion of the athletics director.”<sup>21</sup>

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<sup>19</sup> UM Foundation web site, <http://www.umt.edu/umf>

<sup>20</sup> E-mails and phone conversations with Laura Brehm, UM Foundation President and CEO

<sup>21</sup> Minutes from April 16 Panel meeting

Recommendation Number 6

Audit/Accounting

Title of Recommendation: UM Foundation and Opportunity Fund

The President of The University of Montana should provide campus personnel and the UM Foundation written guidelines as to what is acceptable in seeking reimbursement or payment out of UMF funds and who from the University is authorized to approve these expenses or reimbursements.

SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 7  
 Audit/Accounting  
 Title of Finding: The Athletic Structural Deficit

In May 2000, President George Dennison submitted a 3-year plan for the Adams Center and the Department of Intercollegiate Athletics. This plan would balance UM athletics by the end of FY03. Actual reported expenses for UM athletics exceeded the plan’s total expenditures by over \$2.5 million in FY02 and over \$2.5 million in FY03. In FY02 the University used \$880,000 more in state funding than was budgeted and still ended the fiscal year with a current year deficit in athletics. For FY03 the University reported that athletics revenues exceeded expenses by \$136,344.<sup>22</sup>

	State Support Athletics	State Support Athletics	State Support over Budget	Total Athletic Expenditures	Total Athletic Revenues	Total Surplus (deficit)
	Budgeted	Actuals				
FY03	3,168,793	\$3,308,198	139,405	10,683,375	10,819,719	136,344
FY02	2,619,585	\$3,500,363	880,778	10,052,123	9,671,561	-380,562
FY01	2,296,525	\$2,308,458	11,933	8,184,438	7,862,788	-321,650
FY00	2,306,247	\$2,401,813	95,566	6,887,492	6,628,041	-259,451
FY99	2,198,914	\$2,220,672	21,758	6,446,990	5,815,956	-631,034

Panel members requested explanations as to why total expenditures grew by \$1.9 million from FY01 to FY02. Neither the athletic department or the Office of Administration and Finance were able to provide a comprehensive response.<sup>23</sup> Department personnel were able to point to a few likely contributing factors in the increase from FY01 to FY02 (such as the football team national championship, the resignation of coaches, and the 13% tuition increase that caused an increase in fee waivers) but could not explain why those expenditure levels remained (and then increased by over \$600,000) in FY03. President Dennison told the panel it was not a deliberate decision by the University to grow expenditures at those levels.<sup>24</sup> Vice President Durringer suggested that the cause was “growing a championship program”.<sup>25</sup>

<sup>22</sup> Athletic Reports on file with Office of the Commissioner of Higher Education, Fiscal years 1999-2004

<sup>23</sup> Meeting April 22 with Audit and Budget Subcommittees and UM Staff

<sup>24</sup> Minutes from April 30 Panel meeting

<sup>25</sup> Meeting April 22 with Audit and Budget Subcommittees and UM Staff

Finding Number 7

Audit/Accounting

Title of Finding: The Athletic Structural Deficit (continued)

It appears to the panel that the expenditure side of the athletic budget was not monitored or analyzed closely by anyone at the University, including the athletic director. Budget oversight at UM seemed to be more reactive than proactive. The athletic director was given the monumental task of balancing the budget through fundraising. The other significant pieces of the revenue portion of the athletics budget, such as state support and student athletic fees, were outside the control of the athletic director. Other University funds were transferred in at year-end by UM administration as budget balancers. Because the expenditure and revenue components of a balanced athletics budget were not managed in tandem, the structural deficit was a likely outcome. Because of the frequency of increased state support and other university funds that were required to balance the athletic budget, the structural deficit should have been known by The UM administration. The term “structural deficit” is now identified in UM’s current athletic deficit reduction plan.

Recommendation Number 7

Audit/Accounting

Title of Recommendation: The Athletic Structural Deficit

The President of the University has required the athletic director to balance the athletic budget, but the UM administration has not controlled the expenditure side of the athletic budget, nor required the athletic department to do so (by employing consequences for overspending their budget.) Pressure was applied to require the athletic director to obtain non-institutional sources of revenue (fundraising), but it seemed to be directed toward future budgets. The administration should monitor and control both the revenue and expenditure portions of the athletic operating budget throughout the fiscal year. A realistic funding package that includes adequate institutional support that assures a balanced athletic budget must be developed by the University. The consequences of not adhering to an approved budget should be clearly communicated to the athletic director and acted upon if necessary. The University president should provide proactive instead of reactive oversight over the athletic department finances. Because of the size and nature of the athletic budget, and the reliance on external funding, an adequate reserve should be established in athletics to hedge against future budget shortfalls.

## SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

### Finding Number 8

#### Audit/Accounting

#### Title of Finding: Concession, Trademark Licensing Royalties, Collegiate Licensing

Bob Frazier, University of Montana executive vice president, gave a presentation on trademark licensing royalties. The April 16, 2004 panel meeting was to have a presentation related to concession royalties but because of a scheduling misunderstanding a presentation was not given by UM representatives. Rosi Keller did provide a schedule of revenues and expenditures related to the concession sales for athletics at a later date.

The presentation by Bob Frazier indicated that the president's office nets approximately \$200,000 on sales in excess of \$10,000,000. A small amount of these royalties are allocated to the athletic department.<sup>26</sup>

The concession revenues reflect gross proceeds of \$474,705 for the fiscal year ended June 30, 2003 and expenses of \$313,839 for a net of \$160,867. \$150,000 is then allocated for debt reduction on the Adams Center. The projections for FY2004 and 2005 reflect higher receipts and allocations to debt relief.<sup>27</sup>

Concession sales related to the new 4,000 seats in the north end zone for football are committed to debt reduction related to the addition of those seats. The athletic department is absorbing expenditures incurred in relation to the 4,000 seats in the north end zone. The Board of Regents item that authorized the construction of the north end zone included the following: *ITEM118-1003-R0103 "This project at an estimated cost of \$2,500,000 will be financed with revenues from the sale of tickets and concessions."*<sup>28</sup>

Collegiate license revenues are dedicated to scholarships in general and not specifically identified for athletics scholarships.

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<sup>26</sup> Memo provided by Bob Frazier to Athletics Panel April 9, 2004

<sup>27</sup> Spreadsheet provided to panel by Rosi Keller.

<sup>28</sup> Board of Regents minutes from January 2003.

Recommendation Number 8

Audit/Accounting

Title of Recommendation: Concession, and Trademark Licensing Royalties

We recommend that UM review the revenues and expenses related to concessions, royalties, and collegiate licensing. It is important to quantify revenues that are related to athletics and to determine if adequate profits are being realized on the gross sales. Athletics requires additional stable sources of revenue that are earmarked specifically for athletics operations and are not dependent upon the largesse of the University to allocate piecemeal at year-end for balancing purposes. In addition, the regents should determine whether the commitment regarding north end zone concessions by the University of Montana has been met.

## SPECIAL PANEL ON UM ATHLETIC DEFICIT

Finding Number 9 Audit/Accounting Title of Finding: Review of Accounting Error
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The Audit Subcommittee interviewed Rosi Keller, UM associate vice president, Administration & Finance<sup>29</sup>. The discovery chronology of the athletic department accounting errors and deficit as reported by the University Administration is verified in this interview. Ms. Keller spent a large portion of this interview explaining in detail the accounting errors that were discovered. It is as follows:

Payments made by the GSA to the Athletic Department in excess of the GSA's annual pledge. These should be booked as a prepaid expense on the GSA's books and a liability on the athletic department's books, rather than income.

FY 2002	\$216,000
FY 2003	<u>48,050</u>
Total Prepaid	\$264,050

An invalid account receivable was recorded to income on the athletic department's books in FY 2003 on an accrual basis when, in fact, the cash had already been received. This resulted in a double booking of income in the amount of \$116,950.

Invalid Receivable-FY03	<u>\$116,950</u>
Total error	<u>\$381,000</u>

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<sup>29</sup> Subcommittee interview with Rosi Keller, April 6, 2004

Recommendation Number 9

Audit/Accounting

Title of Recommendation: Review of Accounting Error

After review of the documentation related to the accounting errors as presented by the staff of UM and from related conversations with current and former employees of UM, we have no evidence to conclude that there was intent on the part of UM staff to intentionally misrepresent the financial statements of the athletics department. The panel felt that the documentation of the error was adequate.

We believe that if accurate and timely financial reports had been issued by the GSA *and reviewed by The University*, that the \$264,050 prepayment error would not have occurred. In addition, we believe the Athletic department should establish a receivable at the beginning of its fiscal year for the GSA pledge that is consistent with the Athletic and GSA's budgets. This amount should not be reversed at the beginning of the new fiscal year, as is UM current policy. We believe that by establishing this receivable the Athletic department will know how much is currently due from the GSA at any given time. An effort should be made to reconcile the Athletic department amount to the GSA's amount monthly. This would be especially helpful given the athletic department does not prepare a balance sheet.

The GSA as well should establish a payable equal to the amount established on the athletic department records so the GSA can also track the amount of pledges owing to the UM athletic department. The GSA does prepare a balance sheet.

## SPECIAL PANEL ON UM ATHLETIC DEFICIT

Finding Number 10

Audit/Accounting

Title of Finding: Interview with Rob Edwards, Former Fiscal Officer, UM Athletics

The Audit Subcommittee interviewed Rob Edwards.<sup>30</sup> This interview determined that Mr. Edwards reported directly to the Athletic Director Wayne Hogan and was totally in charge of the athletic department budget, planning, monitoring and balancing. Mr. Edwards took over the arrangement for out-of-state team travel from Chuck Maes, which included traveling with the team to make sure the arrangements were satisfactory. He was absent from the department a great deal during the football season. Mr. Edwards was surprised to learn from newspaper accounts that there were errors and a deficit in the athletic department budget. He was unaware of mistakes he made (explained in AUD9:1 above). He stated any errors were unintentional. He was not at any time, pressured or asked to make the entries explained in Finding #9. He felt the entries were correct. The University never contacted Mr. Edwards for an explanation about any entries he recorded. He spoke of the prepaid expense issue at GSA, but it was clear he was talking about GSA spending subsequent year's memberships on current year's scholarships, rather than the issue of the University drawing more than was committed from GSA in a year.

A letter written to the Athletic Panel and posted to the web site is pasted below<sup>31</sup>:

Athletics Inquiry Panel Members:

My name is Rob Edwards and I was the Fiscal Manager for UM Athletics from September of 2001 to September of 2003. I have followed the discussion of the athletic department's financial woes with great interest and felt it necessary to write this letter to provide some information regarding a few of the items discussed in the press as well as at your meetings.

One of the major topics of discussion in the inquiry into the athletic department financial issues has been the \$361,000 of "accounting errors" reported at the outset of the investigation. As the Fiscal Manager responsible for these items, I feel it necessary for me to explain the thought that went into these transactions. As you will discover in your study of the structure of the athletic department, there is an annual commitment from the GAA to provide a set level of support for athletic scholarships each fiscal year. This revenue is collected mainly in the spring as football ticket holders renew their membership as required to maintain their seats. In fiscal years 2002 and 2003 that support was set at approximately \$875,000 to be paid to the University in two installments, one in the fall and one in the spring. When I took the job in athletics in September of 2001, I discovered that the spring payment was being made partially with revenue collected for the next fiscal year and that this had been happening for several years. At the next State GAA board meeting I informed the board of this finding and suggested that we needed to try to end this practice as soon as was feasible. I told them that while I would like to see it taken care of quickly, it was unrealistic

<sup>30</sup> Interview by Audit Subcommittee, April 15, 2004

<sup>31</sup> Memo posted to Panel website, <http://www.oche.montana.edu/UMathletics.htm>

**Finding Number 10**

**Audit/Accounting**

**Title of Finding: Interview with Rob Edwards, Former Fiscal Officer, UM Athletics  
(Continued)**

to think that the athletic department could absorb the lost revenue immediately and that a plan should be made to slowly correct this issue. With the tight financial conditions that exist within the department, no progress had yet been made on resolving this problem when I left the department in September 2003. The \$361,000 is the result of completing the transactions to meet the \$875,000 commitment for FY03 not a prepayment of FY04 obligations.

