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Report to Congressional Requesters

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NAVAL ACADEMY ATHLETIC ASSOCIATION

Organizational Status, Financial Operations, and Oversight

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The Honorable Sam Nunn
Chairman, Committee on
Armed Services
United States Senate

The Honorable John Glenn
Chairman, Subcommittee on
Manpower and Personnel
Committee on Armed Services
United States Senate

In response to your request that we review various aspects of the Department of Defense's (DOD) service academies, this report focuses on the Naval Academy Athletic Association (NAAA). NAAA provides funds for the Naval Academy's intercollegiate athletic program. It also operates a gift shop and a tour-guide service at the Academy. Our objectives were to review (1) NAAA's organizational status and the Naval Academy's control over it and (2) financial benefits realized by the Naval Academy from NAAA operations.

Results in Brief

NAAA, which is a private, nonprofit, voluntary association, is not under the direct jurisdiction of either the Academy or the Navy. In contrast, athletic associations at the other DOD service academies are nonappropriated fund activities of the federal government.[1]

Although NAAA is not under the direct control of the Academy, the NAAA constitution, an operating agreement, and a licensing arrangement establish a relationship that allows the Naval Academy to exercise extensive control over almost all of NAAA's activities. A Board of Control, comprised of both Academy and NAAA officials, advises the Academy Superintendent on matters relating to the athletic program and reviews NAAA's financial operations. The Director of Athletics at the Academy is also NAAA President and is compensated solely by NAAA. The Academy and NAAA have recently signed a more detailed operating agreement that clarifies their respective support and funding responsibilities.

[1]A nonappropriated fund activity receives revenues from its own operations, rather than from funds appropriated by the Congress.

NAAA's surplus revenues provide financial support either to fund the Academy's intercollegiate athletic program or to help pay the travel expenses of the student body to various athletic events. In 1989, NAAA's athletic-related activities realized surplus revenues of about $151,000, while its other activities realized a surplus of around $420,000. For fiscal year 1990, the athletic program generated $456,373, and the other activities generated about $500,000.

NAAA Organization

NAAA was founded in 1891 to promote, influence, and assist in financing the Naval Academy's athletic program. NAAA provides the Naval Academy with a source of funds independent from appropriated funds to be used on its intercollegiate athletic program. Since it does not use appropriated funds, NAAA is able to carry funds over from one fiscal year to the next.

A 1974 Comptroller General Decision (54 Comp. Gen. 518) determined that NAAA is a private, voluntary association, not under the direct jurisdiction of the Navy. The decision concluded that, because of this status, NAAA could not be regarded as a nonappropriated fund instrumentality of the federal government. NAAA is a private, nonprofit association and is exempt from federal income tax under section 501(c) of the Internal Revenue Code.

In contrast, athletic associations at the other DOD service academies were specifically created through department directives or orders and are therefore regarded as nonappropriated activities. As nonappropriated fund activities, they can also carry funds over from one fiscal year to the next.

Despite NAAA's independent status, its constitution provides the Superintendent of the Academy with authority over almost all of the activities of NAAA. All negotiations, plans, appointments, and acts of NAAA or its officers which directly affect the Academy athletic program are subject to the approval of the Superintendent. NAAA's financial operations are audited annually by an independent public accounting firm.

The NAAA constitution also establishes a six-member Board of Control to direct the affairs of NAAA. The Board of Control advises the Superintendent on matters pertaining to intercollegiate athletics, establishes operating policies for NAAA, acquires and disposes of NAAA real property, sets salaries for NAAA employees, and oversees NAAA's financial operations.

The Board is comprised of a chairman (who is the Commandant of Midshipmen), the President of NAAA (who is also the Athletic Director of the Academy), the Deputy Director of Athletics (who is a Naval Academy official), a member appointed by the Superintendent, a member annually elected by the Athletic Council,[2] and a member elected annually by the other five members.

An operating agreement between the Academy and NAAA sets forth the conditions under which NAAA operates at the Academy and the support that the Academy provides to NAAA. The agreement is comparable to a contract providing mutual obligations for specific actions to be carried out by the parties involved. The operating agreement that we originally reviewed had insufficient detail regarding the obligations and responsibilities of the parties. The Academy and NAAA have recently signed a new operating agreement, which provides more specifics on the support and funding responsibilities of the Academy and NAAA for the athletic program.

