INSTALLATION
REPORT OF AUDIT

WP099044

Fiscal Year 1998
Intercollegiate Athletic Program
Revenues and Expenditures,
Air Force Academy Athletic Association
USAF Academy CO

Mountain Area Audit Office

30 June 1999

DEPARTMENT OF THE AIR FORCE
AIR FORCE AUDIT AGENCY

30 June 1999

To the United States Air Force Academy Superintendent

1. This report rescinds Audit Report WP099044, *Fiscal Year 1998 Intercollegiate Athletic Program Revenues and Expenditures*, dated 30 June 1999. We revised this report to incorporate management's specific comments in TABs A and B. We audited the Statement of Revenues and Expenditures (see Appendix IV) of the Air Force Academy Athletic Association (AFAAA) for the fiscal year (FY) ended 30 June 1998. This financial statement is the responsibility of AFAAA management, and our responsibility is to express an opinion on the financial statement based on our audit thereof. This report presents our opinion on the Statement of Revenues and Expenditures, evaluation of the underlying internal control system, and assessment of compliance with applicable National Collegiate Athletic Association (NCAA) guidance and nonappropriated fund (NAF) and Air Force regulations.

OPINION ON STATEMENT OF REVENUES AND EXPENDITURES

2. We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform sufficient audit tests to obtain reasonable assurance that evidence supports the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe the audit provides a reasonable basis for our opinion.

3. In our opinion, the statement referred to above presents fairly, in all material respects, the revenues and expenditures of the AFAAA for the FY ended 30 June 1998, in conformity with prescribed accounting principles.

ACCURACY OF ACCOUNT BALANCES

4. Account balances were materially accurate. However, we identified $60,066 of adjustments to revenue and expenditure accounts that should be made. If the adjustments were made to the financial statements, the net loss would increase from $1,314,204 to $1,374,270. Additionally, we noted subsidiary ledgers were not established for three general ledger accounts, sales tax was not collected at the football stadium, and

reimbursements were not made to the appropriated fund for sports camp expenditures (See TAB A).

REPORT ON INTERNAL CONTROLS

5. The AFAAA did not always adhere to internal controls as described in Air Force Instruction (AFI) 34-202, *Protecting Nonappropriated Fund Assets*, relating to safeguarding assets (See TAB B). Specifically, AFAAA and other responsible personnel had not:

a. Established effective cash handling procedures to properly account for and safeguard retail sales receipts from football games and funds received by the Falcon Business Partnership Program;

b. Properly recorded items received under partnership agreements and other items contributed to the athletic program;

c. Established internal controls needed to properly protect NAF assets;

d. Precluded the use of funds for personal purchases and expenses; and

e. Updated activity budgets on a quarterly basis as required.

COMPLIANCE WITH REGULATORY REQUIREMENTS

6. Compliance with regulations applicable to the AFAAA is the responsibility of management. As part of obtaining reasonable assurance about whether the financial statement was free of material misstatements, we performed tests of the AFAAA's compliance with certain regulatory provisions. The results of our tests disclosed no instances of noncompliance that require reporting under Government Auditing Standards (See TAB C).

OBJECTIVES, SCOPE, AND METHODOLOGY

7. Management is responsible for:

a. Preparing financial statements in accordance with prescribed accounting principles and Air Force Manual (AFM) 34-214, *Procedures for NAF Financial Management and Accounting*;

b. Establishing and maintaining internal controls to provide reasonable assurance the internal control objectives in AFI 34-202, *Protecting Nonappropriated Fund Assets*, are met; and

c. Complying with applicable laws and regulations.

8. Auditors are responsible for:

a. Obtaining reasonable assurance about whether the Statement of Revenues and Expenditures is reliable (free of material misstatements and presented fairly in conformity with prescribed accounting principles);

b. Obtaining reasonable assurance about whether relevant internal controls are in place and operating effectively; and

c. Testing compliance with selected provisions of laws and regulations.

9. To fulfill these responsibilities, we:

a. Examined, on a test basis, evidence supporting the amounts and disclosures in the Statement of Revenues and Expenditures;

b. Assessed the accounting principles used and significant estimates made by management;

c. Evaluated the overall presentation of the Statement of Revenues and Expenditures;

d. Evaluated and tested the control environment and controls over safeguarding assets; and

e. Tested compliance with significant provisions of applicable laws and NCAA, Department of Defense (DoD) and Air Force regulations (see Appendix VI for specific regulations).

10. We limited our work to accounting and other controls necessary to achieve the objectives outlined in our report on internal controls. Because of inherent limitations in any system of internal controls, losses, noncompliance, or misstatements may occur and remain undetected.

11. We performed our work in accordance with generally accepted government auditing standards.

MANAGEMENT COMMENTS

12. Management's general comments regarding this report are at Appendix III. Management's specific comments addressing the recommendations in TABs A and B were received and have been included in this re-issued report. Management comments addressed the issues raised in the audit, and management actions taken should correct the problems identified. This report contains four issues that both the Air Force Audit Agency and the U.S. Air Force Academy jointly agree should be elevated to HQ Air Force for resolution. Other than these issues, this report contains no disagreements requiring elevation for resolution.

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OPINION ON FISCAL YEAR 1998
AIR FORCE ACADEMY ATHLETIC ASSOCIATION
STATEMENT OF REVENUES AND EXPENDITURES

C O N T E N T S

ACCURACY OF ACCOUNT BALANCES

BACKGROUND

1. As of 30 June 1998, the AFAAA Statement of Revenues and Expenditures reported total revenues of $13,418,866 and total expenditures of $14,733,070, for a net loss of $1,314,204.

2. We performed an audit of the accompanying Statement of Revenues and Expenditures as of 30 June 1998 to determine if the financial statement fairly presented the AFAAA's financial condition. The AFAAA published their FY 1998 Statement of Revenues and Expenditures on 21 July 1998 (see Appendix IV). We observed the end-of-year inventory count at 30 June 1998 and, due to other workload requirements, completed the remaining audit in segments from July 1998 through May 1999.

AUDIT RESULTS

General Ledger Account Balances

3. **Background**. The Athletic Director has overall responsibility for the AFAAA program. The AFAAA appointed a Comptroller to assist the Athletic Director in managing all financial matters for the athletic department. While overall financial management is an AFAAA responsibility, the Nonappropriated Fund Accounting Office (NAF AO), aligned under the 10th Services Squadron, maintains the general ledger and prepares financial statements for the AFAAA. Air Force regulations require the NAF AO to maintain subsidiary ledgers for general ledger accounts. The subsidiary ledgers provide the specific details for each general ledger account. Before publishing the financial statement, the NAF AO should reconcile subsidiary ledgers to general ledger accounts.