The other topic that I feel I can give some input into is the budgeting process and practice within the department. Budgeting for athletics is a challenging proposition. Expenses change and ticket and donation revenues are hard to predict with much accuracy. For example, it is difficult to accurately budget for basketball travel in the spring when the schedules are not complete and bids have not gone out to secure travel arrangements. That said, I agree with some of the comments that have been made that my department didn't do well in tracking and reporting individual budgets to the coaches and managers. With this problem in mind and with the release of new financial tracking tools, I was able to put in place a new system by which each coach and manager would meet with myself and his supervisor to go over the initial budget for the year. After that meeting, quarterly discussions would also be held to review performance and variance from budgets and current reports would be available at any time throughout the year by request. This process was just beginning when I left the department this past September and I believe would have been effective in keeping everyone informed of their budget status.

As you delve into the details of the finances of the athletic department I hope that you take the time to look at previous years information as well as the specifics of the current deficit. I firmly believe that for the panel to understand and solve these difficult financial issues you must have a good understanding of how we got to this point and look at the problem from several angles.

Respectfully,  
Robert Edwards

## SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 11

Audit/Accounting

Title of Finding: Interview with Chuck Maes

The Audit Subcommittee interviewed Chuck Maes, UM associate athletic director for internal affairs. He was unaware of the errors or deficit until called in to determine what had happened after the GSA auditors discovered discrepancies. Mr. Maes was asked to provide an accounting of expenditures differences for the past three years and was unable to do so.

Mr. Maes stressed that the budgets by Edwards appear to have been prepared with little or no documentation. The budgets did not reflect any increase for expenditures because there was no certain source of funding to finance them. Mr. Maes also implied that there has not been a concerted effort to control costs.<sup>32</sup>

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<sup>32</sup> Interview by Chuck Maes by Audit and Budget Subcommittees, April 22, 2004

## SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

### Finding 12

#### Audit/Accounting

Title of Finding: Interview with Montana State Legislative Auditor, John Fine

The Audit Subcommittee met with John Fine to determine state procedures for auditing departments within the state.<sup>33</sup> John explained the role of his office in auditing UM and athletics. The legislative auditor is required to attest to the fairness of the financial statement for the University of Montana as a whole and to test for compliance. They may review some components of athletic financial activity if material to the University as a whole or for compliance. However, when an external audit is contracted for, the legislative auditor relies on the work done by the external auditor, unless they discover reasons why they are not able to rely on that work. Because of the nature of this athletic issue, it is certain the legislative auditor will increase their review of athletics financial materials in FY04.

### Recommendation Number 12

#### Audit/Accounting

Title of Recommendation: Interview with Montana Legislative Auditor, John Fine

The subcommittee reviewed the interrelationship of internal audit and the legislative auditor's functions. The panel recommends that the Board of Regents ask the legislative auditor's office to prepare a comparison between the internal audit functions of the University campuses and those in peer states; the structure, staffing, audit focus, and reporting lines of the internal audit departments among the different University units. We believe that a more risk-based approach to auditing may be necessary to avoid more instances like the one this panel is investigating. The regents should determine if it is adequately staffed in their internal audit departments given the complexities inherent in the system. The Board of Regents may want to consider establishing an audit oversight committee.

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<sup>33</sup> Interview by Audit Subcommittee, April 23, 2004

## SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 13

Audit/Accounting

Title of Finding: Time Line as to Discovery of Accounting Errors.

President Dennison has provided a chronology in regard to the discovery of athletic accounting errors.<sup>3435</sup> From interviews with the Director of Internal Audit Kathy Burgmeier, Internal Auditor Marlene Wyatt, the external audit firm of Douglas Wilson (represented by Bruce Gaare and Randy Boisen), administration and finance office Bob Durringer and Rosi Keller, and athletic personnel Marie Porter and Chuck Maes, the reported time line of the discovery and disclosure of the accounting errors related to the June 30, 2003 financial statements was verified.<sup>36</sup>

The fiscal year end of UM was June 30, 2003. In the rush to record year-end accruals and ensure the athletics financial activity was balanced at year-end, accounting errors were made to the accounting records of the athletic department. See finding Review of Accounting Error #9. Subsequent to June 30, 2003 the athletic department's fiscal officer resigned. During the course of the external audit for GSA in September 2003, Douglas Wilson & Co., external auditing firm, noted that the athletic department had drawn funds from the GSA in excess of the annual commitment by GSA to the athletic department. On the June 30, 2003 audit report of the GSA, dated November 25, 2003, the amount of this excess draw, or prepaid expense on GSA books, in the amounts of \$264,050, was presented in the financials. {It should be noted at this point that the prepaid expense treatment of excess withdrawals by the Athletic department over the commitment by GSA started in the fiscal year ended June 30, 2002. However, for FY02, no one checked to see if an entry was made to UM's records to offset the prepaid expense recorded on GSA's records. Prior to that time excess withdrawals were considered appropriate because the accounting records and policies of the GSA were such that the appropriate accounting for this issue was not determinable.}

In late November 2003, UM completed their athletic department financial statements as required by NCAA and the Regents. These completed financial statements were then provided to Douglas Wilson & Co for audit purposes.

During the week of December 8, 2003, the external auditor's fieldwork began. The external auditors determined that there might be an additional problem related to an account receivable recorded on the June 30, 2003 records of the athletic department

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<sup>34</sup> Memo from President Dennison to "Campus Community", dated March 3, 2004

<sup>35</sup> Minutes of Panel meeting March 23, 2004, materials provided to Panel

<sup>36</sup>

Finding Number 13

Audit/Accounting

Title of Finding: Time Line as to Discovery of Accounting Errors.

(continued)

that may not be a valid receivable. This amount is \$116,950. On December 22, 2003 the external auditors, Kathy Burgmeier, Bob Duringer and Rosie Keller met to discuss additional errors. It was at this time they determined the errors to be “Big”. On January 27, 2004 the external auditors, Bryan Newton of the GSA, Ted Delaney of the UM Foundation, Chuck Maes, Sylvia Weisenburger and Wayne Hogan of the Athletic department and Rosie Keller and Bob Duringer of UM Administration and Finance, met to discuss the accounting errors. This was a lengthy work session to try to explain to all the parties how the errors occurred and how much they were. On February 12, 2004 essentially the same group of individuals met again to finalize the fact that the errors did occur.

Recommendation Number 13

Audit/Accounting

Title of Recommendation: Time Line as to Discovery of Accounting Errors.

We concur with the time line President Dennison presented to the Board of Regents in February 2004 as to the discovery and reporting of accounting errors within the athletic department’s financial statements for June 30, 2003. It is consistent with our interviews of the parties listed above.

We recommend that the audit of the athletic department should be completed by December of each year. The critical nature of the performance and completion of the audit and the validation of the financial information presented to the Regents is clear given the controversy surrounding the financial results for June 30, 2003. It has been reported by UM staff that the return of one employee on a post-retirement contract was essential to the completion of the audit. This reflects an environment of casual regard for Athletic department financial results and potential audit comments.

The audit of the athletic department was not completed as of May 14 and it is questionable as to whether or not it will be completed by the time the Board of Regents meets May 20, 2004.

## SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 14

Audit/Accounting

Title of Finding: Athletic Department Financial Reports

During the course of the review of the athletic department's finances it became apparent that a standard reporting format for athletic financial information is not followed. The athletic department produces monthly financials on the UM accounting system.<sup>37</sup>

However these reports do not reflect all sources of revenues and expenses. An external audit report is prepared annually that requires the consolidation of GSA finances, UM Foundation revenues and expenses, and other sources of revenues and expenses. Other financial reports may be prepared for the Big Sky Conference Commissioner's office, but the dates and reporting format vary.

In trying to reconcile changes among specific line items of financial reports from year to year it was not possible to determine what caused the changes in revenue or expenses since categorization was not consistent from year to year. Consistency and comparability should be basic functions of financial analysis.

Recommendation Number 14

Audit/Accounting

Title of Recommendation: Athletic Department Financial Reports

The new fiscal officer for athletics should develop a standard reporting format. This format should use automated systems from all sources as much as possible and allow for easy comparison to prior periods to monitor and quantify changes in income and expense categories as well as to variance to budget. This is essential to preparing accurate and timely financial results as well as to assist in the preparation of accurate and timely budgets.

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<sup>37</sup> Spreadsheets provided by Sylvia Weisenburger, Rosi Keller, Chuck Maes, Bill Muse

## SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Proposed Finding Number 15  
Audit/Accounting  
Title of Finding: Game Guarantees

On March 24, Marie Porter, UM interim athletic director provided the panel with the detail of the football guarantee exchange with Idaho.<sup>38</sup> The significance of the information is that many of the financial details behind the agreement with Idaho were not formalized. It appears that the agreement was between Wayne Hogan and Mike Bohn (Idaho) and was not shared with finance personnel to make sure the financial piece of the transaction was properly accounted for.

Recommendation Number 15  
Audit/Accounting  
Title of Recommendation: Game Guarantees

We recommend that all game guarantees be contractually documented, with all pertinent financial details included in the contract. The athletics fiscal manager as well as administration and finance should be given copies of these contracts to ensure appropriate accounting and budgeting for game guarantees.

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<sup>38</sup> Memo from Marie Porter to Panel Chair Diane Barz, dated March 24, 2004

## SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Proposed Finding Number 16

Audit/Accounting

Title of Finding: Trade Outs, Comp Tickets, Courtesy Cars

Marie Porter, UM interim athletic director, provided the panel explanations and detail regarding trade outs and comp tickets. There are over 1000 comp tickets given for football, over 700 for basketball.<sup>39</sup> The spreadsheet for comp tickets is included in the appendix.

We are aware of the practice of providing athletic game tickets in trade for goods or services (such as trade-outs for courtesy cars.) The total dollar value of trade-outs is reflected in the comprehensive athletic report at \$235,135 for FY03. However, the detail of services or goods exchanged was not provided to the panel.

Recommendation Number 16

Audit/Accounting

Title of Recommendation: Trade Outs, Comp Tickets, Courtesy Cars

We recommend that the Board of Regents and The University of Montana analyze the cost incurred versus the value received for trade-outs, comp tickets, and courtesy cars. This analysis should include a review of other NCAA and Big Sky Conference teams to compare the level of comp tickets and trade outs that are awarded. Although the amount seems excessive to the panel members, we are not experts in this area and do not have a reasonable basis for comparison.

For example, every two years Montana hosts the Grizzly Bobcat game. If 1,000 tickets are comps, at \$35 per ticket, \$35,000 is lost in revenues for that game alone.

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<sup>39</sup> Lists of comp tickets provided to panel by Marie Porter April 17, 2004

## SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Proposed Finding Number 17

Audit/Accounting

Title of Finding: Professional Background and Hiring of Rob Edwards

Rob Edwards was hired by The UM athletic department on October 1, 2001. Recruitment for this position was done on-campus only. When Rob was hired, there were four applicants in total. The selection committee consisted of Sylvia Weisenburger, Marie Porter, Wayne Hogan, and Patty Dwight. Sylvia Weisenburger confirmed this during her interview with the panel on April 30. Rob's previous on-campus experience was the auxiliary and athletics funds accountant at Business Services. However, Mr. Edwards did not meet the minimum qualifications for the posted job since he did not have an accounting degree or three years of progressively responsible accounting and management experience.