Under the terms of the agreement, the Academy provides NAAA office space, berthing areas for visiting teams, and building space for the operation of a gift shop and a tour-guide service. The Academy also provides NAAA with various services and support items. In return, the agreement allows the Academy to use the Navy-Marine Corps Memorial Stadium, which is owned by NAAA, without paying rent. The agreement allows NAAA to charge reasonable fees for athletic events, based on recovering the cost of the activity. Any excess of income over expenses for these events is to be used to support the intercollegiate athletic program.

The agreement releases the Department of the Navy and the Naval Academy from any responsibility or liability for the financial operations of NAAA, and the Superintendent can terminate the agreement at any time when it is in the best interest of the government to do so.

The Navy has also issued a license to NAAA for the use of 5,559 square feet of space to operate a gift shop and a tour-guide service in the same building at the Academy as NAAA's other offices. NAAA does not pay rent on the space but is required to pay the Academy $400 a month for utilities and provide third-party liability insurance. The license covers the period March 1, 1989, to February 28, 1994.

[2]The Athletic Council serves as an advisory body to the Board of Control. It consists of the members of the Board of Control, the Secretary, Treasurer, Director of Administration and Logistics, the Deputy Commandant of Midshipmen, the Executive Officer of the Department of Physical Education, and the officer representatives of sports as appointed by the Superintendent.

Director of Athletics

The President of the NAAA also serves as Director of Athletics of the Academy and supervises and coordinates the participation of the midshipmen in intercollegiate athletic events. The Athletic Director is responsible for the execution of all established policies, orders, and resolutions of the Board of Control. The Athletic Director/NAAA President is appointed by the Superintendent and can be relieved of his duties by the Superintendent pursuant to the NAAA constitution.

Academy officials stated that the Athletic Director/NAAA President is paid by NAAA and receives no compensation from the government. The Academy provides him, as permitted by law and regulations, with government housing on a rental basis.[3] NAAA pays monthly rent and utilities of $1,342 a month, based on the most recent appraisal of the property by the Northern Division of the Naval Facilities Engineering Command.

The Director of Athletics/President of NAAA is not a participant on the Academy's Academic Board and is not involved in determining the academic eligibility of midshipmen participating in the Academy's intercollegiate athletic program. The Director of Athletics attends the Superintendent's weekly staff meeting but is not "a voting member."

NAAA Operations

Table 1 shows a summary of NAAA income statements for the athletic program for fiscal years 1989 and 1990. A copy of the full statements appears in appendix I.

Table 1: Summary of NAAA Income Statements for the Athletic Program

	Fiscal year	
Item	1989	1990
Revenues	$4,391,822	$5,420,778
Expenses	4,240,962	4,964,405
Surplus	150,860	456,373

In fiscal year 1990, about $3.5 million of NAAA's revenue was generated from gate and television receipts from the football program. About $1.2 million of NAAA's revenue came from miscellaneous sources such as parking fees at the stadium and athletic camp registration fees. In addition, $199,000 was generated from a mandatory activities fee of $22.50 assessed each semester to all midshipmen. In exchange for the fee, the

[3]Title 5 U.S.C. 5911(D) provides the legal authority for the Navy to provide housing for a nongovernment employee, and Office of Management and Budget Circular A-45 sets forth policy and guidance to executive agencies regarding the establishment and administration of rental rates.

midshipmen receive a ticket to all Academy athletic events that charge an admission, and after their freshman year, they receive an additional ticket.

In fiscal year 1990, $2.5 million was spent for athletic activities, $1.3 million for administrative expenses, and $616,000 for office salaries.

NAAA provides civilian coaches for the men's varsity football and basketball programs. The Naval Academy provides coaches for all other sports, with some NAAA supplementation. Currently, NAAA is providing funds for about 40 percent of the Academy's coaches.

The NAAA President told us that examples of major NAAA expenditures in recent years include

- donating $1 million for the Academy's new multipurpose building (Alumni Hall),
- beginning construction of a new locker room at Navy-Marine Corps Memorial Stadium at a cost of $1 million,
- underwriting a $3 million letter of credit to start construction of the Alumni Hall,
- resodding the stadium for $0.5 million, and
- reimbursing $2,998.75 to the Academy for two golf course-related projects that had been improperly paid for with appropriated funds.[4]

At the end of fiscal year 1989, NAAA had accumulated a surplus of $8,055,983 over the years from its operation of athletic events at the Academy.

