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NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

SEPTEMBER 27, 1984

B-214730

The Honorable William Proxmire
United States Senate



125332

Dear Senator Proxmire:

Subject: Review of Financial Arrangements for the 1983
Army-Navy Football Game (GAO/NSIAD-84-151)

In your request of November 28, 1983, you asked us to provide a complete financial picture of all expenditures related to the 1983 Army-Navy football game. You also requested that we indicate the source of funding and its justification and the extent to which voluntary contributions offset United States government costs. Finally, you asked us to determine if public statements by the Army and Navy officials were consistent with the financial facts.

This report covers the information previously discussed with your staff, with updated and expanded details to recognize changes that have occurred in the past few months.

The Department of Defense agreed to move the 1983 Army-Navy football game to Pasadena, California, with the understanding that both academies would realize as much revenue, and incur no more cost than if the game was played in Philadelphia, Pennsylvania. To sponsor the game, the Pasadena Chamber of Commerce established a nonprofit corporation, the Army-Navy '83 Foundation. The Foundation's sponsorship included raising funds to support game expenses.

The Foundation contracted with the athletic associations of the U.S. Military Academy and the U.S. Naval Academy, referred to herein as Army or Navy. The contract generally required that the Foundation provide for expenses to the academies beyond those normally incurred for the game in Philadelphia. Further, the contract was structured to provide approximately the same income that would have been received by the academies had the game been played in Philadelphia.

The Foundation obtained funds from sources such as corporate donors and sponsors, individual donations, game ticket sales, concessions, advertising, bank loans, and other fund raising activities. However, the Foundation was unable to meet

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its contractual obligations and requested financial support from the Army and the Navy. In response to the Foundation's request, the Navy provided \$550,000 as security for a portion of one bank loan to the Foundation and the Army prepaid most of its air transportation costs and provided security for another Foundation loan.

Details of our findings are presented in the enclosure. In summary, we found that the financial outcome of the 1983 Army-Navy football game has not been settled. However, the contract did not provide for adequate accountability and performance guarantees by the sponsoring Foundation and information available during our review shows that the academies have incurred greater costs and realized lower revenues compared to those of 1982. A complete financial picture of the 1983 Army-Navy football game is not possible at this time because several financial matters have yet to be settled. In particular, the Army and the Navy guaranteed repayment of amounts borrowed from banks by the Foundation and they are due additional reimbursements for expenses incurred. The absence of final financial data also hindered our ability to determine the extent to which voluntary contributions offset government costs.

In 1982 the Army and the Navy net revenues were \$885,109 and \$830,680, respectively, on the game. The 1983 revenues as of May 1984 were considerably lower as shown in the table below.

	<u>Army</u>		<u>Navy</u>	
	<u>1982</u>	<u>1983</u>	<u>1982</u>	<u>1983</u>
Receipts	\$963,370	\$1,189,700	\$917,851	\$876,500
Disbursements	<u>78,261</u>	<u>845,030</u>	<u>87,171</u>	<u>233,271</u>
Net revenues	<u>\$885,109</u>	<u>\$ 344,670</u>	<u>\$830,680</u>	<u>\$643,229</u>

If the Foundation is able to meet its commitments, the total net revenues could reach \$686,252 for the Army and \$748,730 for the Navy. However, if the Foundation is unable to honor its commitments, the adjusted net revenues for the Army and the Navy could be as low as \$208,819 and \$93,229, respectively. We have doubts about the Foundation's ability to meet its contractual commitments.

Finally, an Army press release and Foundation press releases stating that cadets and midshipmen would be moved, housed, and fed at no cost to the government were incorrect since a nominal amount of appropriated funds covered some expenses in 1983 similar to those of 1982. A subsequent statement by the Military Academy Superintendent that the Foundation

would absorb "all expenses above those normally incurred in the Philadelphia event" more clearly described the actual funding plan.

As arranged with your office unless you publicly announce the contents earlier, we plan no further distribution of this report until 5 days from the date of the report. At that time we will send copies to the Secretaries of Defense, the Army, and the Navy and make copies available to others upon request.

Sincerely yours,


Frank C. Conahan
Director

Enclosure

ARMY-NAVY GAME FUNDS MANAGEMENTBACKGROUND

The Department of Defense agreed to move the 1983 Army-Navy football game to Pasadena, California, with the understanding that both academies would realize as much revenue, and incur no more cost than if the game were played in Philadelphia, Pennsylvania, the site of previous games. To sponsor the game, the Pasadena Chamber of Commerce established a nonprofit corporation, the Army-Navy '83 Foundation. The Foundation contracted with the athletic associations of the U.S. Military Academy and the U.S. Naval Academy, referred to herein as Army or Navy. The contract conditions required that the Foundation provide for costs to the academies beyond those incurred for the 1982 game in Philadelphia. Further, the contract was structured to provide approximately the same compensation that would have been received by the academies in Philadelphia.