4. **Accounts Receivable**. Nonappropriated Fund Accounting Office personnel had not established subsidiary ledgers for three general ledger accounts as required by AFI 34-209, *Nonappropriated Fund Financial Management and Accounting.*[1] Specifically, subsidiary ledgers had not been established for the Sponsorship/Partnership Agreement Program, Credit Card Sales, and Football Game Ticket Sales accounts receivable general ledger accounts. These subsidiary ledgers had not been established because personnel from the individual activities had not provided detailed information to the NAF AO. In addition to being required by Air Force directives, subsidiary ledgers are

[1] We previously identified this condition in AFAA Report of Audit WP098003, *Review of Intercollegiate Athletic Program Revenues and Expenditures for the Air Force Academy Athletic Association, Fiscal Year 1996*, 8 April 1998.

needed to provide detailed accounts receivable information. More specifically, subsidiary ledgers allow NAF AO personnel to identify businesses that have not paid for services received under sponsorship/partnership agreements, individuals that have not paid for football game tickets, etc. While the general ledger year-end balances for these three accounts receivable accounts were not significant ($53,991),[2] establishing subsidiary ledgers will improve overall financial management. Details follow.

a. **Accounts Receivable – Sponsorship/Partnership Agreements**. The NAF AO had not established a subsidiary ledger for sponsorship/partnership agreements made between AFAAA marketing personnel and local businesses. In addition to not having subsidiary ledgers, operating personnel had not properly accounted for and controlled sponsorship/partnership agreements. Specifically, marketing personnel could not locate 50 of 77 (65 percent) sponsorship agreements. Further, in cases where sponsorship agreements were on-hand, operating personnel had not properly controlled the agreements. For example, agreements were not sequentially numbered and were not reviewed by the legal office or contracting personnel as required. Furthermore, six companies received services (i.e., advertising and publicity) under agreements but had not paid the AFAAA $21,550 for the services received. This condition occurred because the AFAAA Comptroller had not established procedures to ensure marketing personnel provided copies of all sponsorship/partnership agreements to the NAF AO. Establishing accounts receivable records and maintaining proper control over agreements is essential to ensure all businesses receiving sponsorship services are billed for those services.

b. **Accounts Receivable – Credit Cards**. The NAF AO had not established a required subsidiary ledger for credit cards sales. Specifically, $14,609 was recorded as accounts receivable from credit card sales, but NAF AO personnel did not have a subsidiary ledger that contained details of those sales. Although credit card sales were processed through the bank, the NAF AO did not receive the credit card slips from the activities to reconcile against bank payments. A subsidiary ledger would provide information detailing outstanding credit card sales amounts owed to the AFAAA.

c. **Accounts Receivable – Football Tickets**. The NAF AO had not established a subsidiary ledger to record football game ticket sales' receivables of $17,832. While the AFAAA Ticket Office maintained an unofficial subsidiary ledger, management did not provide this information to the NAF AO who maintains the official accounting records. Establishing accounts receivable records is essential to ensure all individuals receiving football tickets are billed for those services.

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[2] We do not consider this amount material since the variance was only .47 percent of the total asset balance ($53,991 compared to $11,347,971).

5. **Recommendations**.

a. The AFAAA Athletic Director should:

(1) **Recommendation 1**. Provide NAF AO personnel documentation required to establish accounts receivable subsidiary ledgers.

(2) **Recommendation 2**. Ensure Sponsorship/Partnership Agreements are sequentially numbered.

(3) **Recommendation 3**. Ensure Sponsorship/Partnership Agreements are reviewed by the legal office and contracting personnel.

(4) **Recommendation 4**. Provide NAF AO copies of Sponsorship/Partnership Agreements.

b. The 10th Services Squadron Commander should direct NAF AO personnel to:

(1) **Recommendation 5**. Establish accounts receivable subsidiary ledgers based on documentation provided by the AFAAA Comptroller.

(2) **Recommendation 6**. Bill the six companies that owe the AFAAA $21,550.

6. **Management Comments**. The U.S. Air Force Academy Vice Superintendent concurred or concurred with intent with the audit results and recommendations and stated:

a. **Recommendation 1**. "Concur. We will provide all details to NAF AO to establish subsidiary ledgers. Estimated Completion Date (ECD): 31 Oct 99."

b. **Recommendation 2**. "Concur with intent. All agreements are currently numbered with the member number and we will maintain hard copies of the agreements for audit purposes and the hard copy will reflect the assigned number. ECD: 31 Oct 99."

c. **Recommendation 3**. "Concur with intent. All sponsorship agreements will be provided to the Judge Advocate (JA) for legal review. We will also request Air Force-level review for an opinion as to whether these agreements need to be reviewed by contracting. ECD: 31 Oct 99."

d. **Recommendation 4**. "Concur with intent. A NAF AO file of our sponsorship agreements will be established and maintained in the Athletic Department. All entries will be supported by journal vouchers. ECD: 31 Oct 99."

e. **Recommendation 5**. "Concur. NAF will establish subsidiary ledgers for accounts receivable based on Athletic Department documentation. ECD: 30 Nov 99."

f. **Recommendation 6**. "Concur. Companies have been billed and the receivable is uncollectable. The Athletic Association will continue to serve as the billing agent because all parties have jointly agreed that the Paciolan system provides the most effective subsidiary ledgers. The Athletic Association will provide subsidiary ledger information to NAF AO. The authority of the Athletic Department to provide billing will be elevated for review and resolution. ECD: 31 Oct 99."

g. **Management's General Comments**. Management provided the following general comments for Recommendations 1 through 6: "Concur in part. Sponsorship agreements are recorded on the Paciolan computer system with details of services/goods provided and received. The agreements have a customer number. Our sponsorship agreement format has been reviewed by JA and found legally sufficient. We have not forwarded each sponsorship agreement to JA for review but will do so in the future. We will also request JA to provide a legal opinion as to whether these agreements need to be reviewed by contracting. Marketing and Development was fully aware of the uncollected fees. While services were provided to six companies, payment was actually due from only one individual who was serving as an intermediary and soliciting business on our behalf. This individual left town while owing us for game program advertising. Our Marketing and Development staff has contacted the individual companies that purchased advertising and has succeeded in collecting from one of them. However, the other companies apparently paid the intermediary, who never paid us. Providing a subsidiary ledger to NAF AO would not have precluded this problem. The 'unofficial' subsidiary ledger identified in the audit is a state-of-the-art ticketing system used by hundreds of ticket offices throughout the country. We do not believe the auditors identified any instances where individuals receiving tickets were not billed for them."

7. **Evaluation of Management Comments**. We agree with management's planned action to elevate recommendations 3 and 6 to HQ Air Force for resolution. Further, management's action for recommendations 1, 2, 4, and 5 should correct the problems identified. We are providing the following comments to management's general comments. Although management stated the Judge Advocate (JA) will provide a legal opinion as to whether these agreements need to be reviewed by contracting, AFI 34-307, *Air Force Commercial Sponsorship Program*, paragraph 2.10, requires that the NAF and

Appropriated Funds contracting officers review all sponsorship/partnership agreements. Management stated sponsorship agreements were recorded on the Pacilolan computer system with details and customer numbers. This information was not provided at the time of audit. However, in an effort to validate this information, we requested a report from the system. The report appeared to provide some information on partnership agreements, but the legally binding hard copies of the contract were not available to support the data in the Pacilolan system. Further, hard copies of the agreements reviewed had neither customer numbers nor a sequential number. The basis for our finding was that the NAF AO had not established subsidiary ledgers for sponsorship/partnership agreements, and they were not provided the necessary documents to establish the subsidiary ledgers. Additionally, the data in the Pacilolan system was not provided to the NAF AO to establish the required subsidiary ledgers. Management comments also stated that Marketing and Development personnel were fully aware of uncollected fees, yet when asked about the uncollected fees during the audit, they indicated that they were not aware of the fees. The auditor informed Marketing and Development personnel during the audit, and they initiated collection procedures at that time. Although a notice was sent to the individual for collection of the advertising fees, the NAF AO was not notified of the monies owed, and an accounts receivable account was not established in the general ledger; therefore, the financial statements did not reflect this receivable. We disagree that providing a subsidiary ledger to NAF AO would not have precluded this problem. If the NAF AO had been provided the information, an accounts receivable account would have been established and collection procedures initiated. The ticketing office does have a ticketing system that can produce reports detailing partnership information. Further, the NAF AO subsidiary ledgers are considered the official subsidiary ledgers for accounting purposes versus the ticketing system. In addition, management stated that auditors did not identify any instance where individuals receiving tickets were not billed, and this is correct. We were led to believe that individuals receiving tickets would have paid for them either by cash, check, or credit card before the tickets were mailed. Therefore, we did not perform audit work to specifically address this issue.

