

Ongoing College Sports Tax Scam Puts Madoff to Shame

Clips Guest Commentary

Our guest author makes use of the Madoff mess as a platform to protest that “the NCAA's unregulated operations are disingenuous at best.”

By Frank G. Splitt

It's strange the number of people who believe you can do right by means which they know to be wrong.

—Edward Voysey, a character in "The Voysey Inheritance," a play by Harvey Granville-Barker, 1914¹

"Madoff Misled SEC in '06, Got Off," read the headline of a front-page *Wall Street Journal* story.² The headline could just as well have read: "Brand Misled House Ways & Means Committee in '06, Got Off."

Congressman Charles Rangel, chair of the House Committee on Way & Means, never followed up on his predecessor Bill Thomas' effort to have NCAA President Myles Brand justify the NCAA's tax-exempt status.³ According to Kimberley Strassel, Rep. Rangel is now confronting ethical controversies, saying:

The Blagojevich drama is titillating enough, and local Democrats' dithering over how to fill Mr. Obama's seat guarantees it will remain a storyline longer than is comfortable. But the Illinois drama has also thrust new light on the ongoing ethical controversies of House Ways and Means Chairman Charlie Rangel. At the rate the House Ethics Committee is receiving complaints – over Mr. Rangel's real-estate problems, tax problems, his privately sponsored trips to the Caribbean, and donations to his center in New York – this too will make headlines for a while.⁴

Another reason why Rep. Rangel and others don't talk about the NCAA's tax-free moneymaking and blatant hypocrisy is that they are afraid of what they might learn—better to let sleeping dogs lie and not risk losing political contributions or getting turned out of office by America's sports-addicted public.

So, it's unlikely that the hypothetical headline will ever be seen on the front page of any newspaper, nor will a fitting accompanying story.⁵

Like Harry Markopolos, who for nine years tried to persuade SEC staff that Madoff's operation was a fraud, The Drake Group has been working to persuade the Congress that the unregulated operation of the NCAA is disingenuous at best. Here's the story:

Senator Chuck Grassley is attempting to pressure nonprofit organizations to live up to the requirements associated with their tax-exempt status, for example see: "Grassley Targets Nonprofit Hospitals on Charity Care."⁶

Sad to say, based on Congressman Rangel's tax problems and political realities, Senator Grassley is not likely to get support from the House Committee on Ways & Means or his Senate colleagues in investigating the extent to which the NCAA affiliated schools are not living up to a specified requirement for their tax-exempt status—keeping sports as an integral part of their educational programs and their athletes as integral parts of their student body. So here's another headline not likely to be seen any time soon: "Grassley Targets Nonprofit NCAA on Counterfeit Amateurs."⁷

If that be the case, America's colleges and universities will continue on their march of folly: defiling their academic integrity and warping their academic mission, denying academically qualified citizens access to a college education because of preferential admission of recruited athletes, fleecing American taxpayers who help pay for \$multimillion coaches salaries, jocks-only academic eligibility centers, stadiums, and arenas, as well as short changing our nation that deserves a world-class system of higher education that values academics well above athletics— rather than a system of businesses that manage minor league teams for the NFL and NBA while also providing education for academically qualified students.

President-elect Barack Obama has chosen Arne Duncan, a 'reformer' who doesn't bother the unions, as his designated Education Secretary. Perhaps Duncan will tackle the college sports business giving much needed support to Senator Grassley in resolving a troubling domestic education issue—America's system of higher education that has been hijacked, in large part, by the college sports entertainment business.

If and when confirmed by Congress, Duncan could ask a question that is sure to be bothersome: How can the presiding officials at the NCAA and its member colleges and universities continue to get away with an even bigger and longer-lasting scam than Bernard Madoff's Ponzi scheme? The scam involves the prostitution of the athletic programs and the exploitation of athletes at colleges and universities that support the NCAA's big-time football and men's basketball programs. It generates \$billions of tax-exempt revenues in full view of an almost constant stream of fluttering red flags.

If Duncan is able to overcome likely political pressure to look the other way and 'do nothing,' he would be sure to find that those who preside over the college sports entertainment business will continue to do what they have always done. They will provide answers that protect the status quo and their personal security—holding on to highly compensated positions with accompanying power, prestige, and influence, along with pomp & circumstance to boot. Rather than acknowledge embarrassing (possibly incriminating) truths, these officials will admit nothing and deny everything, but obfuscate and litigate if need be.