The contract, signed in March 1983, was modified three times to:

- Change the game date from December 3 to November 25, to accommodate the television network schedule.
- Recognize the telecast arrangements between ABC-TV and the host academy (Army).
- Provide specific financial arrangements for the athletic associations to pay or guarantee the paying of certain transportation and messing costs for which the Foundation would reimburse the academies. These financial arrangements were made just before the game date because the Foundation could not meet its financial obligations to provide commercial air transportation and messing.

CONTRACT REQUIREMENTS

The original contract between the athletic associations and the Foundation guaranteed each academy \$550,000 in television revenues (with excess television income going to the Foundation) and \$325,000 from ticket sales and concession proceeds. Ticket sales in excess of \$325,000 would be sent to the Foundation. The contract required the Foundation to post a \$650,000 bond guaranteeing payment for the ticket sales/concession proceeds. Additionally in the event of any excess profits¹ from the game, the

¹See page 11 for discussion of Foundation funds.

Army and the Navy would receive at least 25 percent of such profits to be distributed equally between them. The contract also recognized the Army and the Navy's rights to receive proceeds from radio broadcasting, and each academy was provided a minimum of 5,000 complimentary game tickets.

The contract specified that the Foundation would provide for the transportation, messing and lodging of the teams, the corps of cadets, the brigade of midshipmen, limited support personnel, and official parties at no cost to the academies beyond those normally incurred for the 1982 game in Philadelphia. The cost each academy determined it incurred for the 1982 game played in Philadelphia follows:

	<u>Army</u>	<u>Navy</u>
Game expenses	\$20,400	\$38,500
Support personnel	31,612	(a)
Ground transportation	<u>22,960</u>	<u>31,560</u>
Total	<u>\$74,972</u>	<u>\$70,060</u>

^aNavy support personnel expenses were not separated from other expenses in 1982.

The amounts for the 1982 game expenses and ground transportation were specified in the contract while the 1982 support personnel costs were cited by reference only. A limit of \$100,000 compensation per academy was set on the game expenses (i.e., moving, messing, billeting, and other associated costs of the football teams), and each academy was responsible for costs in excess of \$100,000. The Foundation posted a bond guaranteeing payment of up to \$200,000 for the game expenses (in addition to the ticket revenue bond of \$650,000). The bond was in effect through June 1984.

The Foundation agreed to provide air and ground transportation, housing, messing, and reasonable expenses for up to 9,000 cadets and midshipmen and 250 support personnel per academy. The Foundation also agreed to grant, at its expense, the use of the Rose Bowl, provide for game management, and pay for the expenses of a summer advance party and a game advance party for each academy.

The Army and the Navy agreed to reimburse the Foundation for feeding the cadets and midshipmen for 2 days at the rate of \$3.80 per person per day. This is the normal cost each day at the academies.

The first and second modifications to the contract clarified the original contract, changed the game date, and recognized previously established telecast arrangements.

The third contract modification, executed only a few days before the game, was caused by the Foundation's inability to meet its contractual obligations regarding commercial air transportation and messing. This modification required cash outlays and/or financial commitments by the Army and the Navy. The Foundation, in turn, waived its rights to (1) excess ticket proceeds retained by both the Army and the Navy and (2) excess television revenues to the extent necessary to offset amounts paid for financial commitments made by the Army and the Navy to air carriers.

As a result of the third modification, the Army paid \$571,655 for a portion of cadet air transportation costs and guaranteed payments of (1) almost \$295,000 for additional cadet air transportation costs and (2) \$53,750 for food services. The Navy placed its television proceeds, \$550,000, in an escrow account to secure a Foundation loan to pay the midshipmen's air transportation costs. The Foundation agreed to reimburse the Army for the full amount of prepayments and to reimburse the Navy for any lien resulting from assignment of its portion of television proceeds no later than December 15, 1983.

In early August 1983, the Foundation reported that it was experiencing severe cash flow problems. To address these problems, the Foundation requested and was released by the Army, with the Navy's concurrence, from the ticket revenue bond of \$650,000. At the time of release from the bond, the Navy had accumulated ticket revenues in excess of its guaranteed amount while the Army accumulated about \$250,000, an amount less than the \$325,000 guaranteed by the bond. We found no written justification for the Army's decision to release the Foundation.