Mr. Edwards was hired on a letter contract at \$32,000 per year. For FY03 he was given a raise to \$42,000 per year (when the average raises were 3%). Sylvia Weisenburger was also surprised to learn that advancing out-of-state games became part of Rob Edward's job description.

Mr. Edwards quit working at the University at the end of September 2003, but was paid by the University until the end of March 2004. He continued to have use of an athletic department courtesy car until the end of December 2003.<sup>40</sup>

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<sup>40</sup> Telephone interviews with Kathy Crego, UM Director of Human Resources

## SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 18

Audit/Accounting

Title of Finding: Interview with Sylvia Weisenburger

The Audit Subcommittee met with Sylvia Weisenburger to discuss her knowledge of budget controls, accounting practices, deficits, and her responsibilities in the Athletic Department.<sup>41</sup>

President Dennison assigned Sylvia Weisenburger to the athletic department on a special assignment for one year to “straighten out” the budget and write a plan for the deficit reduction. This was in the spring of 2000. The plan to reduce the deficit was completed 5/12/2000. The details of this plan were provided to the panel members are included in the background piece of the report. This deficit was to be eliminated by the end of FY 2003.

Ms. Weisenburger was on special assignment as the athletic department fiscal manager for fiscal year 2001. After that year, Sylvia retired and went on a post-retirement contract. It was determined a full time fiscal manager was needed in the athletic department. Ms. Weisenburger was on the hiring committee for this position and told us that she strongly believes in hiring from within if qualified internal candidates are available. The position was advertised internally on the UM campus and Rob Edwards, from UM Business Services was hired October 1, 2001. Ms. Weisenburger created a detailed budget for the department, and spreadsheet to monitor and build athletic budgets. Ms. Weisenburger prepared the NCAA reports and the Regents Athletic Reports in the fall of 2001 and the fall of 2002 as part of her post-retirement work. In spring 2002 Ms. Weisenburger heard rumors that Mr. Edward was having personality conflicts with some of the athletic department staff.

Ms. Weisenburger also spoke with us regarding accounting problems at GSA. In FY2001 she recommended that GSA hire an accountant. One was hired but lasted only 3 months before taking another job. In summer 2001 she learned that a secretary was promoted from G-8 to G-11 to be the accountant. Sylvia noted Rob would not have taken help even if offered. Sylvia gave an example as to how financial problems evolved after the 2000 deficit reduction plan. One example was that coaches recruited athletes without concern as to the consequences associated with the recruiting out-of-state students who require more expensive scholarships than do in-state athletes. There was no guidance for the coaches. Sylvia gave the committee some of her ideas as to where costs could be reduced from her experience in the athletic department.

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<sup>41</sup> Interview by Audit Subcommittee on April 29, 2004

Finding Number 18

Audit/Accounting

Title of Finding: Interview with Sylvia Weisenburger  
(continued)

In the fall of 2003, after Rob Edwards left the University, Ms. Weisenburger was called to prepare the Regents and NCAA athletic reports. She did so using the budgetary information prepared by Mr. Edwards.

In December of 2003 Ms. Weisenburger was called in to make adjustments in her spreadsheet to adjust for the accounting errors that had been discovered to that date. This was the first she knew of the accounting problems in athletics.

## SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 19

Audit/Accounting

Title of Finding: New Fiscal Officer

The UM and Athletic department have hired a new fiscal officer for athletics who will assume his new position in May 2004. It is our understanding that this position will report directly to Bob Durringer in the Office Administration and Finance.<sup>42</sup>

Recommendation Number 19

Audit/Accounting

Title of Recommendation: New Fiscal Officer

While it is appropriate for the new athletics fiscal officer to report to the vice president for administration and finance, at least temporarily, and while it has been implied that the new athletics fiscal officer will eventually report to the athletic director, it is our recommendation that the new fiscal officer report to the athletic director as soon as is practicable. This will allow for the continuity of reporting within the department and a sense of ownership of the financial statements. A prolonged reporting to other than the athletic director may result in a “them vs. us” environment. This type of an environment could be detrimental to the morale and efficiency of the athletics department.

The Office of the Vice President for Administration and Finance should increase the level of monitoring and oversight over the athletics finances, as recommended in other findings.

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<sup>42</sup> April 30 Panel minutes.

## **SPECIAL PANEL ON THE UNIVERSITY OF MONTANA ATHLETIC DEFICIT**

Finding Number 20 Audit/Accounting Title of Finding: Deficit Reduction Plan
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Vice President for Administration and Finance, Bob Durringer, presented a preliminary deficit reduction plan to the panel on April 30, 2004. On May 14, 2004, Mr. Durringer presented a revised plan that is to be presented to the Board of Regents on May 20, 2004.

<u>Recommendation Number 20</u> Audit/Accounting Title of Recommendation: Deficit Reduction Plan
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Panel members reviewed the proposed plan and the basic assumptions behind the plan. While the May 14 plan has some items of concern to the panel, it appears to have been prepared with the input from several department and individuals and it has more disclosure than the April 30 plan. The plan includes new sources of revenue that the panel has been studying from the inception of the panel and also addresses cost reductions that the panel has been promoting.

The panel recommends that the UM review actual variances from the plan at least semi-annually and revise the plan if necessary. Semi-annual review of the plan as compared to actual results and on-going revisions to the plan could prevent surprise deficiencies like the panel is currently reviewing.

Proposed Recommendation Number 21

Audit/Accounting

Title of Recommendation: Continuing Review by Panel

The panel suggests that follow-up review by the panel may be appropriate after a year.

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 22

Audit/Accounting

Title of Finding: Athletic Department Procurement Cards (ProCards)

During the fiscal years 2002 through 2004 to date, the athletic department has issued between 45 and 50 credit cards to employees for business-related purchases and business related travel. In fiscal year 2002 athletic department credit card use amounted to \$556,068.07.<sup>43</sup> In fiscal year 2003 athletic department credit card purchases increased to \$597,647.97.<sup>44</sup> Between July 1, 2003 and March 1, 2004 (fiscal year 2004 to date) the athletic department expended \$459,511.08.<sup>45</sup> Employees receiving procurement credit cards retain the cards in their personal possession during their employment. The University encourages the use of procurement credit cards wherever possible so as to decrease the number of vendor payments processed through the University Business Services Department. The use of ProCards is also used to decrease the amount of cash employees carry on university travel.

The Intercollegiate Athletics Policy and Procedure Manual provides guidelines and mandates training for the use of credit cards issued to employees. Authorized expenditures include car rental, gas, lodging (for team travel and out of town recruiting), clinic or seminar registrations, airfare, dues, subscriptions, supplies, and minor tools.<sup>46</sup> Expenditures that are not authorized include cash advances, entertainment, contracted services, controlled items, or personal use.<sup>47</sup> Employees using procurement credits cards are required to obtain receipts for each purchase and submit all receipts for review at least once per month.<sup>48</sup>

Athletic department employees routinely use credit cards for personal purchases and expenditures, including personal entertainment expenses, even though such expenditures are prohibited by athletic department policies and procedures. The University must then collect reimbursement for personal and entertainment expenses from the employee. Verified examples of personal and/or entertainment expenses purchased by athletic department employees on business credit cards include:

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<sup>43</sup> Athletic department Transaction Detail spreadsheets and Paris System Procurement card Records.

<sup>44</sup> *Id.*

<sup>45</sup> *Id.*

<sup>46</sup> *Athletic department Policy and Procedure Manual*, Pro Card Procedures.

<sup>47</sup> *Id.*

<sup>48</sup> *Id.*

Finding Number 22

Audit/Accounting

Title of Finding: Athletic Department Procurement Cards (ProCards) (continued)

- Airfare for personal vacations
- Airfare for other business travel (professional associations / media appearances)
- Hotel room service
- Hotel In-Room Movies
- Food and beverage expenses exceeding State per-diem
- Rental car expenses/fuel and incidentals for personal travel
- Golf course green fees and golf tournament expenses
- NCAA Final Four Tickets

The system for identification and reimbursement of non-business expenses charged to procurement credit cards relies on the employee to self-report and repay expenses or, in the alternative, required administrative assistants to review business travel receipts to identify non-business expenses

and seek repayment. In the athletic department, the administrative assistants responsible for reviewing expenses and identifying necessary reimbursements were directly subordinate to the employees using the credit card.<sup>49</sup> Procurement credits cards are also issued to administrative assistants responsible for reviewing procurement credit card purchases and receipts.<sup>50</sup>

A recently hired coach in the athletic department who was issued procurement credits cards and later repaid personal and non-business expenses has reported that he received little training as to the appropriate use of procurement credit cards. The same employee reports that he expressed concern to fiscal managers and supervisors and received little, if any, direction as to what expenses were appropriate to charge to procurement cards and was advised to continue using the card for all expenses.<sup>51</sup>

During fiscal year 2003, procurement card payment records provided by the University indicate a number of instances in which airfare and hotel receipts were “lost” and indicated as “unable to re-generate” to verify paid expenses. These expenses were paid by the University without submission of receipts as required by athletic department policies. Examples of such instances include:

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<sup>49</sup> Bob Durringer, Bill Muse, UM Deficit Panel Meeting (April 9, 2004)

<sup>50</sup> *Id.*

<sup>51</sup> E-mail correspondence records, *Julie Tonkin to/from Rob Edwards/Wayne Hogan* (October 8, 2002).

Finding Number 22

Audit/Accounting

Title of Finding: Athletic Department Procurement Cards (ProCards) (continued)

- \$875.00 hotel charges<sup>52</sup>
- \$1,080.00 airfare charges<sup>53</sup>
- \$720.00 hotel charges<sup>54</sup>

When employees are required to reimburse expenses charged to University procurement credit cards, a record of “abatement” is created to document receipt of the employee reimbursement. An example of an abatement record related to expenses charged during a coach’s April 2003 travel to the Final Four Men’s Basketball Championships in New Orleans, La. reveals total charges to the University credit card of \$2,253.17.<sup>55</sup> Expenses charged to the University credit card included:

- |   |            |
|---|------------|
| ▪ Room (6 nights at \$208.66)                             | \$1,251.96 |
| ▪ Phone charges (hotel room phone)                        | \$655.97   |
| ▪ Other charges (room service, movies, health club, etc.) | \$345.24   |

The University paid all expenses charged to the procurement credit card. The coach was required to reimburse the University only \$177.24 of the expenses as costs that had exceeded the authorized per diem food expenses (6 days @ \$28.00 per day). The abatement was not received until September 18, 2003.<sup>56</sup>

The University did not question or seek repayment for 81 hotel phone charges that averaged \$8.08 per call at hotel phone rates. Furthermore, the University did not question the coach about the use of hotel phones for business calls or advise the employee to use more inexpensive means for telecommunications.

The University did not seek any reimbursement from the National Association of Basketball Coaches (NABC) related to the hotel expenses even though the coach’s travel was, in part, related to the coach’s official position in the NABC organization. The coach believed reimbursement from NABC would have been obtained had the University sought repayment of expenses associated with the coach’s travel.

<sup>52</sup> FY 2003 Intercollegiate Athletics Procurement card Spreadsheet, Pat Kennedy (June 27, 2002).

<sup>53</sup> FY 2003 Intercollegiate Athletics Procurement card Spreadsheet, Pat Kennedy (September 14, 2002).

<sup>54</sup> FY 2003 Intercollegiate Athletics Procurement card Spreadsheet, Pat Kennedy (September 20, 2002).

<sup>55</sup> FY 2003 Intercollegiate Athletics Procurement card Spreadsheet, Pat Kennedy (April 9, 2003).

