

# Financial Scandals in Pro Sports are on the Rise

By Jordan French

A [recent study](#) from Ernst & Young showed that the level of financial fraud and abuse among the financial advisors of professional athletes has grown significantly in the last few years, totaling approximately \$600M in known alleged fraud cases. More than ever before as the sports world [sees major growth](#), and professional sports [salaries skyrocket](#), athletes are falling victim to losing large sums of money, sometimes all of it, to advisors who either mismanage or steal their fortunes. For any athlete, financial scandals can derail a career, and for a retired athlete, it can even put them on the street.

To get a better understanding of what goes on in an area of professional sports that few of us are privy to—how athletes manage their money—we talked to Irwin Nachimson who is a CPA and is Certified in Financial Forensics by the American Institute of Certified Public Accountants (AIPCA). Irwin is a partner and forensic accountant at [NKSFB](#) one of the world's largest business management firms for high profile athletes and entertainers. He has audited the financial advisors for many athletes and entertainers. He took us step by step through why pro sports scandals are on the rise as well as a few examples he's seen firsthand

## Inside The World of Pro Sports Money Management

Irwin, could you start by giving a little background on how athletes and entertainers are often victims of financial scandals and abuses? How does it happen?

*Irwin Nachimson:* First off, I want to differentiate between two things. There are financial scandals and abuses—let's call them cases of misappropriated assets. And then there are cases in which financial advisors (meaning investment advisors, accountants or business managers) are not looking out for the client's financial well-being. In either case, whether the advisor has misappropriated assets or whether they're just lacking competence (which

makes the finances a mess at best), the athletes misplace their trust. And what I've seen is often an athlete, or an entertainer for that matter, will choose a financial advisor not based on who the best professional is, but rather who they simply know or who maybe helped them out in difficult times or helped them get their start.

Athletes work their whole lives to get to where they're at and they don't really have the background as to who to choose as a financial advisor. What athletes should be doing when they pick an advisor is asking their financial advisors for references. They primarily get into trouble by hiring and putting their trust in the wrong people. It could even be a family member, a cousin, who really doesn't know anything about finances and accounting, but is trying to get in on the success of this particular athlete.

### **It seems like we're seeing an increase in cases like this in the news. Why is that?**

*Irwin:* It's interesting you bring that up because there was a recent Ernst and Young report that covered the years 2004 to 2018. During those years, they identified that professional athletes were defrauded for approximately \$600 million. That's the fraud that's known publicly, but not necessarily all that's out there. The Association of Certified Fraud Examiners estimates that there's more than twice as much over that course of time. So, we're dealing with at least \$1.2 billion in alleged fraud that consistently went up over that course of time. For example, in the later years from 2016 to 2018, there was approximately \$190 million in fraud—about 32% of the \$600 million that was identified. It's because athletes and entertainers make a lot of money and they're targets. The people who prey on them know that finance is not their field. And they also know that they put their trust in the wrong people. That's really why with the revenues skyrocketing in these sports, especially with television revenue, the salaries of players have gone up, up and up and a lot of fraud has gone up in recent times.

### **Are there any particular areas of sports or entertainment that you've seen it happen in more frequently?**

*Irwin:* I wouldn't say there are any specific areas in my experience that I've seen it happen more frequently. I've audited financial advisors and business managers for various athletes in different sports and different entertainers. However, I will tell you that in this study that was done, that of the \$600 million that I mentioned before, which is what's known publicly, about 38% consisted of fraud on NFL players. Another 29% of it was in the NBA and only 13% of it was with Major League Baseball players. There are other sports that were covered

that had a lower percentage of fraud as well. But what that tells me is there are probably a lot of Major

League Baseball players and other players out there who may not be getting the services they're paying for.

## **What kind of impact can that have, particularly on young athletes who are just starting their career?**

*Irwin:* I could give you a real-life example. I was auditing a financial advisor, a reputable one for a well-known athlete. They made a mistake. They didn't capture all the athletes' revenues. They missed a payment. It wasn't on purpose, but they made a mistake that would have cost the athlete \$60,000 if I hadn't discovered it. In other words, I uncovered missing cash that was earned but wasn't received and recorded on behalf of the athlete

You can have scenarios where advisors are competent people, but they make mistakes, and then of course, you can have the scenario where they are not competent people and it's just a wreck. It can really affect the athlete. And then there are the cases when assets are being misappropriated, such as money being taken to be paid for expenses that are not the athlete's.