Although the 1983 Army-Navy game contract contained many provisions that complied with the Defense Department's conditions for the game, it appears to have omitted some features that could have been useful. While the contract allowed the Foundation to request an audit of reasonable game expenses incurred by the academies, the contract did not make the Foundation accountable to the academies. For example, the Foundation was not required to report its financial status to the Army and the Navy on a regular basis. Other than the two bonding arrangements cited above, the contract did not provide any guarantees by the Foundation that it would meet its commitments in sponsoring the game. Furthermore, the academies did not have any specific assurances that the Foundation had adequate financial support to run the game.

ATHLETIC ASSOCIATIONS' NET
REVENUE--1982 AND 1983 GAMES

The expenses the Foundation would reimburse for the Army and the Navy in 1983 were determined in part by the amount spent in 1982. Information provided by the athletic associations and supporting documents show the following 1982 Army-Navy game receipts, disbursements, and net revenues.

Receipts and Disbursements--1982 Game^a

	<u>Army</u>	<u>Navy</u>
Receipts:		
Ticket sales	\$269,680	\$250,555
Television and radio	656,250	628,425 ^b
Program sales and concessions	<u>37,440</u>	<u>38,871</u>
Total	<u>963,370</u>	<u>917,851</u>
Disbursements:		
Ground transportation, support personnel, and game expenses	-	-
Appropriated funds	27,571	-
Nonappropriated funds	<u>50,690</u>	<u>87,171</u>
Total	<u>78,261</u>	<u>87,171</u>
Net revenues	<u>\$885,109</u>	<u>\$830,680</u>

^aThe figures provided in the table have been selectively verified by us. However, they are the adjusted figures provided by the Army and the amounts reported as audited in the Navy's Athletic Association financial statement for 1982. Because they have been audited and/or adjusted after the contractual agreements reached in March 1983, the totals vary with those in the contract with the Foundation. (See p. 5.)

^bNavy television receipts exclude assessments of \$23,850 and \$3,975 paid to the East Coast Athletic Association and the College Football Association, respectively. The assessments were based on the television receipts of \$655,000.

Appropriated and nonappropriated funds are separated to show the amount of government funds supporting the Army-Navy game. Appropriated funds cover expenses such as travel for support personnel, while nonappropriated funds cover all other expenses such as stadium rental and expenses not authorized by appropriated funds.

The Army Athletic Association uses appropriated funds while the Navy does not rely on appropriated funds to support its intercollegiate athletic program. Funds raised by the Army Athletic Association were sufficient to offset the cost of the program through 1975. Since 1976, however, the nonappropriated funds generated by the association have not covered the cost of intercollegiate athletics, and appropriated funds were needed to support the program. For example, the Army Athletic Association had expenditures of \$1.27 million of appropriated funds in fiscal year 1983.

A funds control mechanism was set at the U.S. Military Academy to limit the 1983 expenditures of appropriated funds for the game. Further, a written agreement between the academy and the Army Athletic Association limited the 1983 appropriated fund expenditures to the 1982 level for support personnel attending the 1983 game.

Receipts, disbursements, and net revenues of both academies for the 1983 game identified as of May 1984 are summarized in the following table. The information was provided by the athletic associations.

Receipts and Disbursements—1983 Game

	<u>Army</u>	<u>Navy</u>
Receipts:		
Ticket sales	\$ 288,200	\$325,000
Television and radio	551,500	551,500 ^a
Excess television receipts ^b	<u>350,000</u>	-
Total	<u>1,189,700</u>	<u>876,500</u>
Disbursements:		
Air transportation:		
Appropriated	\$ 9,570	-
Nonappropriated	<u>683,595</u>	<u>\$68,092</u>
	693,165	68,092
Ground transportation:		
Appropriated	18,007	-
Nonappropriated	<u>965</u>	<u>38,625</u>
	18,972	38,625
Lodging:		
Appropriated	17,371	-
Nonappropriated	<u>57,143</u>	<u>60,573</u>
	74,514	60,573
Messing:		
Appropriated	-	49,096
Nonappropriated	<u>1,637</u>	<u>9,842</u>
	1,637	58,938 ^c
Other support:		
Appropriated	7,660	-
Nonappropriated	<u>49,082</u>	<u>7,043</u>
	56,742	7,043
Total:		
Appropriated	52,608	49,096
Nonappropriated	792,422	184,175
Total	<u>845,030^d</u>	<u>233,271^d</u>
Net revenues	<u>\$344,670</u>	<u>\$643,229</u>

^aThe Navy has placed \$550,000 of this amount in an escrow account to secure a bank loan made to the Foundation.