<sup>56</sup> Univer

sity of Montana Abatement Record, Pat Kennedy New Orleans NABC Meeting and Final Four Tournament

Finding Number 22

Audit/Accounting

Title of Finding: Athletic Department Procurement Cards (ProCards) (continued)

Athletic department procurement card records indicate routine discretionary purchases of tangible personal property and equipment without apparent oversight or administrative review. Some examples of such purchases include stereos, hand-held two-way radios, mountain bicycles, weigh-lifting equipment, leaf blowers, and coach apparel. When questioned about University property inventory mechanisms to locate and identify tangible personal property and equipment purchased by procurement credit cards, University officials indicated property was not inventoried unless it exceeded a value of \$5,000.<sup>57</sup> This conforms to State of Montana policy.

The use of procurement credits cards for travel expenses has allowed Athletic department employees to routinely exceed State per diem levels with the expectation that the employee will self-report excess expenditures and reimburse the University at a later date. Other State agencies utilize a system of travel reimbursement that requires the employee submit travel voucher forms to ensure reimbursement to the employee does not exceed per diem levels. The athletic department uses travel voucher forms sporadically. Forms reviewed indicate expenses exceeding per diem levels were routinely reimbursed as an “other” expense that did not require receipts or documentation.

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<sup>57</sup> Interview with James R. Darcy, CPA, Director, University of Montana Business Services (April 16, 2004).

Recommendation Number 22

Audit/Accounting

Title of Recommendation: Athletic Department Procurement Cards (ProCards)

1. The UM should ensure that employees comply with university policies and procedures regarding procurement card use by the athletic department and ensure that only appropriate travel and university expenses are charged to the card.
2. The University should re-evaluate the number of procurement cards issued to employees in the athletic department.
3. The panel recommends that the Regents require a thorough audit of UM athletic department ProCard charges for FY02 through FY04.

Finding Number 23  
Student Perspective  
Title of Finding: Student Athletic Fee

The students perceive that The University of Montana Administration was not directly upfront with the student body and its representatives when it first presented a plan to increase the student athletic fee.

- 1) On February 24, 2004, student leaders met with Athletic Director Wayne Hogan, and Vice President for Administration and Finance Bob Durringer to discuss a proposal to increase the student athletic fee. Their plan called for a doubling of the fee over two years. The athletic director and vice president of Administration and Finance led the students to believe that the deficit was a result of inflation of “scholarships, travel, salaries, benefits, event management, and rent.” One student leader was told by the vice president that if the University did not raise the student fee, some of the athletes’ scholarships would be pulled.<sup>58</sup> Their reasons for the fee increase were explained in an executive summary, prepared by Wayne Hogan, which called for the students to “share in the cause” of reducing the athletic department’s “expense burden.” During that meeting, no mention was made of erroneous accounting entries or mistakes by the athletic department.<sup>59</sup>
- 2) Students later learned that Vice President for Administration and Finance, Durringer, stated that President Dennison was meeting with Board of Regents Chair John Mercer that same day to reveal the details of the expected \$1million deficit.
- 3) Vice President Durringer stated that in principle he pledged to not use increased student fees to pay down the athletic deficit.

Finding Number 23.1  
Student Perspective  
Title of Finding: Student Athletic Fee

While students do not want to pay a fee increase, they are willing to work for ways to find revenue in other areas. They do not want to be left out of the process.

- 1) One of the most widely accepted options among students is to generate revenue by selling alcohol at sporting events. The administration has

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<sup>58</sup> Shawna Hagen, ASUM Senator.

<sup>59</sup> Personal attendance at the meeting as an ASUM Senator.

consistently and firmly opposed this idea. Some reasons given include that alcohol is unhealthy and the University will not support that sort of “culture.”<sup>60</sup> However, many students believe the University condones a raucous tailgating culture, and occasionally has beer garden areas inside the Adams Center during football games.

- 2) Other options proposed by students included part-time students paying a pro-rated amount for the athletic fee and increasing the price of student football tickets.

Finding Number 23.2

Student Perspective

Title of Finding: Student Athletic Fee

After the UM administration pulled their fee increase proposal from the March Board of Regents meeting, they drafted a new plan for the athletic fee. On April 21, Durringer submitted his revised athletic fee increase proposal (attached) to the ASUM Senate. Two student leaders conveyed their personal opinions on the new proposal for a student report that I put together for the panel. Their comments are as follows:

*Andrea Helling, ASUM Senator*—Many of the students I have talked to do not understand the difference between the athletic deficit and the ongoing structural problem that an increase to the athletic fee could fix. Therefore, many students are initially very opposed to an increase. Upon explanation of the difference and the fact that the money to fix the structural problem has to come from somewhere, most students are a little more open to increasing the fee. While some of them do understand the need for an increase, some have worked with the numbers and are confused. In four years, the athletic department is going to have money from two different sources that they don't have now: the money they are raising the pay off the deficit will eventually go straight to the department and the \$400,000 from the north end zone. Students would feel better if the administration included the projected revenue from the north end zone into the plan for fixing the structural deficit.

*Rob Welsh, ASUM Senator*—I believe that athletics has a place on college campuses. Unfortunately, it's an almost necessary tool to attract the dollars from the alumni who want to see their alma mater on TV each Saturday afternoon. And they certainly pay. Hopefully, the Griz football team will continue to win football games, and the Washington-Grizzly stadium stays full for many years to come. Hopefully, the projected \$500,000.00 infusion from the north end zone in a few years will be used to buy down the student athletic fee hikes. I think it's only fair. However, it will probably go towards the debt service on an Adam's Center renovation, in which we were promised financing would not come from student fees. I think the administration worked hard in order to make sure that students did not bear entirely the deficit(s) that have caused such hoop-la. But, I began to think about the idea of selling alcohol at football games. I remember the idea being dismissed with a wave of the hand, and little discussion. But if, as some argue, alcohol sells could generate \$500,000.00 a year in revenue, why shouldn't it be seriously explored? Let's see what a system of alcohol-delivery would look like in the stadium. The worst that

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<sup>60</sup> Comments by UM President George Dennison.

could happen would still be a "No." But, as I think about the gobs of money going to "feed the beast" so to speak, I would like to take this last part to comment on the "academic athletes" of this University. Many such groups, like the UM Debate Team, represent Montana around the country, much in the way football or basketball or any other traditional sports. But I would like to point out that no Debate Team member receives scholarships, priority registration, personal tutors or any other amenities that our athletes receive. In fact, the Debate Team squeezes 14 people and four days worth of luggage into a 15-passenger van bound for Portland or Laramie or Bellingham, so that students can miss two or three days of class, stay in a *motel*, four or five to a room, receive no food stipend and be expected to compete for three days, all day, each day. While the Debate Team doesn't stay in *hotels*, receive plane or charter bus travel or food stipends, the team still consistently turns out good "competitors" or "academic athletes." As I said before, we throw gobs of money at football and basketball, and the other give-me's so the University meets its NCAA requirements, but imagine what a sliver of their budget could do for the University's "academic athletes." But for now, I will pay my part of the fee, money I wish I could apply towards food, lodging, or travel costs to my next debate tournament. Thank you.

Finding Number 23.3

Student Perspective

Title of Finding: Student Perspective

Our student panel member stated that students do not support the May 3 proposal any more than they supported the original one. The price of a higher education is becoming an ever-increasing burden on Montana's students.

- 1) In the 2004 ASUM elections, to the new proposal of May 3 brought forward by UM administration, the student body voted 1,392 – 298 in opposition.<sup>61</sup>
- 2) Students are facing an 8.5% tuition increase for the next academic year, plus additional increases in fees.
- 3) The average in-state student debt is over \$20,000 upon graduation.
- 4) Students feel the student athletic fee is the easiest option for the administration to turn to, but students are finding it harder and harder to come up with the money for tuition and fees.
- 5) While students greatly enjoy attending sporting events, and are proud of their Grizzlies, they are not willing to prioritize entertainment above the cost of a quality education.
- 6) There is room for the University to work with the athletic fee increase proposal in the deficit reduction plan. For example, in the deficit reduction plan corporate sponsorships increased only 2.9%. Also, if the administration will not consider having the University sell alcohol at football games, it should at least consider selling the rights to do so, as it does for events like concerts at the Adams Center.

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<sup>61</sup> Montana Kaimin, April 30, 2004.

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

### Finding Number 24

#### Budget

#### Title of Finding: Fiscal Officer Responsibilities – Budget Development

The former fiscal officer did not fulfill all of the fiscal responsibilities included in the position description. The following issues relating to budget development surfaced in the Budget Subcommittee's investigation:

1. The fiscal year 2003 and 2004 operating plans developed and submitted to the Office of Planning, Budgeting and Analysis (OPBA) lacked sufficient detail to evaluate reasonableness of financial assumptions<sup>62</sup>;
2. Input from coaches and staff was either not solicited or not included in the final operating plan<sup>63</sup>;
3. The former fiscal officer provided slow and insufficient responses to requests for explanations from the OPBA concerning items contained in the fiscal year 2004 operating unit plan<sup>64</sup>;
4. The former fiscal officer did not prepare a comprehensive budget including all funding sources<sup>65</sup>.

#### DISCUSSION:

1. The University implemented a new budget planning, development, and monitoring process for designated and auxiliary funds for fiscal year 2003. The process includes planning activities and budget preparation phases, which are completed before the fiscal year begins, and assessment and modification phases, which occur during the course of the fiscal year. The planning phase is intended to formally document the financial assumptions and management decisions upon which the budget will be based and identify current significant operating issues of the budget unit.<sup>66</sup>

The operational plans for designated and auxiliary funds submitted by the athletic department and approved by the president for fiscal years 2003 and 2004 were prepared at the operating unit level (the athletic department) as required, however, the financial assumptions supporting the operational plans lacked sufficient detail in some areas to evaluate the reasonableness of the projected revenue and expenditures of the athletic department. For example, the travel budget proposed for fiscal year 2003 required a 33 percent reduction from fiscal year 2002 expenditures however; the 2003 operational plan included only general references to how a reduction of that magnitude could be achieved. Without additional information on where and how the athletic department was planning to reduce travel expenditures, the validity of the assumption is in question.

2. Head coaches have discretion over certain expenditure items, such as recruiting and travel.<sup>67</sup> However, in interviews with three head coaches, they indicated their input had not been solicited when the annual budgets were established.

<sup>62</sup> "Designated/Auxiliary-Funded Operating Unit Plan" for fiscal year 2003 and 2004 provided to the Budget Subcommittee of the UM Investigation Panel by the Office of Planning, Budgeting and Analysis, March 25, 2004

<sup>63</sup> Budget Subcommittee interview with football head coach and men's and women's basketball head coaches on April 8, 2004, and interview with Interim Athletic Director on April 15, 2004

<sup>64</sup> Correspondence between Office of Planning, Budgeting and Analysis and former Fiscal officer, provided by the Office of Planning, Budgeting and Analysis, March 25, 2004

<sup>65</sup> Statement from Sylvia Weisenburger to UM Investigation Panel, April 30, 2004

<sup>66</sup> "Designated/Auxiliary Planning and Budgeting Process", provided to the Budget Subcommittee of the UM Investigation Panel by the Office of Planning, Budgeting and Analysis, University of Montana, March 25, 2004.

<sup>67</sup> Budget Subcommittee interview with football head coach and men's and women's basketball head coaches on April 8, 2004, and Wayne Hogan statement to UM Investigation Panel, April 23, 2004

3. In an interview with the Budget Subcommittee, the OPBA provided email correspondence between the former fiscal officer and the OPBA attempting to obtain further explanation of the fiscal year 2004 operating unit plan. Responses from the former fiscal officer were either slow or insufficient and required follow-up by the OPBA. At the time of the fiscal officer's resignation from the athletic department, questions from the OPBA remained unanswered.

4. At least two top level UM administrators have noted the importance of reviewing all funds supporting the athletic department, rather than just the designated fund, or just the state funds (current unrestricted operating fund).<sup>68</sup> The use of a comprehensive budget plan including all funding sources would be essential for effective financial management. The absence of such a comprehensive budget plan is a glaring omission.