Colorado State Sales Tax

8. **Background**. The Colorado Department of Revenue requires the AFAAA collect sales tax on retail sales. Collection of sales tax does not represent an expense to the AFAAA; rather, the AFAAA merely acts as a collecting agent and should pass on all sales tax collected back to the state.

9. **Sales Tax Owed**. Air Force Academy Athletic Association personnel had not collected sales tax for retail sales made at the football stadium. Specifically, the AFAAA

had sales of $103,261 for FY 1998 and $129,767 for FY 1997 at football games, but did not collect sales tax. This condition occurred because the AFAAA Comptroller mistakenly believed they were not required to collect sales tax for merchandise sold on federal property. Based on FY 1997 and 1998 sales, the AFAAA owes $4,130 in sales tax for FY 1997 and $5,320 for FY 1998 for a total of $9,450.[3] Since this tax had not been collected, but is owed to the Colorado Department of Revenue, the Statement of Revenues and Expenditures was overstated.

10. **Recommendations**. The AFAAA Athletic Director should:

a. **Recommendation 7**. Remit sales tax owed to the Colorado Department of Revenue.

b. **Recommendation 8**. Begin collecting and remitting sales tax to the Colorado Department of Revenue for merchandise sold at football games.

11. **Management Comments**. The U.S. Air Force Academy Vice Superintendent concurred in part with the audit results and recommendations and stated:

a. **Recommendation 7**. "Concur in part. There is a legal inconsistency in our collection of taxes. However, we believe it is more likely that we should have never collected taxes at all. As an entity of the federal government, AFAAA is not subject to state or local sales taxes. We do not believe we owe back taxes and will elevate this issue for resolution to HQ Air Force. ECD: 31 Oct 99."

b. **Recommendation 8**. "Concur in part. This will be elevated for review. See Recommendation 7 above. ECD: 31 Oct 99."

12. **Evaluation of Management Comments**. We agree with management's planned action to elevate this issue to HQ Air Force for resolution. To reiterate our position, we continue to believe that sales tax is owed because *DoD Financial Management Regulation*, Volume 10, Chapter 6, paragraph 060101C, states tax collections are required on commodities sold that are not for the exclusive use of the United States, and taxes should be remitted to the taxing authority. In addition, Title 4, *United States Code*, Sections 106-110 states: "No person shall be relieved for liability for payment of, collection of, or accounting for any sales or use tax levied by any state, or by any duly

[3] Based on discussions with Colorado Department of Revenue personnel, the AFAAA is responsible for the FY 1997 and 1998 taxes even though the taxes were not collected. Consequently, the $9,450 liability should show as an expense on the AFAAA financial statements.

taxing authority therein, having jurisdiction to levy such a tax, on the grounds that sales or use in whole or in part within a federal area: and such a state or taxing authority shall have full jurisdiction and power to levy and collect any such tax in any federal area within such state to the same extent and with the same effect as though such area wasn't on a federal area." Based on this guidance, we believe the AFAAA should collect and remit sales tax to the state of Colorado for items sold at the football stadium.

Appropriated Fund Support

13. **Background**. Annually, AFAAA conducts summer sports camps at the Academy to attract future cadets and foster community support. The AFAAA charges camp attendees a fee for instruction in activities such as tennis, golf, soccer, and basketball. Air Force Instruction 65-106, *Appropriated Fund Support of Morale, Welfare, and Recreation and Nonappropriated Fund Instrumentalities*, identifies sports camps as a revenue-generating activity. As such, the AFAAA should reimburse the appropriated funds (APF) for any APF support provided to the sports camps. Reimbursable APF costs include support such as military and civilian personnel costs, travel, utilities, and materials directly related to or caused by operation of the sports camp. Because the sports camps are a recruiting tool to attract future cadets, the reimbursement rate for military personnel is 75 percent of their pay and allowances.

14. **Sports Camps**. Air Force Academy Athletic Association personnel had not reimbursed APFs for military and civilian personnel costs incurred in support of summer sports camps.[4] Specifically, the AFAAA had not reimbursed APFs for support received during FY 1997 ($32,212) and FY 1998 ($39,954). This condition occurred because, while the sports camp director had calculated the required reimbursement amount, the AFAAA Comptroller had not requested the NAF AO make the disbursement. Proper reimbursement of APF personnel expenses for sports camps would provide $72,166 in APF for other mission requirements. Further, the AFAAA expenses were understated by $72,166 on the Statement of Revenue and Expenditures.

15. **Recommendations**. The AFAAA Athletic Director should request the NAF AO:

a. **Recommendation 9**. Reimburse APF $72,166 incurred in direct support of the FY 1997 and 1998 sports camps.

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[4] This condition was previously reported in DoD IG Report of Audit 96-075, *Management and Administration of the United States Air Force Academy*, 23 February 1996 and AFAA Report of Audit WP098003, *Review of Intercollegiate Athletic Program Revenues and Expenditures for the Air Force Academy Athletic Association, Fiscal Year 1996*, 8 April 1998.

b. **Recommendation 10**. Ensure all APF support costs associated with future sports camps are properly reimbursed.

16. **Management Comments**. The U.S. Air Force Academy Vice Superintendent concurred with the audit results, potential monetary benefits, and recommendations and stated:

a. **Recommendation 9**. "Concur. Costs for 1997 and 1998 Sports Camps were reimbursed on 9 September 1999. Concur with potential monetary benefits. Closed."

b. **Recommendation 10**. "Concur. A reimbursable account was established for the 1999 Sports Camps in May 1999 and future years. Closed."

17. **Evaluation of Management Comments**. Management comments addressed the issues raised in the audit, and the potential monetary benefit and actions taken should correct the problems identified.

REPORT ON INTERNAL CONTROLS

BACKGROUND

1. Management is responsible for establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance assets are safeguarded against loss, unauthorized use, or disposition. Further, management should establish controls that ensure all transactions are properly authorized. A sound internal control structure helps management prepare reliable financial statements in accordance with prescribed accounting principles.

2. We noted certain matters involving internal controls that we considered reportable under generally accepted government auditing standards. Reportable conditions involve significant deficiencies in internal control design or operation. Although these deficiencies do not materially affect the financial statement, they could adversely affect the AFAAA's ability to achieve internal control objectives.

AUDIT RESULTS

Protection of Cash

3. **Background**. Internal controls are essential to ensure assets are properly safeguarded, used, and managed.

a. **Separation of Duties**. Internal controls should include specific cash handling procedures. Specifically, management should establish procedures to ensure separate individuals handle critical accounting and cash[5] functions. The Falcon Business Partner activity allows small businesses a chance to sponsor the AF Academy football team. Falcon Business Partner personnel should separate cash handling duties to include receiving mailed-in donations, preparing and making bank deposits, and posting accounting information to accounting records.

b. **Sales Not Processed Through a Cash Register**. Management should develop alternate cash handling methods when sales are made at a revenue-generating activity and there is no cash register available to record the transactions. For example, when using a cash register is not practical at special events (e.g., selling merchandise at football games), personnel should record transactions on an AF Form 2045, *Bingo Perpetual Inventory*, or similar document to control cash sales.

[5] Cash refers to cash, checks, and credit cards.

