

LOUISIANA HIGH SCHOOL ATHLETIC ASSOCIATION



COMPLIANCE AUDIT
ISSUED SEPTEMBER 22, 2010

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

September 22, 2010

**MR. KENNETH W. HENDERSON,
EXECUTIVE DIRECTOR, AND EXECUTIVE COMMITTEE
LOUISIANA HIGH SCHOOL ATHLETIC ASSOCIATION**
Baton Rouge, Louisiana

We have audited certain transactions of the Louisiana High School Athletic Association (LHSAA). Our audit was conducted in accordance with Title 24 of the Louisiana Revised Statutes to determine the propriety of certain financial transactions.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*; therefore, we are not offering an opinion on the LHSAA's financial statements or system of internal control nor assurance as to compliance with laws and regulations.

The accompanying report is a public report that presents our findings and recommendations as well as management's response. This correspondence is intended primarily for the information and use of management of the LHSAA. Copies of this report have been delivered to the District Attorney for the Nineteenth Judicial District of Louisiana and others as required by law.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP:DD:dl

LHSAA 2010

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Executive Summary

- From June 2005 to October 2007, former LHSAA Commissioner Thomas Henry made 2,355 credit card transactions totaling \$383,073, for which he did not maintain proper documentation. Mr. Henry admitted some of the items were for his personal use, such as cigars and clothing, which may violate Louisiana Law.
- The LHSAA reimbursed Mr. Henry \$15,025 for travel expenses for which he may not have incurred from June 2005 to October 2007. This includes reimbursements for duplicate expense reports as well as for meals that were charged to Mr. Henry's agency issued credit card.
- The LHSAA did not deposit at least \$943 from ticket collections for sporting events. The LHSAA allowed one employee, Ms. Allison Leblanc, finance director, control and custody of the tickets, cash, and deposits from these events.

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Louisiana High School Athletic Association (LHSAA) is a nonprofit organization established in 1920 with an objective to promote, regulate, and direct the interscholastic athletic activities of Louisiana high schools that are members of the association. Membership consists of 396 schools with approximately 85,000 student athletes. The association is governed by an executive committee consisting of 27 members. LHSAA is primarily funded through sponsorships, membership dues from high schools, and ticket sales from hosting state sporting tournaments. Attorney General Opinion 10-0023 provides that the LHSAA is a quasi-public organization and that it derives a portion of its income from payments received from public agencies or bodies.

On January 25, 2010, the Legislative Audit Advisory Council (LAAC) requested that the Louisiana Legislative Auditor (LLA) conduct an audit of the LHSAA operations. On January 29, 2010, the LLA informed LHSAA of the request by the LAAC to audit its operations. LHSAA agreed to the audit in a letter dated February 17, 2010. The procedures performed during this audit consisted of:

- (1) interviewing LHSAA employees;
- (2) interviewing other persons as appropriate;
- (3) examining selected LHSAA documents and records;
- (4) gathering documents from external parties;
- (5) reviewing LHSAA policies; and
- (6) reviewing applicable state laws and regulations.

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Improper Credit Card Usage

From June 2005 through October 2007, after which time Mr. Henry retired, he made 2,355 purchases with an LHSAA credit card totaling \$383,073. During our review of LHSAA records, we noted there were no receipts for any of Mr. Henry's purchases. There were five additional cards in use by other employees during this period and the majority of receipts were turned in and maintained for purchases with those cards. When asked, Mr. Henry stated that he was informed by the finance director, Ms. Allison Leblanc that he did not need to maintain receipts for credit card charges because the credit card statement was adequate documentation. In addition, Mr. Henry stated it was the idea of LHSAA's former external auditor, Mr. Robert Behrens, to use the credit card statements as receipts. In speaking with Ms. Leblanc, she stated that she never told Mr. Henry not to maintain receipts. She further stated that in the beginning of her employment at LHSAA, Mr. Henry informed her that receipts were not needed to support American Express purchases. Mr. Behrens also stated that he did not advise Mr. Henry to discard detailed receipts for credit card charges. However, Mr. Behrens did recall recommending to Mr. Henry that he should document the time, place, and business purpose of his expenses.

The American Express credit cards are consolidated into one account and charges are summarized, by cardholder, on one monthly statement. According to Ms. Leblanc, the bill is paid without prior approval because of the limited time to pay the bill before late charges are assessed. Although LHSAA checks require both the commissioner's and executive committee president's signatures for approval, Ms. Leblanc has custody and use of both signature stamps and can therefore approve all checks. After the statement is paid, each cardholder is responsible for categorizing his/her charges so the purchases can be input to the accounting records.

The three prior executive committee presidents all stated that they provided a signature for use (as a stamp) by the LHSAA, but never personally reviewed or approved any payments. Furthermore, they also stated that they never reviewed or questioned any of Mr. Henry's credit card purchases.

Since Mr. Henry did not maintain receipts for his credit card purchases, he may have violated Louisiana law¹ regarding record retention. Furthermore, the LHSAA could not determine the necessity or reasonableness of the purchases or if the purchases benefited the LHSAA. Purchases with no valid business purpose that are not necessary to the operations of the LHSAA or that are made at an unreasonable price may be a violation of the Louisiana Constitution² which prohibits the donation of public funds. The attorney general provides guidance with regard to the Louisiana Constitution² in Opinion 09-0018, which states that "the public entity must have the legal authority to make the expenditure" and outlines a three-prong test for the expenditure of public funds as follows:

¹ Louisiana Revised Statute (R.S.) 44:36 provides, in part, "All persons and public bodies having custody or control of any public record... such public records shall be preserved and maintained for a period of at least three years from the date on which the public record was made."