### Recommendation Number 24

#### Budget

#### Title of Recommendation: Fiscal Officer Responsibilities – Budget Development

1. The operating plans should have sufficient detail to evaluate reasonableness of assumptions such as: a tentative travel schedule for all sports, game guarantees, estimated travel expenses with detailed assumptions such as number of travelers, food and lodging expense per day; scholarship calculations; assumptions used to develop the recruiting budget, etc.

2. Input from coaches and other athletic department staff should be solicited and used, particularly in those areas that coaches have discretion. Overall program goals and budget limitations should be communicated and considered in the development of the annual operating plan and budget.

3. The fiscal officer should be expected to provide timely and complete responses to inquiries from executive and department management.

4. The fiscal officer should produce a comprehensive operating plan and budget including funds from all sources.

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<sup>68</sup> Budget Subcommittee interview with Rosi Keller, April 23, 2004 and statement of Sylvia Weisenburger to UM Investigation Panel, April 30, 2004.

# SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

## Finding Number 25

### Budget

#### Title of Finding: Fiscal Officer Responsibilities – Budget Monitoring

The athletics fiscal officer failed to perform basic budget monitoring activities in an effective manner, including:

1. Budget Status Reports were not provided to coaches or were provided on demand only<sup>69</sup>;
2. Neither budget status reports nor budget analysis was provided to the athletic director on a regular basis<sup>70</sup>;
3. The fiscal officer provided a slow or nonexistent response to the Office of Planning, Budgeting and Analysis concerning budget variances or deficits in the fiscal year 2003 budget.
4. The fiscal officer did not use the budget-monitoring tool set up by the previous fiscal officer that incorporated all fund sources nor developed his own system of monitoring all funds.<sup>71</sup>

#### DISCUSSION:

1. During fiscal years 2002 and 2003, the former fiscal manager did not provide monthly or periodic budget status reports to the cost managers within the department, such as the athletic director and the head coaches.<sup>72</sup> Failure to provide monthly or periodic budget status reports to cost managers within the athletic department existed despite the availability of monthly budget status reports prepared by the administrative assistant to the fiscal manager.<sup>73</sup>

The impact of not providing fiscal status reports to those cost managers that had discretion over significant portions of the budget was cost overruns discovered too late to remedy for fiscal year 2003.

2. The former fiscal manager did not provide a timely response to OPBA for information requests concerning budget variances or deficits during fiscal year 2003. The late reporting started in Fall 2002 and continued through Spring 2003.<sup>74</sup>

3. The use of a comprehensive budget report incorporating all funds is as essential in budget monitoring as it is in budget development. No evidence was found that the former fiscal manager developed such a comprehensive budget tool. The fiscal manager preceding Rob Edwards had developed such a tool but noted in her statement that RE abandoned the use of the spreadsheet.

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<sup>69</sup> Budget Subcommittee interview with football head coach and men and women's basketball head coaches on April 8, 2004.

<sup>70</sup> Statement from Wayne Hogan to UM Investigation Panel, April 23, 2004.

<sup>71</sup> Statement from Sylvia Weisenburger to UM Investigation Panel, April 30, 2004

<sup>72</sup> Budget Subcommittee interview with football head coach and men and women's basketball head coaches on April 8, 2004.

<sup>73</sup> Budget Subcommittee interview with administrative assistant on April 8, 2004. Incumbent provided sample copy of typical budget status report she routinely prepared for fiscal manager until she was instructed by the Fiscal Manager to stop producing them.

<sup>74</sup> Correspondence between Fiscal officer and OPBA regarding fiscal 2003 budget monitoring provided to Budget Subcommittee, March 25 2004

Recommendation Number 25

Budget

Title of Recommendation: Fiscal Officer Responsibilities – Budget Monitoring

1. The fiscal officer should provide timely and accurate budget status reports to athletic department management and head coaches on a regular basis. The budget status reports should be tailored to the detail applicable to the end user. For example, since the head coaches have discretion over specific budget line items, such as recruiting and travel costs, the budget reports should include the status of those particular line items. The athletic director has responsibility and discretion over the entire budget; therefore, the budget status report should include the entire athletics budget for department management.
2. The fiscal officer should develop and produce a budget status report incorporating funds from all sources.

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

### Finding Number 26

#### Budget

#### Title of Finding: Fiscal Officer Responsibilities – Insufficient Time Spent on Fiscal Management

The Budget Subcommittee finds the former fiscal officer spent insufficient time on fiscal management activities.

1. Interviews with the fiscal officer, former athletic director, and several athletic department staff indicate the travel for game advances took time away from the fiscal officer to perform necessary budget development and budget monitoring activities.
2. The position description in effect at the time the former fiscal officer was employed does not include game advance travel as a responsibility of the fiscal officer. Although game advance travel was beyond the scope of this position, the fiscal officer did not express any concerns to the Athletic Director about the amount of time this activity was consuming and its impact on his other responsibilities.<sup>75</sup>
3. Athletics Department administrative support staff estimated the amount of time the former fiscal officer spent on financial management activities was less than 50 percent.<sup>76</sup>
4. There is a discrepancy as to the amount of time the former fiscal officer spent developing the fiscal year 2004 operational plan and budget. The former Athletic Director noted the fiscal officer was absent from the Athletics Department every Friday afternoon in Summer 2003 for a “standing appointment” with the Office of Planning and Budget Analysis to work on the fiscal year 2004 budget.<sup>77</sup> The Office of Planning, Budgeting and Analysis indicates the former fiscal officer was not spending Friday afternoons with OPBA staff working on the fiscal year 2004 budget.<sup>78</sup>

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<sup>75</sup> Statement from Wayne Hogan to UM Investigation Panel, April 23, 2004.

<sup>76</sup> Budget Subcommittee interview with PD and HA, April 15, 2004.

<sup>77</sup> Statement from Wayne Hogan to UM Investigation Panel, April 23, 2004.

<sup>78</sup> Budget Subcommittee interview with OPBA staff, April 15, 2004.

Recommendation Number 26

Budget

Title of Recommendation: Fiscal Officer Responsibilities – Insufficient Time Spent on Fiscal Management

The fiscal officer should not be responsible for advance travel for games.

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 27

Budget

Title of Finding: Athletic Director - Fiscal Management Responsibilities

The Athletic Director did not adequately fulfill the fiscal responsibilities as stated in the position description as “Preparing and administrating the annual athletic budget”.

1. The Athletic Director is responsible for the submission of the annual operating plan and associated budget to the Office of Planning and Budget Analysis (OPBA). After analysis by OPBA the operating plan is reviewed and approved by the President. The operating plans for FY 03 and FY04 as prepared by the Athletics fiscal officer and submitted by the Athletic director lacked sufficient detail to evaluate reasonableness of financial assumptions<sup>79</sup>;
2. Input from coaches and staff was either not solicited or not included in the final operating plans as submitted by the Athletic Director<sup>80</sup>;
3. The Athletic Director shared selected correspondence concerning budget issues that had been sent from himself to the President. The selections included detailed budget analysis. However the last date cited was February 2000. No evidence of similar correspondence between that date and February 2004 was provided to the panel<sup>81</sup>;
4. Answers given by the Athletic Director during his interview with the panel suggested he was inattentive to budget variances and the state of current year revenues and expenditures on a regular and routine basis.<sup>82</sup> He chose to rely on the fiscal officer to monitor variances and let him know of any problems;
5. There existed very limited supervision/oversight by the Athletic Director of the fiscal officer’s performance of fiscal responsibilities and use of time.<sup>83</sup> When asked about employee performance evaluations for RE, Administration and Finance staff told us none existed.<sup>84</sup>

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<sup>79</sup> Athletics’ Designated/Auxiliary-Funded Operating Unit Plan FY 2003 and FY 2004

<sup>80</sup> Budget Subcommittee interview with football head coach and men’s and women’s basketball head coaches on April 8, 2004, and interview with Interim Athletic Director on April 15, 2004

<sup>81</sup> Statement from Wayne Hogan to UM Investigation Panel, April 23, 2004

<sup>82</sup> Statement from Wayne Hogan to UM Investigation Panel, April 23, 2004

<sup>83</sup> Statement from Wayne Hogan to UM Investigation Panel, April 23, 2004

<sup>84</sup> Budget Subcommittee discussion with OPBA Staff April 15, 2004

Recommendation Number 27

Budget

Title of Recommendation: Athletic Director - Fiscal Management Responsibilities

1. The annual operating plan as prepared by the Athletics fiscal officer and submitted by the Athletic director should contain sufficient detail for OPBA to evaluate the reasonableness of financial assumptions;
2. Input from coaches and staff should be solicited and included in the final operating plans as submitted by the Athletic Director;
3. The Athletic Director should submit monthly correspondence concerning budget issues and status to the Vice President of Administration and to the President;
4. The Athletic Director needs to be attentive to budget variances and the state of current year revenues and expenditures on a regular and routine basis;
5. Appropriate supervision/oversight of the fiscal officer's performance needs to be carried out by the Athletic Director and demonstrated through performance evaluations.

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 28

Budget

Title of Finding: Administration and Finance - Athletics Budget Review

There was insufficient evaluation of the operating plan by the Administration and Finance staff given historical athletic department deficits

1. As stated in Finding #24, the Office of Planning and Budget Analysis (OPBA) implemented high-quality budget development and quarterly assessment processes beginning in the Spring of 2002 for all designated and auxiliary operations including Athletics. As in other business type services, budget responsibilities are decentralized at the University of Montana. Although the UM OPBA reviews, approves and monitors the operating plans and budgets, the responsibility for the submission of the budget requests, the adequacy of the request, and staying within budget during the fiscal year, rest with the department directors or deans. This budget responsibility is part of the director's/dean's personnel evaluation each year. According to President Dennison, this responsibility was clearly communicated to the Athletic Director, Wayne Hogan;
2. Given decentralized budget responsibilities, the Athletics operating plans received a similar analysis given other departments;
3. The OPBA requests for explanations and justifications from the Athletics fiscal officer were not responded to on a timely basis and sometimes not at all. There seemed to be an absence of negative consequences for lack of or insufficient responses<sup>85</sup>;
4. During the time period under review, a comprehensive budget development and assessment tool incorporating all funding sources under control of UM athletics for use by Administration and Finance and by the President did not exist;
5. A lack of communication exists between VP Administration and Finance and Athletic Director on program goals (growing championship football and basketball programs) and the realistic budgetary requirements to achieve the goals.<sup>86</sup> The goals are clearly communicated from the President to the Athletic Director;
6. Pressure was applied by Administration and Finance staff at the end of fiscal year 2003 to clear negative fund balance with increased revenue. However the causes of the deficit were not fully explored and the impact of the on going deficit on the next year's budget was not addressed<sup>87</sup>
7. Advice to President on FY04 budget status by VP was based on the athletics report to OCHE prepared by SW. After the resignation of RE in September 2003, SW was called in to prepare various fiscal reports for Athletics. She worked with WH, CM, and PD in preparing the FY04 budget and as a starting point used the operating plan developed in the spring by RE and WH. The FY04 budget was not developed from the ground up by either RE or SW. SW may not have had the time to prepare a budget from the ground up in October.<sup>88</sup> The outcome was a report relied upon by the VP and President that was not fully developed.