Report on Internal Controls

4. The AFAAA had not established effective safeguards to protect and properly account for cash.[6] Specifically, management did not ensure separate individuals were responsible to conduct key cash handling and accounting duties. Further, management had not established adequate cash control procedures for sales made at activities where a cash register was not available. Implementing sound cash handling procedures greatly reduces the risk of error or misappropriation of cash. Details follow.

a. **Separation of Duties**. The AFAAA Comptroller had not adequately separated the key duties of processing and recording transactions for the Falcon Business Partner Program. For example, the same clerk received the mailed-in donations, prepared and made bank deposits, and posted accounting information to the accounting records. This condition occurred because management positions, needed to establish procedures to properly separate key cash handling duties, were vacant.

b. **Recording Sales**. Cashiers did not properly control game-day football merchandise sales totaling $145,545 that were not processed through cash registers. Specifically, merchandise was not counted before or after football games to reconcile sales to money turned in by cashiers. While the money turned in by cashiers was recorded as sales, procedures had not been established to ensure that all monies collected from these sales were, in fact, turned in. These procedures had not been established because the key position of business manager, who would normally establish these procedures, was vacant. In the absence of sound cash handling procedures, cashiers reverted to prior game day sales handling practices.

5. **Audit Comment**. During the audit, management assigned separate individuals to perform cash handling, bank deposit, and recording duties for the Falcon Business Partner Program. Since management took corrective action, we have not included a recommendation that specifically addresses this issue.

6. **Recommendation 11**. The AFAAA Athletic Director should initiate action to ensure internal control procedures for counting money and reconciling total sales to cash on hand are in place when cash registers are not available.

7. **Management Comments**. The U.S. Air Force Academy Vice Superintendent concurred with the audit results and recommendations and stated:

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[6] We previously reported this condition in AFAA Report of Audit WP098022, *Fiscal Year 1997, Intercollegiate Athletic Program Revenues and Expenditures, Air Force Academy Athletic Association*, 30 June 1998.

a. **Recommendation 11**. "Concur. A new form was instituted for the 1998 football season. This form tracks beginning and ending inventories and is reconciled to sales. Closed."

b. **Management's General Comments**. Management provided the following general comments for Recommendation 11: "Concur. Falcon Business Partners support all Falcon Athletics. Falcon Business Partners was a new program, which we implemented without properly establishing internal controls. Such controls have since been implemented. Proper inventory forms were not used. However, this relates to the 1997 football season (2 years ago). The auditors are aware this problem has been corrected. We now use transfer sheets more detailed than AF Form 2045. We are looking into purchasing cash registers to add an additional internal control."

8. **Evaluation of Management Comments**. Management comments addressed the issues raised during the audit, and actions taken should correct the problem. In response to management's comment that auditors are aware this problem has been corrected, we are now aware that it has been corrected. However, at the time of the audit, the problem had not been corrected.

Accounting for Items Received from Contributions and Partnership Agreements

9. **Background**. On behalf of the AFAAA, personnel may accept cash, services, or other items contributed by local businesses. In addition, the AFAAA may enter into partnership agreements with local businesses where, in exchange for advertising, the businesses provide such things as the use of automobiles, motel rooms, and meals. Contributions and partnership items are considered non-operating income and should be recorded as such on the Statement of Revenue and Expenditures. Also, the AFAAA Athletic Director should establish procedures for controlling and using these items.

10. **Contributions and Partnership Agreements**. The AFAAA Comptroller had not properly recorded nor used contributed items and items received under partnership agreements.[7] Specifically, the use of vehicles and items received in connection with partnership agreements were not recorded in the accounting system and, as such, were not reflected as revenues on the financial statements. Also, items received from partnership agreements were not always used. Details follow.

[7] We previously identified this condition in AFAA Report of Audit WP098022, *Fiscal Year 1997, Intercollegiate Athletic Program Revenues and Expenditures, Air Force Academy Athletic Association*, 30 June 1998.

a. **Recording**. AFAAA management had not recorded the use of contributed vehicles valued at $24,979 in the accounting system, and the associated revenues were not reflected on the Statement of Revenue and Expenditures. In addition, management did not record vehicle usage as taxable benefits for appropriate AFAAA personnel. Also, items received under partnership agreements (i.e., 340 motel rooms, meals at local restaurants, 800 lottery tickets, and 50 Timex watches) valued at $134,283 were not recorded in the accounting system, and the associated revenues were not reflected on the Statement of Revenues and Expenditures.

b. **Use**. AFAAA management used NAFs to purchase rooms and meals at local hotels and restaurants when meals and lodging were available at no cost under partnership agreements at the same hotels and restaurants. Specifically, the AFAAA did not use 200 of 340 motel rooms, valued at $5,980, contributed under one partnership agreement. Instead, the AFAAA used NAFs to pay for hotel rooms at hotels with active partnership agreements. Additionally, local restaurants agreed to provide meals valued at $21,750 under the Falcon Dining Club Program; however, the AFAAA did not use $9,679 of the meals. Instead, the AFAAA used NAFs to purchase meals at restaurants with active partnership agreements.

This condition occurred because the AFAAA Comptroller had not established procedures for recording and using items received from partnership agreements or contributions. The AFAAA Comptroller stated that implementing procedures to ensure these items were recorded on the Statement of Revenue and Expenditures would create a hardship for the NAF AO. In addition, the AFAAA Comptroller stated the hotel rooms and meals may not have been available for use when needed. Further, activity managers were unaware these items were available for their use. If management would have used the hotel rooms and meals available under the partnership agreements, the AFAAA could have saved $15,659 of NAFs.

11. **Recommendations**. The AFAAA Comptroller should:

a. **Recommendation 12**. Implement internal control procedures for recording contributions and partnership agreements as accounts receivable on the Statement of Revenue and Expenditures.

b. **Recommendation 13**. Establish procedures to ensure activity managers are aware of items available for use received from contributions and partnership agreements.

12. **Management Comments**. The U.S. Air Force Academy Vice Superintendent concurred with the audit results and recommendations and stated:

a. **Recommendation 12**. "Concur with intent, although we do not believe these are appropriately treated as an accounts receivable. It is very difficult to accurately value our trade items. We are benchmarking our accounting practices against other athletic departments to determine the most appropriate accounting approach for partnership/sponsorship contributions in kind. ECD: 31 Oct 99."

b. **Recommendation 13**. "Concur. We have established procedures to educate our personnel on the availability of trade items, through updates to coaches' manuals. ECD: 31 Dec 99."

c. **Management's General Comments**. Management provided the following general comments for Recommendations 12 and 13: "Concur in part. It is very difficult to accurately account for our trade items. The $134,283 is a “trade value” or estimated value based on what we offer to obtain the trade. A hotel room, for example, will have a different value depending on the room price at any given time during the year. Additionally, the value of what we receive and what we give up is often quite different. We agree that 340 rooms and $21,750 in meals were available. There are restrictions on when and how rooms and meals can be used. We try to make the best use of the trade out, but it is not always possible. We will look at ways to take better advantage of our trade."

13. **Evaluation of Management Comments**. Management action should correct the problems identified; however, we are providing the following comments to management’s general comments. Management stated that it is very difficult to accurately account for trade items. We suggest that the businesses entering into the partnership/sponsorship agreements provide the trade value information on the signed agreement.

Accountability of Fixed Assets

14. **Background**. Activity managers must control fixed assets to prevent loss, obsolescence, or theft. At the time of our review, the AFAAA had fixed assets valued at $6,092,297. The NAF Financial Analyst (NAFFA) and newly assigned custodians must inventory fixed assets annually. Newly assigned custodians are required to sign a memorandum stating an inventory was accomplished and accepting accountability for the fixed assets. During the inventory, the custodian should validate the accuracy of property records and ensure identification tags are attached to the assets. Further, items loaned to other activities or disposed of should be documented on an AF Form 1297, *Temporary Issue/Receipt*, or an AF Form 2534, *NAF Property Disposal/Transfer Receipt*, as appropriate.