^bExcess TV receipts were assigned by the Foundation to the academies to guarantee amounts paid or advanced for transporting the cadets and midshipmen. The Army presently has possession of these receipts which may have to be shared with the Navy if the Foundation fails to reimburse the academies.

^cThe Navy paid midshipmen meal costs incurred on the West Coast rather than reimburse the Foundation while the Army will reimburse the Foundation for these expenses. (See cadet rations page 10.) In addition, \$9,250 of the Navy's appropriated messing costs will be reimbursed by midshipmen. Similar meal expenses for cadets and midshipmen would accrue even if they remained at the academies.

^dAccording to the contract, the Foundation is required to reimburse a substantial portion of these expenses.

The Army has also guaranteed repayment of \$135,851, plus interest, borrowed by the Foundation for advance payments to one air carrier. However, as discussed below, the Army and the Navy are due additional revenues from the Foundation.

POTENTIAL FINANCIAL OUTCOMES--1983 GAME

These 1983 game figures are not final; however, they represent the current known financial positions of both academies subject to the following contract settlements:

	<u>Army</u>	<u>Navy</u>
Amounts due the academies:		
Remaining guaranteed ticket revenues	\$ 36,800	-
Cadet air transportation	571,655	-
Midshipmen ground transportation	-	\$ 30,244
Game expenses	94,530	68,440
Support expenses	<u>28,912</u>	<u>6,817</u>
Total	<u>731,897</u>	<u>105,501</u>
Amounts due the Foundation:		
Cadet rations and transportation	40,315	-
Excess television receipts	<u>350,000</u>	<u>-</u>
Total	<u>390,315</u>	<u>-</u>
Net revenue due the academies upon contract settlement	<u>\$341,582</u>	<u>\$105,501</u>

Since the Foundation has not fulfilled its commitments under the contract, the total net revenue is conditional. However, both academies have billed the Foundation for the amounts due them and have mutually agreed to share equally in profits/losses from the game. The total net revenue amounts below assume the Foundation complies with its contractual commitments so the Army will be released from its guarantee of the Foundation loan of \$135,851, plus interest, and the Navy will receive the \$550,000 held in escrow.

	<u>Army</u>	<u>Navy</u>
Net revenues (p. 9)	\$344,670	\$643,229
Net revenue due	<u>341,582</u>	<u>105,501</u>
Total	<u>\$686,252</u>	<u>\$748,730</u>

If the Foundation is unable to repay the loans secured by the Army and the Navy, then funds securing these loans will be lost. Resulting adjustments to the Army's and the Navy's net revenues follow:

	<u>Army</u>	<u>Navy</u>
Net revenues	\$344,670	\$643,229
Loan liability ^a	<u>(135,851)</u>	<u>(550,000)</u>
Adjusted net revenues	<u>\$208,819</u>	<u>\$ 93,229</u>

^aSee pages 6 and 10. (Loan liability amounts do not include accumulated interest on the loans.)

Unless the Foundation settles all claims against it, the Army and the Navy will receive significantly less revenue in 1983 than in 1982. (See p. 7.)

FOUNDATION FUNDS AND LIABILITIES

The Army-Navy '83 Foundation is a separate nonprofit organization established by the Pasadena Chamber of Commerce to sponsor the 1983 Army-Navy game. Sponsorship included raising funds from various sources to support the game expenses. Funds collected by the Foundation came from sources such as corporate donors and sponsors, individual donations, game ticket sales, concessions, advertising, bank loans, and other fund-raising activities. Information on the complete financial status of the Foundation was not available during our fieldwork. The Foundation is being audited by an independent public accounting firm; however, the final audit report has not been completed.

The game was not sold out as anticipated, resulting in a shortfall of revenue. In addition, corporate and private pledges and donations did not approach the Foundation's expectations. The Foundation took out loans from California banks and requested financial support from the Army and the Navy Athletic Associations to cover the shortages.

The Foundation has several outstanding claims against it, including bank loans of at least \$1.5 million, and known net obligations of \$341,582, and \$105,501, to the Army and the Navy, respectively. Based on the Foundation's February 1984 "Statement of Receipts, Disbursements and Cash Balances," a \$1.9 million deficit exists. This deficit is based on reported receipts of

\$4 million and disbursements of \$5.9 million. Other payables and receivables were not identified by the Foundation in its financial reports.