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<sup>85</sup> Finding #27 item 5

<sup>86</sup> Durringer email to Laurie Neils, April 28, 2004

<sup>87</sup> Panel interview with Edwards April 23, 2004; Hogan April 23, 2004; and Durringer, April 30, 2004

<sup>88</sup> Panel Interview with Weisenburger April 30, 2004

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

### Recommendation Number 28

#### Budget

#### Title of Recommendation: Administration and Finance - Athletics Budget Review

1. Continue use and enhance the Office of Planning and Budget Analysis's (OPBA) budget development and assessment processes for Athletics;
2. Even though budget responsibilities are decentralized, given the history of deficits and budget variances, the Athletics operating plans should receive more thorough analysis;
3. Negative consequences for lack of or insufficient responses to OPBA requests for explanations and justifications from the Athletics fiscal officer should be implemented;
4. A comprehensive budget development and assessment tool incorporating all funding sources under control of UM athletics for use by Administration and Finance and by the President should be developed;
5. Program goals should be expressly incorporated into the annual operating plan so the VP Administration, the Athletic Director, and the President can set realistic budgetary requirements to achieve the goals;
6. The Administration and Finance staff should continue to analyze the causes of the structural deficit and its impact on future budgets;
7. Budgets reported to the BOR should be fully developed and be a realistic reflection of the coming year's anticipated revenue and the necessary expenditures to carry out the program goals.

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 29

Budget

Title of Finding: Interview with Administration and Finance Staff - Athletics Budget Review

The Budget Subcommittee made up of Pam Joehler, Trudy Collins and Mark Bruno met with Michelle Jensen, Budget Analyst and Bill Muse, UM Budget Officer on Thursday, April 8, 2004. We were joined at times by Bob Duringer, Vice President for Administration and Finance and Tony Tomsu, Budget Analyst.

It was pointed out to us that OPBA concentrates on current year operating budget variances in both revenue and expenditures for funds within the designated fund group on a quarterly basis. The focus of the Athletic department negative budget variances and deficit fund balance is the department's designated fund.

The President approved the athletic operating plans for both FY2003 and FY2004 after conferences were held with the athletic director. When asked if the president had communicated to the athletic director and fiscal officer the importance of staying within budget, Muse answered "unequivocally". He stated the president was very direct in telling Hogan and Edwards, athletics would not end the year with a negative fund balance. Muse also stated the president had expressed that jobs were on the line.

The associated budget plans submitted by athletics did not match the operating plans. Explanations were requested. An explanation was received and an adjustment approved for FY 2003. Clear, detailed explanations for the differences found in the FY2004 budget were never received by OPBA. Edwards resigned September 2003.

We found the quarterly assessment process used by OPBA to be a good process. We also found the online finance reporting tools available to departments to be easy to use and functional in monitoring budget variances. We did not find evidence; therefore we do not know if Wayne Hogan or Rob Edwards made use of the online reporting tools provided by the Office of Administration and Finance. (It should be noted, the reporting tool extracts actual YTD revenue and expenditures and compares to budgets loaded in Banner. Outstanding obligations need to be tracked by the athletics fiscal officer and combined with the extract data to provide a more accurate budget status report. Additionally the fiscal officer would need to combine data from various funding sources to ascertain the complete financial status for Athletics. There is no evidence that either of these activities were completed.)

In our review of budget assessment documents directly related to the athletic department, we found reports and correspondence from OPBA to athletics addressing budget variances in FY 2003 and FY2004. We verified that OPBA was identifying budget variances and reporting them to President Dennison, Bob Duringer, Wayne Hogan, and Rob Edwards. Wayne Hogan and Rob Edwards were asked by OPBA and the president for explanations of budget variances. Neither Wayne Hogan nor Rob Edwards provided timely or complete responses to the requests for information. In FY 2003, Edwards did point out timing errors in the quarterly budgets he had developed.

Bob Duringer stated he had counseled Rob Edwards a couple of times about paying attention to doing his job instead of getting so involved with the football team.

According to OPBA staff, the emphasis on tracking fiscal operations shifts from budget variances to fund balances in May. Rosi Keller was working closely with Rob Edwards on clearing the athletics fund balance deficit at the close of FY 2003. It was believed the fund balance deficit had been cleared. When the erroneous entries were reported in February 2004, the end of year fund balance had to be restated to a negative balance. The projected budget variances in FY 2004 revenue and expenditures have increased the projected deficit at the end of June 2004 to approximately \$1Million.

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 30

Budget

Title of Finding: The President - Fiscal Management of Athletics Department

The President should have recognized it was improbable for athletics to show a positive outlook for FY04

1. Memorandum containing informative budget analysis from the athletic director to the president ended in February 2000<sup>89</sup>;
2. The president approved the FY 2003 and FY 2004 operating plans as submitted by the athletic director<sup>90</sup>;
3. The president accepted the financial assumptions contained in the operating plan and budget as submitted by the athletic director and athletic fiscal officer;
4. Even though the president requested the athletics director and fiscal officer to respond to OPBA's requests for information at times they did not comply;
5. The president's expectations for the athletic program (growing championship football and basketball programs) were communicated to the athletic director but not to the Administration and Finance staff<sup>91</sup>;
6. The president applied pressure to the athletic director to raise dollars for operations to meet the fiscal year 01-03 deficit reduction plan.<sup>92</sup>
7. When reporting the athletics fiscal status to the BOR in November, the president relied on information from the VP who was relying on the FY04 Athletics report as prepared by SW.<sup>93</sup> At the time the president and the VP were both aware a review of the current year budget status was underway<sup>94</sup>;
8. When asked why he didn't disclose a review of athletics fiscal status was underway in November, the President responded, "You cannot move on this kind of situation until you know all the facts because the results of public disclosure have too huge an impact on personal lives".<sup>95</sup>

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<sup>89</sup> Finding #27 item 3

<sup>90</sup> Finding #27 item 1

<sup>91</sup> Durringer email to Laurie Neils, April 28, 2004

<sup>92</sup> Panel Interviews with Weisenburger, Durringer, and Dennison April 30, 2004

<sup>93</sup> Panel Interviews with Weisenburger, Durringer, and Dennison April 30, 2004

<sup>94</sup> Panel Interview with Dennison April 30, 2004

<sup>95</sup> Panel Interview with Dennison April 30, 2004

Recommendation Number 30

Budget

Title of Recommendation: The President - Fiscal Management of Athletics Department

1. Better budget analysis should be required from the athletic director such as what was contained in memorandum to the president prior to March 2000;
2. The president should hold the athletic director accountable for presenting an operating plan with sufficient detail for OPBA to analyze;
3. Given the historical deficits, the president should require more specific details to support the operating plan and budget;
4. As the supervising executive for athletics, the president should investigate if the athletic director and fiscal officer do not respond to OPBA's requests for information;
5. The president's expectations for the athletic program (growing championship football and basketball programs) should be clearly communicated to the Administration and Finance staff to enable an informed analysis of the budget;
6. The president should require the athletic director to not only raise revenue but control costs.

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 31

Budget

Title of Finding: The President - Fiscal Management of Athletics Department

A review of the NCAA Certification Self-Study, Governance and Commitment to Rules Compliance (Draft--10/21/02) included the following relevant sections:

Operating Principle 1.2: Institutional Control, Presidential Authority and Shared Responsibilities  
Self Study Item 3: Describe the process by which the institution makes major decisions regarding intercollegiate athletics. In doing so, describe the role and authority of the institution's governing board, the chief executive officer, the athletics board or committee (if one exists), the faculty athletics representative(s), the director of athletics, and any other appropriate campus constituencies (e.g., faculty, students, institutional personnel involved in rules-compliance activities) in this process. Please provide the composition of the athletics board or committee (including titles and positions).

UM Response:

President of the University:

The President is the chief executive officer for the institution and has ultimate responsibility for all programs of The University of Montana.

The President represents the university to the NCAA and the Big Sky Conference and casts the institution's vote after consultation with the AD and the Faculty Athletic Representative of the institution.

The AD reports to the president. The president delegates responsibility for the conduct of the athletic programs to Intercollegiate Athletics through the AD, with whom he meets weekly.

The president reviews and approves all policies, plans, procedures, and budgets affecting Intercollegiate Athletics. The president develops initiatives affecting athletics as appropriate. Examples include the student athletic fee, the plan to assure gender equity...etc.

The president reviews appropriate levels of competition for the University and approves conference affiliations.

Response from President Dennison on May 11, 2004: "I had regular meetings with the athletic director, and budgets some times were the topic of discussion. The meetings were designed to keep me informed of developments within athletics. They were not always weekly because of schedules. But the meetings occurred frequently. We discussed all the major development work and the schedules. Thus, I was informed of decisions about scheduling and the like."

Response from Chairwoman Diane Barz on May 11, 2004: "I asked Wayne Hogan to comment on the rule about meeting with the president. He was not aware of the rule and said for the first years he and Dennison met every other week and sometimes more. For the last few years they met very sporadically...Sometimes it would be two or three months between meetings."

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 32

Budget

Title of Finding: Board of Regents - Fiscal Management of Athletics

The Board of Regents' actions may have had an impact on the current UM Athletics deficit situation.

1. There was no public discussion or feedback by the Board of Regents on the athletic reports submitted in December 2003<sup>96</sup>;
2. The policy of discouraging negative fund balances at fiscal year end may have contributed to the environment of pressure to clear negative balances in resourceful ways<sup>97</sup>;
3. Additionally, the policy may prevent financial issues from being disclosed thus not providing an opportunity for discussion

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<sup>96</sup> BOR Minutes, January 2004

<sup>97</sup> BOR policy 901.11

Recommendation Number 32

Budget

Title of Recommendation: Board of Regents - Fiscal Management of Athletics

1. The Board of Regents should engage in public discussion and provide feedback on the athletic reports submitted in November each year;
2. The policy on negative fund balances should be reevaluated to acknowledge deficits but remove the current disincentive to report problem areas;

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 33

Budget

Title of Finding: Courtesy Cars in the Athletics Department

The Budget Subcommittee met with Marie Porter, Interim Athletic Director and HA, Administrative Assistant on April 15, 2004 to discuss the Courtesy Car Program.

Through the effort of the Grizzly Athletic Association, local and regional automobile dealerships are asked to provide courtesy cars for use by Intercollegiate Athletic Administrators, Coaches, and other staff in support of public relations, recruiting, and fundraising. The GSA manages the program in terms of actually arranging for vehicles with dealers. The athletic director makes the determination of who is assigned a vehicle.

According to Ms. Porter, athletics there are 35 vehicles in the courtesy car program<sup>98</sup>. Twenty-eight vehicles are assigned to specific individuals. Some of these individuals utilize these cars extensively for business purposes, such as coaches recruiting or more externally related staff members in fundraising or statewide appearances. Others use the cars much less for business purposes; however, this becomes a compensation issue as many of these individuals were promised at the time of hire that a car was part of a benefit package. Ms. Porter noted that this practice is quite standard in Division I Athletics and assists the University to recruit and retain quality employees in a competitive field.

Each dealership that donates a vehicle receives four football season tickets, four men's and four women's basketball season tickets, advertising in game programs, two parking passes, PA announcements and two "Golden Grizzly" Grizzly Scholarship Association memberships worth \$750 each. Golden Grizzly members' seats are at the 50-yard line for football games and at the half-court line for basketball games.

The total value associated with these cars is over \$102,000. The real cost of the car program is the GSA membership and the football tickets that are tied to these memberships. Only the football games sell out, thus the real value is approximately \$63,000.

Ms. Porter provided documentation related to policies and procedures<sup>99</sup>. The recipient of the cars must maintain appropriate documentation to satisfy Internal Revenue Service (IRS) requirements. The University requires employees to fill car logs that keep track of miles driven for business and personal purposes. Car logs<sup>100</sup> are turned in monthly with payroll. Employees are taxed based upon personal miles driven. Employees not turning in a car log are taxed on the "annual lease value." The subcommittee verified that employees are turning in travel logs with Ms. Alexander.

The Department of Administration Tort Claims Division requires that employees have a "Non-owned Insurance Endorsement to Personal Auto Policy". The University has obtained this policy and bill staff for their share. The subcommittee verified<sup>101</sup> that the University is collecting this portion of the insurance from staff with Ms. Alexander.

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<sup>98</sup> Spreadsheet showing vehicles assigned to Athletic Department obtained April 15, 2004

<sup>99</sup> Courtesy Car policies came from the Athletic Department Policies and Procedures Manual.