What's especially critical for young athletes is if they're working with one of the typical financial advisors, they need to determine if the advisor is looking out for all the possible business scenarios. For example, an athlete is about to get a big signing bonus, or a young athlete is becoming a free agent. What happens if that athlete gets injured? I have reviewed insurance policies to make sure the proper disability insurance is in place. An athlete who puts their whole life into training, giving up their youth to a certain extent, and the big pay day is there and then they get seriously injured. They will have nothing unless they have somebody competent who's looking out for all their financial interests. In that case, that would be getting the correct disability insurance.

## **What are your thoughts on financial education for athletes to ensure that they're making better decisions about choosing their advisors?**

*Irwin:* I think it's great. The more that an athlete can learn, the better it is. Whatever they learn will make it easier for them to communicate with the right person by having education in an area that's not their normal expertise. It still doesn't take the place of having the right person in place for you to get what you need and to make sure all of your insurance and financial interests are being handled properly.

## **For athletes who want to audit their advisor, what does that process look like?**

*Irwin:* I'm in a very unique situation because I'm a forensic accountant and I am a partner in a large business management firm. So, I understand both ends of the spectrum. When I'm asked by an athlete, or an athletes' representative, to audit their advisor or business manager, I investigate the books and records over a specified period of time– the general ledgers, the financial statements, the tax returns, the insurance policies, the investment brokerage statements and the portfolios. I ensure that there is no misappropriation of assets. Next, I look to make sure that everything is being done optimally on behalf of the athlete so that his financial interests are protected.

We have found situations where there was cash being taken, such as unauthorized cash withdrawals or faked expenses. We have found advisor fees that were in excess of what were agreed to. Sometimes they're hidden fees, meaning that they'll show up buried somewhere and the athlete doesn't even know that he's being charged these amounts. Sometimes we've found insurance issues where either the athlete himself or his assets were not properly insured. In a recent case, we had a professional athlete with millions of dollars sitting around in an account that wasn't earning any interest or any dividends. And that was over a period of years. That in and of itself cost the athlete tens of thousands of dollars, if not more.

One thing every athlete should have is a business manager who will be a personal Chief Financial Advisor (CFO) on their behalf and not just a stockbroker. A lot of athletes just have stockbrokers and not personal CFOs that are handling everything. And if it's a stock broker, they may or may not make good investments, but how do you know the tax returns are being done correctly? How do you know that you have the right insurance policy? And how do you know that all funds are being booked? And how do you know that things are transparent? And that's the thing we look for the most is transparency. I audit all financial information to make sure that everything is in place and is being reported correctly to the athletes.

## **Are there any changes that could be made within the industry for better transparency in financial management?**

*Irwin:* If we're talking about just somebody who is an investment advisor, they're not looking at the earnings and expenses of the athletes. So how does an athlete ever know how much money he has at one point in time? The athlete needs to see on either a monthly or a quarterly basis, financial statements and cashflow statements to make sure he knows

what he's earned, what he has spent and what he has left. That's transparency. Some financial advisors may be able to do that and some of them can't. They can't because they don't have that expertise, or they are hiding something.

## **For parents of college athletes that are going pro, what can they do to make sure that their children's financial future gets off on the right foot?**

*Irwin:* Don't go on trust alone [when choosing an advisor]. Look for a track record and references. Plus, before signing an engagement letter or retainer letter, make sure an attorney reviews it.

Your advisor should not just be an investment manager. A financial advisor or business manager needs to be a personal CFO who handles all of an athlete's financial needs, including filing taxes, bank reconciliations, insurance, purchasing vehicles, buying houses, negotiating mortgages, etc. So, negotiate and review your engagement letter, make sure the person you're talking to is the right person.

## **What should professional athletes consider, now that the Corona Virus has impacted everyone?**

Unfortunately, professional athletics is on hold. Professional athletes likely have the time to focus on an area they are usually too busy to focus on. They should use the opportunity to investigate their finances. Also, during this time period, where salaries might be impacted, athletes need to make sure their money is being handled properly. For example, during this and any crisis, there is an increase in the number of scams. Even a well-intentioned financial advisor may be hacked, which could jeopardize an athlete's funds. This could impact the funds an athlete has for his retirement.

## **If you could sum everything up, what would you say to professional athletes who want to make sure they are financially secure?**

I have a saying. The federal government audits banks. The IRS audits taxpayers. We ask doctors to "audit" our bodies to get a clean bill of health. Why wouldn't a ball player audit his financial advisor? I have audited financial advisors and have helped athletes by identifying misappropriated funds. I have also identified when the advisor has not acted in the best interest of the professional athlete.

Bottom line is: Ball players need to audit their financial advisor. It may save an athlete from financial disaster!!