The Foundation, according to its executive vice president, (1) will pay all bills, (2) is attempting to raise additional revenue, and (3) has intensified its fund-raising efforts. In our opinion, the following matters cast doubt over the Foundation's ability to meet its obligations and resolve its liabilities: (1) the fact that the Army and Navy were asked to prepay air transportation and hotel costs and secure Foundation loans, (2) the shortfall of corporate and private donations and other revenue resulting in the Foundation's \$1.9 million deficit, and (3) cancellation of a May 19, 1984, fund-raising event projected to generate \$1.1 million, and either canceling or rescheduling other fund-raising events.

If the Foundation does not meet its obligations and resolve its liabilities, it is unlikely that the Army and the Navy could be held liable for the Foundation's debts beyond those already guaranteed by the academies (\$135,851 plus interest by the Army and \$550,000 by the Navy).

OFFICIAL STATEMENTS

Several public statements were made by the Army and the Navy officials regarding the game being played on the West Coast. Although the Military Academy Public Affairs Office told us that inquiries were referred to the Foundation, particularly regarding the cost of the game, a Military Academy press release before the game and Foundation press releases stated that the cadets and midshipmen, ". . . would be moved, housed and fed at no cost to the government. . . ." This statement was incorrect since about \$100,000² in appropriated funds were used to cover some of the costs of the game.

As shown below, a subsequent statement by the Military Academy Superintendent in response to a Senator's March 1983 inquiry more clearly described the actual funding plan.

"All expenses above those normally incurred in the Philadelphia event (including transportation of the Corps of Cadets and Brigade of Midshipmen) will be absorbed by the Rose Bowl Foundation³, which is sponsoring the game. Funds have been guaranteed to the two Academy Athletic Associations in an amount equal to or greater than realized at recent games in Philadelphia."

²A substantial portion of this amount would accrue without regard to the location of the game.

³Predecessor name for the Army/Navy '83 Foundation.

The Army and Navy secretaries also stated in memorandums and statements that no more would be spent on the 1983 Pasadena Army-Navy game than was spent on the 1982 game in Philadelphia.

However, we found that the amount of revenues guaranteed by performance bonds to each academy were less in 1983 than the revenues from the 1982 game. Revenues from television and ticket sales were guaranteed up to \$875,000 which was less than the \$963,370 and \$917,851 earned by the Army and the Navy, respectively. Further, only the ticket sales revenues of \$325,000 to each academy were backed by a bond.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our review was to examine the financial arrangements of the 1983 Army-Navy football game to indicate the source and application of funding and the government's cost. The review concentrated on (1) analyzing the terms of the contractual agreement and the controls exercised by the academies over the Foundation, (2) evaluating controls exercised over appropriated funds, (3) determining the total cost of the 1983 game and comparing it with the amount spent in 1982, and (4) projecting the financial outcome.

The Army Audit Agency performed a financial audit of the Army's 1983 game expenses at the same time we were doing our review at the U.S. Military Academy. To avoid any duplicate audit work, we used, to the extent possible, the cost figures developed by the Army Audit Agency for both the 1982 and 1983 games. We evaluated the audit workpapers of the Army Audit Agency to assess the adequacy and reliability of the work done and made certain revisions to the 1983 game cost amounts based on additional costs we identified.

We spoke with the athletic directors and their staffs at both academies and held discussions with various military officials in charge of different command activities involved with organizing the 1983 game. We reviewed financial statements and reports at both academies.

We met with the executive vice president of the Army-Navy '83 Foundation on two separate occasions. Information obtained from the Foundation was limited to budget projections and financial statements that did not include any of its outstanding payables or receivables.

We obtained and reviewed pre- and post-game documents relating to the events and finances of the 1983 game from the two academies. We also examined press releases and news articles on the 1983 game to determine if public statements made by the Army and Navy officials were consistent with the financial facts.

We met with officials of the U.S. Naval Academy, Annapolis, Maryland; the U.S. Military Academy, West Point, New York; the Army-Navy '83 Foundation, Pasadena, California; and the Army General Counsel at the Pentagon. We also coordinated our work with that of the Army Audit Agency at West Point, New York, and Alexandria, Virginia.

Our fieldwork was done between January and May 1984. We reviewed Army and Navy documents and financial records. A detailed financial statement on the Army-Navy '83 Foundation was being developed by an independent public accounting firm; however, the results were incomplete and therefore not available to us. As requested by your office, we did not obtain formal agency comments. However, we provided an earlier draft of this enclosure to Army and Navy officials for review and incorporated their comments as appropriate.

Our review was performed in accordance with generally accepted government auditing standards.