<sup>100</sup> Sample of UM Courtesy Car Travel Log provided to the Budget Subcommittee.

<sup>101</sup> HA provided a spreadsheet showing the status of insurance reimbursement for each of the athletic personnel.

SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Recommendation Number 33

Budget

Title of Recommendation: Number of Courtesy Cars in the UM Athletic Program

Because the athletic department forfeits actual cash with these trade-outs, the University should evaluate the number of courtesy vehicles that are really needed in the athletic program.

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

### Finding Number 34

#### Title of Finding: Athletic Department Administrative Assistant Interview with Budget Subcommittee

The Budget Subcommittee made up of Mark Bruno, Trudy Collins, and Pam Joehler met with PD, administrative assistant of the fiscal office within the athletic department on Thursday, April 15, 2004. The following items were discussed:

1. PD has worked in this position in athletics for 14 years under three different fiscal managers, including Chuck Maes, Sylvia Weisenburger, and Rob Edwards.
2. This position is responsible for processing travel requests from all athletics employees, performs the function of ProCard “manager” for the department, and assists the fiscal manager with budget monitoring functions.
3. In regard to budget monitoring functions, PD noted that she prepared monthly budget status reports for all the sports and gave them to RE. She did not know what RE did with them after she provided the reports to him. Approximately March 2003, RE informed her she no longer needed to provide him the reports because “he knew where we were” in regard to the budget status.
4. Travel in the athletic department is a significant expense and there are several ways the expense is paid:
  - a. ProCards are used for airline tickets, rental cars, and gas for rental cars. The athletic department can also use ProCards for meals and lodging for team travel.
  - b. Coaches can use the ProCard for lodging expenses when on official business, such as recruiting trips. ProCards cannot be used for meals.
  - c. Travel advances can be used for meals on team travel.
  - d. Travel advances can also be used for other known expenses, such as workshop on-site registrations, etc.
  - e. Employees can also request travel expense reimbursement for legitimate travel expenses funded upfront with their personal credit cards.
  - f. In some cases, travel related expenditures are direct-billed to the athletic department.
5. Coaches are supposed to complete a Travel Request Form, even if no travel advance is requested. This is for insurance purposes and to help keep track of travel for NCAA compliance requirements. Most of the coaches comply with this requirement with the notable exception of the men’s basketball coach.
6. ProCard use is widespread in the athletic department. Four support staff in athletics (football and basketball support staff, AD support staff, and fiscal support staff) collect the receipts from the ProCard holders and distribute the expenditures to the appropriate cost centers and expenditure categories. At the end of the monthly expenditure cycle, PD reviews the distributed costs and brings any questionable expense to the attention of RE/fiscal manager. The monthly report listing all ProCard purchases for the month is provided to the athletic director for review.

7. PD noted that obtaining receipts for both ProCard purchases and travel expenses are a big issue in the department.
8. PD noted that when new coaches were hired, it was typical for her and/or other fiscal support staff to meet with the coaches to go over fiscal procedures required of the staff for travel and purchasing. At the time the new men's basketball coach was hired, she was informed by RE that it was not necessary to meet with the new coach and that he (RE) would take care of informing the new coach about the procedures.
9. When asked by a subcommittee member approximately how much time did RE spend on fiscal management functions compared to other activities such as team advance travel, the response was "about 20 percent" (on fiscal duties).
10. Prior to FY02 PD prepared a list of receivables outstanding at fiscal year-end and gave it to the fiscal officer. Starting in FY02, RE prepared the list of receivables outstanding at fiscal year-end himself.

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 35

Budget

Title of Finding: Administrative Assistant/Accounting Technician (# II)

We interviewed HA, the other assistant in the fiscal section on April 15, 2004. HA is involved in deposits, payroll, travel advances and cell phones.

HA described the PROCARD process similar to how PD did. There are files by each employee that contain the actual receipts of charges. The receipts are then matched with the monthly PROCARD bill. Each of the individual assistants processes the PARIS entries and support. These various bills are aggregated and reviewed by PD. The big PARIS bill is also signed off by the AD.

HA also explained how other bills are paid. The head coaches must sign off other bills before being processed.

For cell phone bills all department personnel must review monthly bills. They must figure the % of personnel phone use and allocate it to the bill. HA is responsible for monitoring this and collecting the funds.

She explained how the “special cash account worked for travel advances. The account is mostly used for non-football sports. Individual envelopes containing cash equaling per diem amounts are prepared when a team travels. Athletes have to sign off on a manifest list before the funds are released to them. Athletes receive state per diem amounts. This is at the discretion of the coach. HA explained how the account is balanced and how deposits are made to replenish the account.

HA said that she got along fine with the fiscal manager (RE) at first, but their relationship became more strained over time. RE seemed overwhelmed and didn't like to be questioned; he didn't always explain everything in detail.

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 36

Budget

Title of Finding: Interview with Chuck Maes, Former Athletics Fiscal Manager

The Budget Subcommittee made up of Pam Joehler, Trudy Collins and Mark Bruno met with Chuck Maes, Associate Athletics Director for Internal Operations on Thursday, April 15, 2004.

Mr. Maes was the business manager for Athletics prior to Sylvia Weisenburger and Rob Edwards. In collaboration with Rosi Keller, he has been instrumental in sorting through Athletics fiscal information to present a reasonable analysis of the current financial position and to provide administration with a projection of operating results for FY 2004, which ends June 30. He has projected an operating deficit of approximately \$600,000. Combined with the restatement of the beginning fund balance for FY2004 of a negative \$381,000, the athletics designated fund is projected to end the year with a negative fund balance of approximately \$1,000,000.

When asked what has caused the structural deficit, Mr. Maes offered his informed opinion as expressed in the following points:

1. Budgets for the past 4 or 5 years were prepared without allowances for inflation. The cost of travel, scholarships, insurance, communications, contracted services, supplies and equipment have all increased over this time period but not appropriately reflected in the operating budget developed by the athletics department. (i.e. \$4,000,000 times 3 % per year over 4 years = \$500,000)
2. Although there was an increased generation of revenue during this same period, a decision was made to add new budget items instead of assigning the new revenue to cover increasing base expenditures. Perhaps if decision makers would have been better informed, decisions would have been different.
3. The budget had actually begun spiraling out of control around FY 1998 or 1999. The renovation of the athletic complex started the downward budget spiral. The home games were played offsite. Fewer seats were available and fewer season tickets were bought. Loyalty to the Griz suffered and season ticket holders for basketball were lost. Several former Griz supporters did not return when the Adams center opened. This revenue loss from ticket sales was never offset and expenditures increased with the addition of the rent commitment.
4. Subsequent business managers may have had a lack of understanding of the nuances of building an Athletics budget such as the effect on revenue and travel expenditures of varying game schedules each year. No evidence of detailed line item budget development was located for the past few years. Mr. Maes had a good method for budget development which included building the budgets for each sport based on the game schedule. He kept detailed records by game of ticket sales, which gave a history that allowed the ability to forecast ticket revenue based on opponents. He also included detailed travel estimates for away games. He has resurrected his method and built a preliminary budget for FY 2005.
5. Mr. Edwards appeared to have built expenditure budgets based on the previous year's allocations or the previous year's actual expenditures whichever was less. This method did not account for inflation or changes in game schedules from year to year.
6. Mr. Edwards had too many commitments outside of his financial management responsibilities. He did not spend the time required on budget development or budget monitoring. He did not have enough help to get the job done.

7. Edwards was not a good fit for this job. He did not have athletics experience or background. He had a tough time building relationships with others who could have helped him be successful in his job.

When asked about the spending culture that exists in the athletics department, Mr. Maes offered that the long time coaches and staffers have been and are very aware that Athletics is “broke” but that new coaches and staffers need to “taught” that fact when they come on board.

In analyzing the FY 2004 fiscal status, Mr. Maes first became apprehensive of what are now termed “erroneous transactions” in early November. He discovered a receivable of \$116,950 from FYE 03 that didn’t seem to be rational. The other “erroneous transactions” which have been brought to light did not become clear until February. There is another receivable based on an allocation from the NCAA that is received in August each year that is still being evaluated for appropriateness.

Mr. Maes’ analysis of the FY 2004 financial status, projecting a current year deficit of approximately \$600,000 was first submitted in a memo from Maes to Wayne Hogan at the end of December.

When asked about President Dennison’s possible knowledge in November about either the erroneous entries which masked a FYE 03 negative fund balance or about the current operating deficit, Mr. Maes stated there was no way Dennison could have known. According to Mr. Maes, given the fact an accurate budget reflecting current revenue generation potential and realistic expenditure estimations did not exist, no one knew in November. The budget had to be reconstructed before a logical projection could be determined.

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 37

Budget

Title of Finding: Interview with Head Coaches – General

The Budget Subcommittee made up of Pam Joehler, Trudy Collins and Mark Bruno met with the head coaches for men's football (Bobby Hauck), men's basketball (Pat Kennedy) and women's basketball (Robin Selvig) on Thursday April 8, 2004.

None of the coaches had much insight into what caused the deficit.

All head coaches meet about once a month with the athletic director for meetings. Although not certain, coaches thought that the athletic director made them aware of the deficit problems in around December or January.

All coaches thought that their budgets were much less extravagant than what has been portrayed in the press.

All head coaches are expected to help generate funds to supplement their budget. Examples include the *Quarterback, Touchdown, Round-ball and Hoop Clubs*.

Two of the coaches thought that their budgets were healthy enough to be competitive in the Big Sky Conference.

The football coach had very strong concerns about his current budget and his ability to stay competitive and compete at people's expectation of the program.

None of the coaches indicated that they gave much input or were asked for input in developing their budget.

Both basketball coaches set their own travel schedule (away non-conference games), while the football schedule set by the athletic director. We believe there might be some disconnect in what the travel budget allocations were and what the real needs are.

The subcommittee didn't see any formal reports of initial budgets given to coaches, but it sounded like coaches are aware of initial budgets and areas of discretion (*recruiting, equipment*).

The subcommittee didn't see any evidence of formal financial status reports given to coaches – monthly or quarterly.

One coach did show us how he does track his recruitment budget in a manual spreadsheet –declining balance.

## Recommendation Number 37

### Budget

#### Title of Recommendation: Interview with Head Coaches – General

Head coaches should be more involved in the budget development process with the athletic director and fiscal manager.

Head coaches should receive monthly-standardized assessment reports from the fiscal staff.

#### Coach Kennedy:

The former men's basketball coach, who had been to six universities, thought fiscal internal controls were lacking at UM. He cited:

- No monthly financial reports;
- Purchase orders not being signed off by both head coaches and the athletic director or fiscal director;
- Variance not being approved or follow-up by the athletic director or fiscal manager

He thought that the fiscal manager was overwhelmed with responsibilities and behind in his work.

The Men's basketball coach cited example of where he left "kids at home" to save money for travel. Discussed how recruiting trips can be "hairy" and lots of unplanned scheduling. For example "If you are in Salt Lake to watch a tournament of a recruit, if he breaks a leg, you need to go somewhere else to recruit --you can't just come back to Missoula." He noted that at bigger universities, boosters cover the deficit.

#### Coach Hauck

The men's football coach talked about his budget being on a tight rope and was in place before he came to UM. He said how they have shifted their recruiting back to the Northwest from areas such as Hawaii and Alaska to save money. He cited other examples of frugality including how jerseys are purchased every three years and how the athletics equipment manager goes out of the way to repair equipment. He is not really involved in the travel schedule and setting game guarantees.

#### Coach Selvig

The women's basketball coach said there have been many budget crises over the last 26 years at UM. Not much involvement in the budget development process. He is aware for what he has for scholarships, recruiting and travel. He doesn't believe that many people were in the loop about the development of the budget. He does his own game travel schedule and likes to schedule an occasional 'away game' to places like "Hawaii or Cancun". This helps for recruiting purposes.