NAAA is exploring a plan to construct skyboxes in its football stadium. As currently envisioned, the project would not involve any NAAA funds. Instead, a group of investors would finance the construction of the boxes. Construction would not begin until 80-percent occupancy could be guaranteed during the first 5 years of a 15-year contract. During the

[4]In 1990, the Naval Audit Service examined the funding decisions for eight golf course projects at the Academy and questioned the criteria for determining when appropriated funds would be used to pay for repairs to the golf course. The Academy reviewed the funding of the projects that were questioned and concluded that using appropriated funds was proper for six of the projects. NAAA reimbursed the Academy for the other two projects. The Academy expects to complete a revision of the funding guidelines for golf course projects by September 30, 1991.

first 5 years of the contract, NAAA would receive 25 percent of the proceeds from renting the boxes. During the remaining 10 years of the contract, NAAA would receive 75 percent of the proceeds. At the end of the 15-year period, NAAA would own the boxes.

Nonathletic Program Revenues

In addition to its athletic program-related revenues, NAAA generates other revenues from the operation of a gift shop and a tour-guide service at the Academy. According to NAAA officials, the gift shop and the tour-guide service originally started out at the Academy as small operations staffed by officers' wives and retired military personnel on a voluntary basis. As the operations expanded (1.5 million visitors currently visit the Academy each year), they required greater management, and the Academy asked NAAA to help in their operations.

In accordance with an agreement between NAAA and the Naval Academy Memorial Fund, Inc.,[5] all surplus revenues resulting from these operations are remitted to the Memorial Fund, which then deposits them in a general fund to be used in support of the Academy. An independent public accounting firm annually audits the gift shop and the tour guide operations.

Surplus revenues generated from nonathletic operations were $420,000 in fiscal year 1989 and $500,000 in fiscal year 1990. Tour guide surpluses were $70,000 in fiscal year 1989 and $150,000 in fiscal year 1990. Tour guide surplus revenues were $350,000 for both years.

According to the NAAA Treasurer, the increase in fiscal year 1990 earnings for the tour-guide service was the result of increasing the tour price from $2 to $3 per person. NAAA surveyed prices charged at the Military Academy and concluded that the Naval Academy tours were underpriced.

Scope and Methodology

We interviewed Naval Academy and NAAA officials and reviewed pertinent documents such as the operating agreement between the Academy and NAAA, the NAAA constitution, and NAAA financial statements (which were provided voluntarily by NAAA). We also reviewed the Decisions of the Comptroller General on the legal status of the athletic associations

[5]The Naval Academy Memorial Fund is a general fund that is used for a variety of purposes, one of which is to pay the travel expenses of the student body to various athletic events. NAAA contributions are its primary source of revenues.

at the DOD service academies and legal opinions regarding the operating agreement and the relationship between the Naval Academy and NAAA.

We also reviewed the status of the Naval Audit Service's recommendations regarding the use of appropriated funds to pay for eight Naval Academy golf course projects.

We conducted this review from April to July 1991 in accordance with generally accepted government auditing standards. We did not obtain written agency comments on this report. However, we discussed a draft of it with Academy and NAAA officials and have incorporated their comments as appropriate.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days from its issue date. At that time we will send copies to other interested congressional committees and Members of Congress, the Secretaries of Defense and the Navy, and the Superintendent of the Naval Academy. Copies will also be available to other interested parties on request.

Please contact me on (202) 275-3990 if you or your staff have any questions concerning this report. The information for this report was developed by William E. Beusse, Assistant Director, and Charles T. Bolton, Evaluator-in-Charge.

Paul L. Jones
Director,
Defense Force Management Issues

Naval Academy Athletic Association

Statements of Activity Years Ended May 31, 1990, and 1989

	1990	1989
Revenue		
Athletic activities:		
Football	$3,516,214	$2,886,648
Other sports	205,495	176,025
Other activities:		
Dues	272,073	161,912
Initiation fees	6,890	9,040
Midshipmen's contributions	198,945	200,115
Miscellaneous	1,221,161	958,082
	1,699,069	1,329,149
Total	**$5,420,778**	**$4,391,822**
Expenses		
Athletic activities:		
Football	$1,738,463	$1,494,508
Other sports	756,907	762,822
Subtotal	**2,495,370**	**2,257,330**
General expenses:		
General athletic equipment and maintenance	124,983	139,532
Stadium upkeep	125,338	123,608
Administrative expenses	1,342,031	884,885
Storeroom and maintenance salaries	223,417	282,504
Office salaries	616,106	511,564
Ricketts Hall - visiting team dormitory	37,160	41,539
	2,469,035	1,983,632
Total	**$4,964,405**	**$4,240,962**
Excess (deficiency) of revenue over expenses	$456,373	$150,860