15. The AFAAA had not established adequate controls to properly protect NAF assets.

a. **Asset Accountability**. Air Force Academy Athletic Association management had not established accountability for fixed assets assigned to the various AFAAA activity managers. Specifically, activity managers had not performed physical inventories of fixed assets when new custodians were designated and had not signed the required memorandum needed to establish initial asset accountability. For example, review of 236 assets valued at $3,259,029 revealed 14 assets (valued at $27,329) were not recorded on accountable records. This condition occurred because activity managers had not received appropriate training and, therefore, they were unaware of their custodial responsibilities. In addition, AFAAA management had not placed sufficient emphasis on establishing and maintaining proper fixed asset accountability. Establishing proper accountability for fixed assets is essential to prevent loss or misappropriation of Air Force resources.

b. **Asset Identification**. Air Force Academy Athletic Association property custodians had not labeled fixed assets. Specifically, 233 of 236 (99 percent) property items inventoried were not labeled. This condition occurred because AFAAA activities relied on disinterested inventory teams to label assets as part of their annual physical inventory process. However, since annual disinterested team inventories had not been performed, labels were not affixed to the assets. Proper identification procedures help protect assets from theft, abuse, and unauthorized use. Not properly labeling assets makes it difficult for operating personnel to distinguish NAF assets from APF assets. For example, six Panasonic video cassette recorders (VCRs), located in the football activity, were classified as NAF assets. While these assets were on the NAF fixed asset listing, five identical VCRs were not included on the NAF listing nor were they labeled as APF assets. Therefore, management was not able to determine whether the VCRs were NAF- or APF-procured assets.

c. **Asset Transfers**. The AFAAA activity managers had not followed established procedures when transferring NAF assets between activities. For example, a copier valued at $3,526, and identified on the asset listing as belonging to the Gift Shop, could not be located. According to Gift Shop personnel, the copier was turned in to the Defense Reutilization and Marketing Office; however, Gift Shop personnel could not produce documentation to support the turn-in. Additionally, there were two VCRs on the fixed asset listing, but football administration personnel could not locate these assets. Further, football administration personnel indicated they loaned the two VCRs to the USAFA Preparatory School without documenting the loan. This condition occurred because personnel were not aware of proper procedures to follow when transferring assets. Proper transfer procedures help reduce the possibility of misappropriation of Air Force resources.

d. **Annual Inventories**. The NAFFA had not conducted the annual fixed asset inventories for FY 1998. This condition occurred because the NAFFA had not established procedures to ensure disinterested individuals conducted the inventories. Accurate and complete inventories are needed to verify on-hand quantities, reveal shortages, correct misidentified items, and establish accountability for NAF assets on-hand but not on accountable records.

16. **Recommendations**. The AFAAA Athletic Director should:

a. **Recommendation 14**. Direct the AFAAA Comptroller to notify activity managers that they are property custodians for assigned assets and arrange proper training.

b. **Recommendation 15**. Issue a policy memorandum to all activity managers stressing the importance of asset accountability.

c. **Recommendation 16**. Direct custodians to label all NAF assets for which they are accountable.

d. **Recommendation 17**. Direct custodians to document all transfers using AF Forms 1297, *Temporary Issue Receipt* and/or AF Forms 2534, *NAF Property Disposal/Transfer Receipt*.

e. **Recommendation 18**. Request the Comptroller, in coordination with the NAFFA, establish and comply with procedures to ensure disinterested individuals conduct annual fixed asset inventories.

f. **Recommendation 19**. Request the Comptroller, in coordination with the NAFFA, initiate reports of survey for assets they could not locate.

17. **Management Comments**. The U.S. Air Force Academy Vice Superintendent concurred with the audit result and recommendations and stated:

a. **Recommendation 14**. "Concur. The NAFFA has notified and trained all activity managers on asset management responsibilities with an asset management training course. Additionally, we have identified an overall NAF property manager who will be the single point of contact for all NAF purchases, deliveries, and disposals. Closed."

b. **Recommendation 15**. "Concur. A policy was issued and briefed. Closed."

c. **Recommendation 16**. "Concur. Activity managers were directed to label all assets. Closed."

d. **Recommendation 17**. "Concur. Air Force Form 1297 and 2534 were included in the training. Closed."

e. **Recommendation 18**. "Concur. The NAFFA has provided training to all Athletic Department activity managers on fixed asset management and established procedures to ensure all required inventories are completed. Closed."

f. **Recommendation 19**. "Concur. The Director of Athletics will appoint an investigating officer to investigate any missing assets per AFI 34-202, Chapter 6.6. ECD: 30 Sep99."

18. **Evaluation of Management Comments**. Management comments addressed the issues raised during the audit, and actions taken should correct the problems identified.

Expenditure Controls

19. **Background**. Expenditure control procedures are included in AFI 34-201, *Use of Nonappropriated Funds*. These procedures include establishing spending limitations, requiring adequate documentation before paying expenses, and obtaining proper approvals before incurring obligations. Further, this guidance prohibits the use of NAFs for personal purchases or expenses. In addition, detailed guidance on travel expenditures is contained in the *Joint Travel Regulation*.

20. **NAF Expenditures**. The AFAAA management allowed personnel to continue using NAFs for unauthorized expenses.[8] Specifically, AFAAA personnel inappropriately used $81,470 of NAFs for personal purchases and expenses. For example, expenses such as travel, per diem, baby-sitting, game world tickets, show tickets, and golf fees were paid for coaches' spouses and military and civilian personnel attending the Western Athletic Conference Championship football game in Las Vegas. Further, personnel used NAFs for dinner theater tickets for Athletic Department personnel and their spouses, lodging the football team at local hotels before home games, and entertainment for team members on temporary duty (including a trip to Niagara Falls). This condition continued to exist because AFAAA management believed the above expenses were appropriate expenditures of NAFs. However, controlling the use of NAFs allows the AFAAA to avoid embarrassment from public scrutiny. Additionally, cash balances declined from $6.6

[8] This condition was previously reported in DoD IG Report of Audit 96-075, *Management and Administration of the United States Air Force Academy*, 23 February 1996 and AFAA Report of Audit WP098003, *Review of Intercollegiate Athletic Program Revenues and Expenditures for the Air Force Academy Athletic Association, Fiscal Year 1996*, 8 April 1998.

million in FY 1997 to $1.3 million in FY 1999, and net profit declined from $693,043 in FY 1995 to net losses of $303,409 in FY 1997, $1,314,206 in FY 1998, and a year-to-date loss of $1,784,166 in FY 1999 (see Trend Analysis, Appendix V). Implementing proper controls and eliminating unauthorized expenses will help offset future losses by $488,820 over the next six-year budget period.

21. **Recommendation 20**. The Superintendent should instruct the Athletic Director to allow only authorized expenditures as noted in AFI 34-201, *Use of Nonappropriated Funds.*

22. **Management Comments**. The U.S. Air Force Academy Vice Superintendent concurred with the audit results and recommendation and stated:

a. **Recommendation 20**. "Concur with intent. These are very complex issues that need to be addressed and resolved at Air Force-level. A certain level of flexibility is required if the Academy is to compete effectively at the Division IA level. Clarification is needed from HQ USAF to determine the correct amount of flexibility that can be afforded the Association. Potential monetary benefits to be determined after policy review. ECD: 31 Dec 99."

b. **Management's General Comments**. Management provided the following general comments for Recommendation 20: "NAF regulations are specific regarding proper use of NAF funds. We comply with these regulations to the maximum extent possible. However, as a Division IA Athletic Department, we are required to deal with issues not faced by Morale Welfare and Recreation Non-Appropriated Fund Instramentalities (NAFIs). This is why the Secretary of the Air Force has historically given the AFAAA flexibility to operate as a Division IA Athletic Department. The travel, baby-sitting, game world tickets, show tickets and golf fees identified by the auditor were in fact for the Las Vegas Bowl not the Western Athletic Conference Championship game. Bowl expenses and revenues are not budgeted items since going to a bowl is an uncertainty each year. The AFAAA pays for these items for "quality of life" reasons. Providing travel and entertainment for the players, coaches, staff members and their spouses are standard practices in college football and have been accepted practices for the Athletic Department for over forty years. Lodging for football players in a downtown hotel prior to a home contest is standard practice in the NCAA and critical to our program. The players need the time away from the cadet wing to get rest and prepare for the game. A winning football program is imperative for the AFAAA. When the team is winning, ticket sales are up, concession sales are up and gift shop sales are up. Additionally, it often means increased revenue from television. Entertainment for team members is a very appropriate expenditure of AFAAA funds and is provided for in NCAA guidelines. The intent is to provide wholesome entertainment to our cadet athletes while they are away from the Academy. This helps build team unity and keeps them busy during what would be idle time between athletic activities."