He was concerned about the players' welfare concerning this issue.

He feels that he has been treated well at UM and appreciates his job. He understands Montanans as both he and his wife are from small towns in Montana. He cited examples of being frugal --- staying at less expensive hotels and eating continental breakfasts.

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 38

Budget

Title of Finding: Virtu Consulting Contract

The University of Montana entered into a contract with Virtu Consulting in 2001 for the installation and operation of two new video and scoring systems. The installations were at Washington Grizzly Stadium and at the Adams Center, and were at no cost to the University.

The contract required Virtu to use its best efforts to install one System in WGS on or before September 1, 2002 and use its best efforts to install the other System in the Adams Center on or before November 1, 2002.

Revenue received by Virtu for sponsorship was required to be distributed between Virtu and the University in various prioritized amounts between the parties. The first allocation included a guarantee to the University a minimum of \$507,000.

Rosi Keller, associate vice president for administration and finance completed a comprehensive review for contract compliance in October 2003. Ms. Keller provided the inquiry panel revenue and expense documentation and her findings during her review.

Ms. Keller found contract compliance with the exception of the following:

- There was no documentation that UM approved the system of *specifications configuration, acquisition* of the Scoreboard at WGS.
- Not all sponsorships had a clause assigning those sponsorships to the University in the event that Virtu ceases to be able to perform its obligations to the agreement.
- Under the contract, Virtu was to obtain financing at a rate not exceed 1% above the prime, amortized over a fifteen –year period. Virtu’s current loan agreement with First Interstate Bank is at 6.54%, which at the time the loan was secured, was roughly 1.25% above the terms outlined in the contract. However, contract payment calculations for FY 2003 were adjusted to reflect contract compliance.

Although not compliance issues, the following recommendations were made to enhance the contract arrangements.

- The relationship between Virtu and the University is that of independent contractors for employees involved in the contract.
- The project adjusted net revenues for FY 2004 currently reflect a deficit of \$182,340. This is a deficit of Virtu, not UM.
  - Virtu anticipates, with the hiring of additional personnel, current year revenue will increase. On a quarterly basis Virtu needs to submit a plan that shows the status of revenue and expenses.
- The \$507,000 annual payment has been received at the year-end for the University. The \$507,000 annual payment should be broken into quarters to ensure equity in cash flow for both parties.

Recommendation Number 38

Budget

Title of Recommendation: Virtu Consulting Contract

The University should continue to annually monitor the Virtu consulting contract.

The University should ensure the contractor corrects the contract exceptions identified.

The University should renegotiate with the contractor to receive quarterly payments to help with cash flow in the athletic department.

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 39

Budget

Title of Finding: Interview with Sylvia Weisenburger, Former Athletics Fiscal Manager on April 28, 2004

**Sylvia Weisenburger was involved with the fiscal management of Athletics from January 2000 through spring of 2002. In addition she prepared various annual fiscal reports for Athletics through November 2003.**

**Up until the spring of 2002 she had a role in the following:**

- **Developing the May 12, 2000 Deficit Reduction Plan for FY2001 through FY2003 which included the separation of the Adams Center operations from the Athletics Department.**
- Monitoring progress toward fulfilling the plan and eliminating the accumulated deficit.
- Noting deficiencies, recommending and implementing procedural changes regarding the accounting for trade-outs, courtesy cars, job descriptions, ticket reconciliations, scholarship reconciliations and budget monitoring.
- Hiring and training Rob Edwards as the athletic fiscal officer.
- Hiring an accountant to correct GSA deficient accounting practices. (The accountant left after 3 months.)
- Meeting with WE, CM, and PD on a weekly or monthly basis to keep track of budget status and procedural changes.
- Loading budgets into the Banner finance system.
- Checking with RE on Budget status. RE did not ask or accept her help.
- Noting that “RE had become sucked up in the glory of traveling with a championship team and that he didn’t keep things going.”
- Expressing concerns over the jump in expenditures in FY02 to WH who thought he could raise the funds with the development officer.
- Asking RE why the GSA contribution in FY02 was greater than the expected \$878,000. RE answered that the GSA had collected additional funds and therefore contributed more.
- Observing that “athletics sets high goals and walks along as though they are succeeding”.

After the resignation of RE in September 2003, Vice President Durringer asked SW to return to a special assignment employment and prepare the annual reports. SW prepared the NCAA and the BOR/OCHE athletic reports using the following information:

- FY 2003 actual revenue and expenditures associated with athletics as recorded in the UM Banner financial system for all funds and in the UM foundation financial records were used. Note: The erroneous transactions were recorded in Banner and had not been uncovered as of the date the statements were prepared. Therefore the report showed positive net revenue for FY 2003.
- The amounts in the FY 2004 budget column were developed by SW, WH, CM and PD using RE’s operating plan as the starting point. The budget was not built from the ground up but rather was a reflection of the previous year’s budget with adjustments. The report showed projected positive net revenue for FY 2004 of approximately \$200,000.

## SPECIAL PANEL ON UNIVERSITY OF MONTANA ATHLETIC DEFICIT

Finding Number 40

Budget

Title of Finding: Athletics - Ticket Processing Fee

According to Mary Muse<sup>102</sup>, director of the Adams Center, the original agreement between Intercollegiate Athletics and the Adams Center was put into place in 1999.

### Original Athletics Department – Adams Center Agreement

- \$360,400 annual rent.
- Athletics ticketing fees were set at:  
Flat fee of \$87,500 (*based on an estimate of \$.25 per ticket*)  
Plus credit card fees.

The director stated that the Adams Center Box Office operated at a deficit through fiscal year 2003.

The Adams Center performed an analysis in FY 2003 indicating that athletics would need to pay \$.75 per ticket plus staffing to cover box office expenses. Billing for actual expenses of staffing would be cumbersome, therefore it was agreed to call the expense \$1 per ticket. Since Athletics could not afford to pay the actual expenses, \$1 was added to the price of each ticket.

The following are the costs associated with Rent and Ticketing Fees for the next two years.

### Athletics Department – Adams Center Agreement FY 2004

- No adjustment was made to rent - \$360,400
- Athletics ticketing fees:  
Flat fee of \$87,500  
\$12,500 (Ticketing Software Purchase)  
Credit card fees  
\$1 per ticket issued will be allocated as follows:  
\$.50 goes to the stadium expansion; \$.50 goes to the Adams Center for ticketing

### Athletic Department – Adams Center Agreement FY 2005

- No adjustment was made to rent - \$360,400
- Athletics ticketing fees:  
Flat fee of \$43,500  
\$12,500 (Ticketing Software Purchase)  
Credit card fees  
\$1 per ticket issued goes to the Adams Center for ticketing

Following up later with Rosi Keller, it was confirmed that the original plan was that \$1.00 would not be part of the ticket price, but a separate item. Based on this for football, the \$1.00 was collected and deposited into a clearing account with subsequent transactions moving 50% to the Adams Center and 50% to the North End Zone account applying it to athletics repayment commitment of \$135,000 in FY04.

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<sup>102</sup> Memo dated May 6, 2004 from Mary Muse to Bob Durringer related to Box Office Fees.

According to Rosi Keller<sup>103</sup>, Wayne Hogan decided prior to basketball season that it was best to roll the \$1 into the ticket price and not separate it out. For basketball it was included in the ticket price and deposited into the appropriate sport account. Those sport accounts were then billed for the ticket fee. The plan is that the fee will continue to be part of the ticket price and deposited into the sport (designated) accounts. Those accounts will also be charged for the \$1 per ticket.

When asked about the flat fee going from \$87,500 in FY 2004 to \$43,500 in FY 2004 Rosi<sup>104</sup> noted that when they were putting together the financing of the North End Zone, Rob Edwards raised concern about the challenge to meet the increase in ticketing service costs particularly in FY 2004.

Rosi provided documentation<sup>105</sup> (see below), and noted that this was approved by all parties, to lighten the burden in FY 2004.

<b>Adams Center/Athletics Ticketing office Funding Fiscal Year 2004 and 2005</b>		
	<u><b>FY 2004</b></u>	<u><b>FY 2005</b></u>
<b>Estimate based on \$1.00 a Ticket</b>	<b>262,000</b>	<b>262,000</b>
<b>Continue Existing Ticket Office Funding</b>	<b>87,500</b>	<b>43,500</b>
<b>.50 per ticket (estimate)</b>	<b>131,000</b>	
<b>1.00 per ticket (estimate)</b>	<u>          </u>	<u><b>262,000</b></u>
	<b>(43,500)</b>	<b>43,500</b>

<sup>103</sup> E-mail received from Rosi Keller on May 12, 2004

<sup>104</sup> E-mail received from Rosi Keller on May 12, 2004

<sup>105</sup> Fax received on May 12, 2004

Finding Number 41

Budget

Title of Finding: The Football Team's Trip to Maine

What has been described as the football team's "over budget trip" to Maine in the fall of 2003 was not, in fact, over budget. It was reported in several places that the trip was \$105,000 or \$102,000 over budget. In fact, the entire trip cost \$102,970.

In the fall of 2002, the team took a trip to the East Coast and put out the travel for bids. The contract was awarded to Le Bas International, which put in the low bid. However, the bid was based on fuel costs of \$1.00 per gallon. Further, Le Bas did not guarantee the availability of the flight. In fact, the fuel cost was considerably higher, and Le Bas overbooked their planes. As a result, Athletics had to pay a substantial premium for a charter.

The following year, Athletics asked for bids for a three-package trip to Maine, Northern Arizona, and Sacramento State. They also asked for bids for the trip to Maine only. Le Bas put in the lowest bid for the trip to Maine (\$85,780). However, their bid was once again based on fuel costs of \$1.00 per gallon. UM would be responsible for any cost above that (at the time of the award, fuel cost \$1.50 per gallon). Flight availability was not guaranteed, and catering was not included in the bid.

The bid was awarded to Travel Station, which put in a bid of (\$102,970). The flight availability was guaranteed; fuel cost was included in the bid; and catering was included in the bid. Further, all costs were guaranteed.

Finding Number 42

Title of Finding: USA Today article "Athletic Spending Grows as academic funds dry up"

Date: May 3, 2004

On February 18, 2004 the USA today published an article "*Athletics spending grows as academic funds dry up*". Wayne Hogan brought the article when he spoke in front of the Athletics Panel, however he didn't talk specifics about it.

The article identifies common costs themes in Division I athletics.

- Average athletic budgets rose at a pace more than double the increases in average university spending at Division I schools between 1995 and 2001. This is according to an analysis by **USA Today** and the **Des Moines Register** of the most recently available NCAA and U.S Department of Education data.
  - Spending on Division I intercollegiate athletics has increased on average about 25% while university spending has increased on average 10% after inflation.
  - Increases in basic costs such as scholarships and travel have had a hand in the impact. The escalating costs of college sports area also fueled by university's desires to reap the benefits of a winning season, which can boost attendance and TV ratings, maintain alumni support, and lift student and regional morale.
  - Small and midsize schools are particularly squeezed, unable to generate big-time funds like major schools but still face student, alumni and community pressure to win.
- Athletic-generated revenue isn't keeping pace with costs.
  - Only about 40% schools claim their athletic departments are self-sufficient.
  - To compensate for deficits, most athletic departments are increasing relying on money from their schools.
  - Student bodies are also helping pay the tab.
    - About 60% rely on student fees to help athletic departments.
    - Fees range from \$50 to \$1,000 per year.
    - The higher student athletic fees tend to be at smaller schools.
- These developments have deepened the tension between athletics and academics on many campuses. Most states have had several consecutive years of double digit cuts in higher education funding, which have forced schools to cut jobs, increase class size and raise tuition.
- For most schools, the decision to maintain – or even grow- athletic programs is unquestioned because of the perceived benefits to the campus as a whole.