The college sports tax scam is no less than a national scandal, a travesty with a long-term negative impact that is apt to prove much more devastating than the Madoff scam— victimizing all of the American people, not just some of the world's financial firms and multimillionaires.⁸⁻¹⁰

There are great similarities between the seemingly quixotic effort of Harry Markopolos to convince the SEC staff that Bernard Madoff's operation was a fraud and the effort of The Drake Group to convince the Congress that the NCAA's unregulated operations are disingenuous at best—certainly worthy of close attention by the Congress and the IRS in view of the lack of transparency, accountability, and any independent oversight of these operations.

Both Markopolos and The Drake Group began sounding alarms in 1999—targeting financial fraud in the case of the Madoff scam and academic corruption in the case of the NCAA and its affiliated schools¹¹—while working against entities fronted by respectable, smooth-talking, and well-connected individuals.

Who would ever think of questioning the integrity or ulterior motives of a charming former NASDAQ chairman or a former university president who is supported by college and university presidents across the land? The dirty little secret of big-time college sports is that these presidents would not have been elected to their lofty and lavishly rewarded positions if they were either reform-minded, or, not 'on board' with respect to the 'necessary' growth of the school's athletic programs and facilities dictated by the athletics arms race.

Corrective action by the Congress re: the college sports tax scam will be difficult since its members will be hard pressed to oppose the wishes (demands) of wealthy donors and their constituents...constituents who are addicted to professional-level college sports entertainment enabled by counterfeit amateurs.

We have only to look at the U. S. auto industry for a metaphor that shows what happens when the government helps to give the public what it wants (gas-guzzling SUVs/trucks and cheap gas) only to see the market become dominated by foreign competitors who recognize the folly of our short-term thinking—paraphrasing the words of Herbert Spencer: "The ultimate result of shielding the public from the effects of folly is to people our nation with fools."

It can only happen in Wonderland.

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NOTES

1. This quote was brought to my attention via Daniel Henninger's Wonderland column, "The Madoff Inheritance," in the Dec. 18, 2008, issue of *The Wall Street Journal*.
2. Zukerman, Gregory and Scannell, Kara, "Madoff Misled SEC in '06, Got Off," *The Wall Street Journal*, Dec. 18. 2008.
3. George Stephanopoulos interviewed Congressman Rangel during his Jan. 7, 2007, *This Week* program.

Stephanopoulos: I ask this question because we're about to see the college football championship tomorrow night. Your predecessor, Bill Thomas, had real questions about whether or not the NCAA still deserved its tax exemption because college sports have become so much like pro sports. Is that something that concerns you? Will you be taking a look at that tax exemption?

Rangel: I will be taking a look at all tax exemptions. You're asking, 'How do you pay for the loss of revenue for the alternative minimum tax?' And you also, I think you mentioned, that charitable organizations are a big revenue loser. And some of those organizations deserve tax breaks. But you really have to take a hard look at a lot of them that make a lot of money, and it's up to us to determine whether or not it's for the public good. And that, certainly, I join with Bill Thomas on that in taking a hard look at that as well as many, many other tax-exempt organizations.

4. Strassel, Kimberley, "Democrats Are the New Ethics Story," *Potomac Watch, The Wall Street Journal*. Dec. 19, 2008.
5. Many such stories can be weaved from the essays and commentaries that can be accessed on The Drake Group Website., <http://thedrakegroup.org/>
6. Carreywou, John and Martinez, Barbara, "Grassley Targets Nonprofit Hospitals on Charity Care," *The Wall Street Journal*, Dec. 18, 2008.
7. Sack, Allen J., *Counterfeit Amateurs*, Penn State Univ. Press, University Park, PA, 2008. The employment of counterfeit amateurs (so-called student-athletes) by big-time colleges and universities is the key enabler of the college sports tax scam.
8. Splitt, Frank G., "Sports in America 2007: Facing Up to Global Realities," http://thedrakegroup.org/Splitt_Sports_in_America_2007.pdf
9. _____, "The College Sports Tax Scam," A Collection of Recently Published Essays and Comments, p. 6, http://thedrakegroup.org/Splitt_Collection_of_Recent_Essays.pdf
10. _____, "The College Sports Tax Scam Revisited," http://thedrakegroup.org/Splitt_Tax_Scam_Revisited.pdf
11. To review the genesis of The Drake Group, go to the homepage of The Drake Group Website, and then click on the History tab.