23. **Evaluation of Management Comments**. We agree with management's planned action to elevate this issue to HQ Air Force for resolution. We provide the following comments in response to management's general comments. We agree that the Athletic Department deals with issues not faced by other NAFIs and they have been given flexibility to operate as a Division IA Athletic Department; however, unless specific waivers are obtained, the Athletic Department should follow governmental directives. While the Athletic Department can request waivers for AF Instructions from the Secretary of the Air Force, they should comply with the *Joint Travel Regulation* since it can not be waived at the HQ Air Force level. Additionally, the Secretary of the Air Force had not granted waivers to AFI 34-201, which states Non-Appropriated funds should not be used for personal purchases or expenses. We continue to consider baby-sitting, show tickets, golf fees, and dinner theater tickets for coaches, other athletic department personnel and their spouses, to be personal expenses that were inappropriately paid from Non-Appropriated funds. Further, we believe using Non-Appropriated funds for travel of military and civilian spouses and children and per diem for military coaches' spouses is a violation of the *Joint Travel Regulation*. Although lodging the football players in downtown hotels prior to a home contest is accepted by the NCAA, the Air Force Academy is a Government institution and should exercise fiscal responsibility above private universities. This condition was addressed by the DoD Inspector General in a prior report and should be elevated for resolution. Finally, although NCAA guidelines allow for entertainment of team members for away games, AFI 34-201 does not allow the use of NAFs for personal expenses. Therefore, we agree that HQ Air Force approval should be obtained before continuing this practice.

Financial Management

24. **Background**. Management should use budgets and financial statement analyses to make informed decisions concerning resource use. Budgets (a) establish fiscal goals and objectives; (b) facilitate economical use of resources; (c) allow comparisons between planned objectives and actual results; and, (d) highlight program efficiencies and inefficiencies. The activity managers prepare annual budgets and update projections each quarter based on current performance and expected changes.

25. **Budget Controls**. Activity managers did not update budgets quarterly or document the impact of major program changes. For example, the budgeted amount for award banquet expenditures was $8,700, but actual expenditures were $31,104; the AFAAA Gift Shop projected income of $1,006,050, but actual income was only $140,895; the Football Program projected income of $987,998, but actual income was $381,602; and

the Ticket Office Administration projected a loss of $194,340, but the actual loss was $276,730. However, activity managers did not update budgets during quarterly reviews to reflect the above variances. This condition occurred because the Comptroller had not established procedures requiring activity managers to submit updated budgets quarterly or as program changes occurred. Activity managers should update budgets quarterly to provide AFAAA management with information needed to make sound business decisions and identify adverse trends.

26. **Recommendations**. The AFAAA Comptroller should direct activity managers to:

a. **Recommendation 21**. Revise budgets quarterly or as major program changes occur.

b. **Recommendation 22**. Defend budget variances when major changes occur in income or expense categories.

27. **Management Comments**. The U.S. Air Force Academy Vice Superintendent concurred with the audit results and recommendations and stated:

a. **Recommendation 21**. "Concur. Calls for the first budget update have been issued. Budget training for activity managers by HQ USAF/SVS has been scheduled for 18-22 October. ECD: 31 Oct 99."

b. **Recommendation 22**. "Concur. This is done quarterly at the AFAAA Advisory Committee meetings. Closed."

28. **Evaluation of Management Comments**. Management comments addressed the issues raised during the audit, and actions taken should correct the problems identified.

REPORT ON COMPLIANCE WITH REGULATORY REQUIREMENTS

BACKGROUND

1. Compliance with laws and regulations applicable to the AFAAA (see Appendix VI) is the responsibility of management. Issues that should concern management include:

a. **<u>Resources</u>**. Compliance with applicable guidance and regulations that could significantly affect the acquisition, protection, and use of the entity's resources, and the quantity, quality, timeliness, and cost of the products and services it produces and delivers.

b. **<u>Programs</u>**. Issues that deal with compliance with applicable guidance and regulations that pertain to the objectives of the entity's programs, activities, and functions. Additionally, management should be concerned with the manner in which programs and services are to be delivered; the population a program or service is to serve; and whether the programs, activities, and functions are being carried out in conformity with these regulations.

2. Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in applicable guidance or regulations. These instances, if identified, would cause us to conclude the aggregation of the misstatements resulting from those failures or violations are material to the financial statements, or the sensitivity of the matter would cause others to perceive the misstatements as significant.

AUDIT RESULTS

3. The results of our tests disclosed no instances of noncompliance with regulatory requirements that would be reportable under Government Auditing Standards.

AUDIT METHODOLOGY AND DISCLOSURE

1. The audit objectives, scope, and methodology are summarized on page 2. To accomplish this audit, we:

a. Tested the accuracy and reliability of general and subsidiary ledgers for the AFAAA fund by examining all (34) balance sheet accounts for the period ending June 30, 1998. Accounts selected included cash, petty cash, receivables, unearned income, inventory, purchases, prepaid expenses, fixed assets, and related accumulated depreciation, accounts payable, and accrued payroll.

b. Statistically sampled transactions in these accounts and performed detailed reviews of transactions originating from 1 July 1997 through 30 June 1998. Detailed reviews included assessing transaction propriety, supporting document adequacy, and recording timeliness.

c. Assessed internal controls through interviewing NAF accounting office personnel, reviewing related guidance, and examining the accounting processes.

d. Tested 30 June 1998 inventory balances by comparing item quantities reported in the NAF Information System to physical count sheets.

e. Performed physical asset verification on 236 assets valued at $3,259,029.

f. Reconciled general ledger and operating statement revenue account balances as of 30 June 1998.

g. Reviewed all coaches' expense account balances, totaling $23,763, and selected public relations expense account balances totaling $384,227 from the total balance of $889,967.

Although we relied on computer-generated data during the audit, we did not include a comprehensive test of the systems' general and application controls. However, we established data reliability by comparing output to source documents. Our tests disclosed the data were sufficiently reliable to support the audit conclusions and recommendations.

2. We accomplished the audit from June 1998 to May 1999 and discussed the results with the AFAAA Comptroller, Business Manager, NAFFA, Resource Management Flight Chief, and other interested parties on 19 May 1999.

3. We conducted the audit in accordance with generally accepted government auditing standards, and the audit work provides a reasonable basis for our opinion on the AFAAA Statement of Revenues and Expenditures.

PRIOR AUDIT COVERAGE

4. During the past 5 years, the DoD IG issued one report and the AFAA issued four reports addressing related areas covered in the audit of the FY 1998 Statement of Revenues and Expenditures.

a. **DoD IG Report**. DoD IG Report of Audit 96-075, *Management and Administration of the United States Air Force Academy*, 23 February 1996, identified various deficiencies. Specifically, the Athletic Association did not comply with Federal, DoD, and Air Force policies and procedures when executing procurement actions and disbursed about $30,000 for lodging and meals for the football team unnecessarily. Further, they had not complied with established policies and procedures when they received appropriated funding support inappropriately, identified pay status of civil service coaches incorrectly, collected and kept facility licensing agreement fees improperly, accepted travel benefits from private companies, distributed a mail order catalog inappropriately, and utilized individual service contracts incorrectly. Lastly, they had not complied with policies and procedures when they incorrectly considered contract personnel as Government employees, and did not comply with time card and overtime approval procedures. Therefore, indeterminable amounts of both appropriated and nonappropriated funds were unnecessarily spent.

b. **AFAA Reports**.

(1) Report of Audit 26195033, *Review of Intercollegiate Athletic Program Expenditures for the Air Force Academy Athletic Association, Fiscal Year 1994*, 24 April 1995, did not identify any deficiencies.

(2) Report of Audit 26196044, *Review of Intercollegiate Athletic Program Expenditures for the Air Force Academy Athletic Association, Fiscal Year 1995*, 31 July 1996, identified Gift Shop personnel had not adequately accounted for or stored merchandise. Additionally, AFAAA personnel forwarded receiving reports to the NAF accounting office in an untimely manner and split purchase orders to avoid competition requirements. Further, Gift Shop warehouse personnel did not effectively in-process merchandise receipts, and Gift Shop management did not properly cancel purchase orders. Finally, AFAAA personnel did not adequately document public relations expenditures. We did not follow up on the above issues during the Fiscal Year 1996

(1 July 1995 through 30 June 1996) review because the report was not issued until 31 July 1996.

(3) Report of Audit WP098003, *Review of Intercollegiate Athletic Program Revenues and Expenditures for the Air Force Academy Athletic Association, Fiscal Year 1996*, 8 April 1998, identified internal control deficiencies. Specifically, deficiencies were identified in reporting and controlling merchandise inventories, accounts receivable, facility use fees, sports camp funding, personnel expenditures, procurement, other operating expenditures, entertainment/public relation expenditures, and budgeting.

(4) Report of Audit WP098022, *Fiscal Year 1997, Intercollegiate Athletic Program Revenues and Expenditures, Air Force Academy Athletic Association*, 30 June 1998, identified internal control deficiencies in the following areas: making timely deposits, separating duties, recording sales, and recording and using contributions and donations.

SCHEDULE OF ADJUSTING ENTRIES
Year Ended 30 June 1998

	Increase/ (Decrease)	Balance
Preliminary Loss		($1,314,204)
Adjustments		
Understatement of Marketing Revenue	$21,550	
Understatement of Sales Tax Expense	(9,450)	
Understatement of Sports Camp Expense	(72,166)	
Understatement of Donated Revenue	134,283	
Understatement of Misc. Expense	(134,283)	
Net Adjustments		($ 60,066)
Adjusted Net Loss		($1,374,270)

The schedule of adjusting entries represents corrections to the books and records of the AFAAA as of 30 June 1998 based on the independent audit as of that date.

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE ACADEMY
USAF ACADEMY, COLORADO

U.S. AIR FORCE
1947-1997

30 June 1999

MEMORANDUM FOR Peterson Area Audit Office
660 Mitchell Street, Suite 600
Peterson AFB CO 80914-1155

FROM: HQ USAFA/AHU
2169 Field House Drive, Suite 111
USAF Academy CO 80840-9500

SUBJECT: Management Comments to the Air Force Audit Agency (AFAA) Report of Audit, Opinion on Fiscal Year 1998 Intercollegiate Athletic Program Revenue and Expenditures, Air Force Academy Athletic Association (Project 98WP0018)

1. We appreciate the opportunity to review and comment on this report. These comments are limited to this consolidated report.

2. We acknowledge that you are able to express an unqualified opinion on these financial statements for fiscal year 1998. We are firmly committed to producing accurate financial statements. We will continue to work with the NAFFMB and AFAA personnel, and any other necessary groups, to continue to improve our inventory systems and procedures until all required results are achieved.

THOMAS H. MOSS III, Lt Colonel, USAF
Director of Business Operations
Department of Athletics

Golden Legacy, Boundless Future... Your Nation's Air Force

UNITED STATES AIR FORCE ACADEMY
AIR FORCE ATHLETIC ASSOCIATION

STATEMENT OF REVENUES AND EXPENDITURES
Year Ended 30 June 1998

	Football	Men's Basketball	Hockey	Other Sports	Gift Shop	Non-Program Specific	Total
Operating Revenue:							
Sales					$4,945,251	$788,413	$5,733,664
Fees/Admission	$122,676	$300		$101,296	117,084	615,831	957,187
Ticket Sales	2,815,080	43,001	$68,604				2,926,685
Guarantees	150,000	1,000		7,125			158,125
Concessions						90,435	90,435
Sports Camps				1,197,637			1,197,637
Rent and Royalty Income						5,386	5,386
Radio/TV Receipts	245,619	31,627					277,246
Donations	2,431	1,791		3,875		1,071,511	1,079,608
Interest Income						296,861	296,861
WAC Allocations	149,639	149,546				108,827	408,012
Miscellaneous	14,667	2,868	200	39,480	15,291	215,514	288,020
Total Revenues	**$3,500,112**	**$230,133**	**$68,804**	**$1,349,413**	**$5,077,626**	**$3,192,778**	**$13,418,866**
Expenditures:							
Coaches Salaries	$1,151,989	$305,866	$178,711	$654,603		$360,288	$2,651,457
Other Salaries	39,362	30,933		57,772	$999,478	1,125,305	2,252,850
Cost of Merchandise Sold					3,249,667	153,387	3,403,054
Repairs and Maintenance	3,792			1,289	30,387	53,813	89,281
Vehicle Operations	43				3,537	8,835	12,415
Travel and Meals	790,875	27,943	15,003	88,540	30,517	41,923	994,801
Sports Banquets and Awards	784			11,549	330	13,998	26,661
Officials	44,018	41,292	11,554	71,490			168,354
Recruiting	41,748	9,149	14,293	64,097		5,002	134,289
Game Guarantees	330,000	20,400	18,500	14,450			383,350
Supplies and Expendable Equipment	115,113	11,298	6,272	23,111	137,907	161,104	454,805
Complimentary Tickets	299,588		300				299,888
Films	399		190			6,514	7,103
Utilities	281			12	21,337	137,349	158,979
Postage/Freight	9,807	706	515	1,258	72,044	73,288	157,618
Rental	5,394			91	3,013	9,060	17,558
Advertising and Printing	10,036	310	77	9,395	103,957	274,763	398,538
Dues and Subscriptions	4,845	4,875		1,699	6,857	122,350	140,626
Entertainment	91,857	1,659	2,816		3,209	382,934	482,475
Credit Card Expense					65,911	72,250	138,161
Sports Camps				835,131			835,131
Miscellaneous Contractual Services	135,714	13,119	28,113	40,371	95,081	167,414	479,812
Depreciation	78,489	10,250	1,377	34,901	145,432	280,522	550,971
NAFFMB/Personnel Assessment						234,463	234,463
Miscellaneous	42,867			11,936	68,765	136,862	260,430
Total Expenditures	**$3,197,001**	**$477,800**	**$277,721**	**$1,921,695**	**$5,037,429**	**$3,821,424**	**$14,733,070**
Income/(Loss)	**$303,111**	**($247,667)**	**($208,917)**	**($572,282)**	**$40,197**	**($628,646)**	**($1,314,204)**

NOTES TO THE STATEMENT OF REVENUES AND EXPENDITURES

Note 1. Summary of Significant Accounting Policies

Organization Structure:

The AFAAA represents the nonappropriated fund activity related to the intercollegiate sports program at the Air Force Academy, Colorado Springs, Colorado. The Office of the Director of Intercollegiate Athletics (ODIA) controls the intercollegiate athletics appropriated funds under the AFAAA budget. The two funds are accounted for separately due to the AFAAA using the accrual method of accounting and the ODIA using the fund accounting method (Note 2).

Inventories:

Gift shop inventory is valued at weighted average.

Depreciation and Equipment Expense:

Depreciation of property, plant, and equipment is provided for on the straight-line method based on useful lives of the assets required by Air Force Manual 34-214, *Procedures for Nonappropriated Funds Financial Management and Accounting*.

Major expenditures (i.e., over $1,000) for property, plant, and equipment are capitalized. Maintenance, repairs, and minor purchases are expensed as incurred.

Overhead Expense:

Overhead costs incurred by the Air Force, benefiting the AFAAA, are not charged to the AFAAA and are excluded from the financial statement.

Military Personnel Costs:

Salaries and related costs associated with military personnel assigned to the AFAAA are excluded from the financial statement.

Membership Dues:

Lifetime membership dues to the AFAAA are included as revenue in the year received.

Statement of Revenues and Expenditures

Note 2. Appropriated Fund Reimbursement Income

The Air Force Academy appropriated $11,155,299 of funds for the AFAAA. The following is a summary of expenditures (unaudited) paid by ODIA on behalf of the AFAAA, which are not included in the NAF financial statement:

Salaries and Payroll Related	$ 8,538,779
Travel	$ 1,021,685
Other	$ 1,594,835
	$11,155,299

TREND ANALYSIS

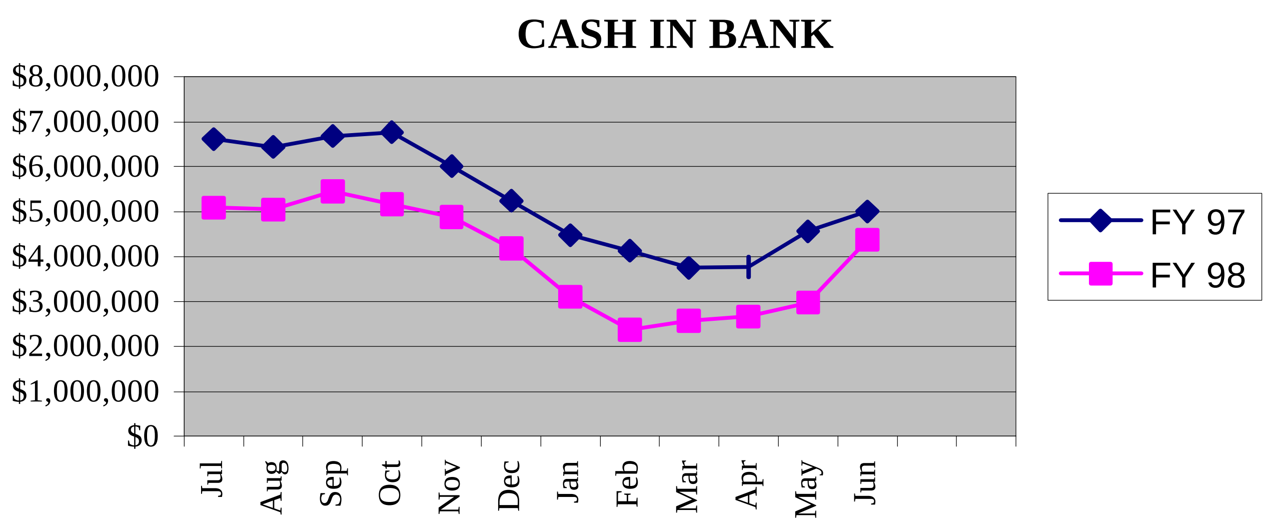

Chart 1: Cash in bank declined from $6.6M in FY 1997 to $4.4M end of FY 1998.

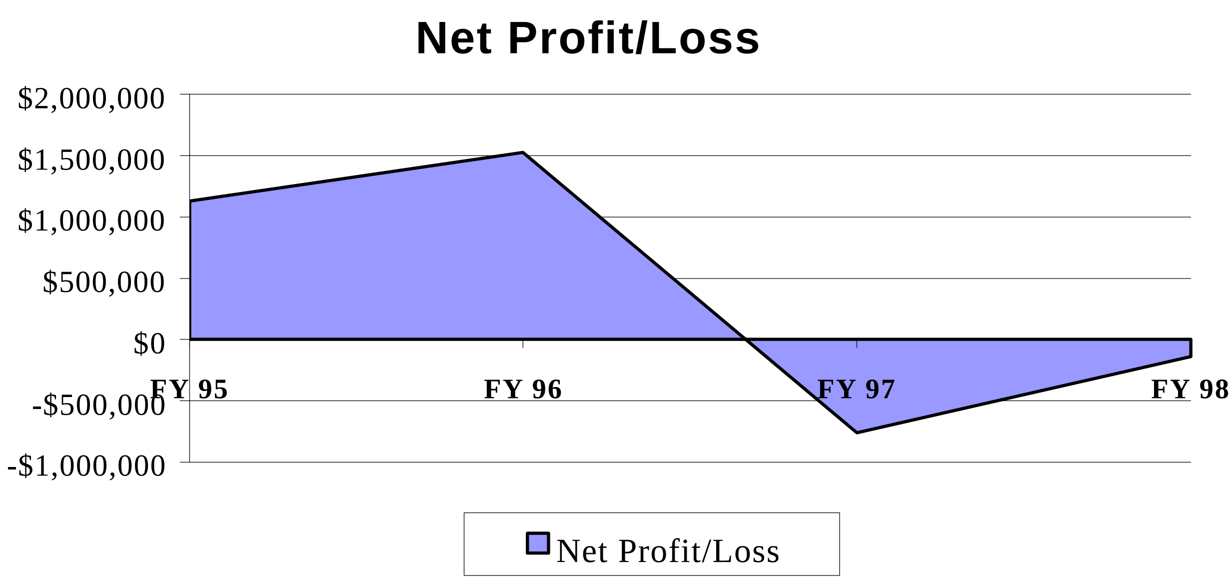

Chart 2: NIAD profit declined from $1,127,146 in FY 1995 to a net loss of $137,153 FY 1999.

GUIDANCE AND REGULATIONS

We reviewed significant provisions of applicable guidance and regulations listed below.

NCAA Guidance

1996 Financial Audit Guidelines

DoD Guidance

DoD Instruction 4105.67, *Nonappropriated Fund Procurement Policy*, October 1981

Air Force Guidance

AFI 34-104, *Services Marketing and Publicity Program*, 25 July 1994

AFI 34-201, *Use of Nonappropriated Funds*, 25 July 1994

AFI 34-202, *Protecting Nonappropriated Fund Assets*, 25 July 1994

AFI 34-204, *Air Force Services Logistics Support Program*, 1 December 1997

AFI 34-209, *Nonappropriated Fund Financial Management and Accounting*, 26 July 1994

AFMAN 34-212, *Control Procedures for Protecting Nonappropriated Fund Assets*, 1 September 1995

AFMAN 34-214, *Procedures for Nonappropriated Funds Financial Management and Accounting*, 14 August 1998

AFMAN 34-216, *Air Force Commercial Sponsorship Procedures*, 4 November 1994

AFI 34-407, *Air Force Commercial Sponsorship Program*, 23 November 1997

AFI 65-106, Appropriated Fund Support of Morale, Welfare, and Recreation and Nonappropriated Fund Instrumentalities, 28 October 1994

AFI 65-107, *Nonappropriated Funds Financial Management Oversight Responsibilities*, 18 March 1994

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