² Article 7, Section 14 of the Louisiana Constitution provides, in part, that except as otherwise provided by this constitution, the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private.

1. There must be a public purpose that comports with the governmental purpose of the public entity.
2. When taken as a whole, the expenditure does not appear to be gratuitous.
3. There must be evidence demonstrating that the public entity has a reasonable expectation of receiving a benefit or value at least equivalent to the amount expended or transferred.

Since there were no receipts for Mr. Henry’s credit card purchases, we reviewed the credit card statements and requested receipts from selected vendors for purchases that could be personal in nature. All the purchases were discussed with Mr. Henry, and through his own admission, he confirmed the personal use of LHSAA assets. Mr. Henry may have violated Louisiana law³ through the personal use of LHSAA assets. The results are listed and discussed below.

Credit Card Purchases by Mr. Henry		
Expense Category	Number of Transactions	Total Charged
Cigars	182	\$51,614
Travel	60	16,234
Clothing	52	13,058
Golf fees and equipment	102	20,694
In-town meals	450	29,565
Total	846	\$131,165

Cigar Purchases

We identified 182 charges totaling \$51,614 at 12 different cigar merchants such as Churchill’s Premium Cigars located in Baton Rouge, Cigar Merchant in Lafayette, and the Tinder Box in Metairie. According to Mr. Henry, he occasionally entertained state representatives with alcohol and cigars at Churchill’s; however, most of the \$17,593 charged at Churchill’s was for cigars. Mr. Henry stated that he does smoke cigars and did purchase cigars with his LHSAA credit card for his personal use; however, the cigars were mainly purchased as gifts to be given to sponsors. He was unable to provide documentation specifying the amount which was given as gifts and the amount which was purchased for his personal use. LHSAA Marketing Director Mitch Small stated that while meeting sponsors with Mr. Henry, he has never seen him give gifts of cigars. According to current and former Assistant Commissioner Buster Guzzardo, former Assistant Commissioner Douglas Chauvin, and Marketing Director Mitch Small, Mr. Henry routinely smoked cigars in his office. Since Mr. Henry and the LHSAA could not provide documentation regarding the use of the cigars, we were unable to determine if anyone received cigars as gifts and the cost associated with the gifts.

³ R.S. 14:67 provides, in part, “Theft is the misappropriation or taking of anything of value which belongs to another, either without the consent of the other to the misappropriation or taking, or by means of fraudulent conduct, practices, or representations.”

Out-of-State Travel

Mr. Henry traveled to Chicago, Illinois, in 2005 and 2006 from December 25 to December 30. American Express statements indicate that charges totaling \$8,424 in 2005 and \$7,810 in 2006 were incurred on the trips. A breakdown of incurred charges is shown below.

Charges Incurred on Trips to Chicago by Mr. Henry			
Expense Category	2005	2006	Total
Food and beverage	\$301	\$783	\$1,084
Books and accessories	1,785	90	1,875
Lodging	4,687	2,936	7,623
Consumer retail outlets*	1,651	4,001	5,652
Total	\$8,424	\$7,810	\$16,234

* Stores such as Sawbridge Studios, Neiman-Marcus, Nordstrom, and Saks Fifth Avenue

Mr. Henry stated that the business purpose of the trips was to visit with LHSAA sponsor Gatorade to show his appreciation, to keep the relationship secure, and to ensure Gatorade continued to sponsor LHSAA. However, Mr. Henry admitted he did not have scheduled appointments with Gatorade officials when he visited their office and chose to travel at Christmas because it was a convenient time for both parties. Mr. Henry categorized the meetings with Gatorade officials as informal thank you meetings. According to Mr. Henry, he gave gift baskets of Louisiana products to Gatorade officials and treated marketing officials to dinner two or three nights during his visits. Mr. Henry stated that his wife accompanied him to Chicago both years and that she paid for her own airfare, but he purchased her meals with the LHSAA American Express card. He has not reimbursed LHSAA for his wife’s meal charges. According to Mr. Henry, while not visiting with Gatorade officials, he took his wife shopping, visited museums, and watched plays.

Clothing Purchases

Mr. Henry made at least 52 purchases totaling \$13,058 at two men’s clothing stores, McLavy LTD in Baton Rouge and Pope’s LTD in Shreveport. According to Assistant Commissioner Buster Guzzardo, he has picked up clothing for Mr. Henry at Pope’s LTD while traveling to Shreveport. We obtained copies of receipts from McLavy, LTD that indicate the items purchased by Mr. Henry included men’s suits, shirts, sport coats, pants, and ties.

Mr. Henry stated that the clothing purchases were probably for his personal use and that he dressed nice to promote the image of the LHSAA; however, he also gave ties and sport coats as gifts to sponsors and television crew members who covered LHSAA sporting tournaments. Mr. Henry could not differentiate clothing purchased as gifts from those purchased for his personal use. In addition, Mr. Henry stated that if he knew

charging the clothes on the credit card was wrong he would not have done it and that he would pay back the personal clothing purchases if asked by LHSAA.

Mr. Henry stated that in 1985 Mr. Billy Hendrick, then the president of the executive committee, approached him after a finance committee meeting and informed him that the committee could not increase his salary for assuming additional duties of marketing LHSAA to sponsors, but he could purchase clothing for himself. According to Mr. Henry, this comment was made in Mr. Henry's office and was never recorded in the board minutes. Mr. Henry did not have a written employment contract with LHSAA; therefore, we could not determine if Mr. Henry was entitled to clothing as part of his salary. Other than salary, Mr. Henry stated that his benefits included health and life insurance and the use of a company car and gasoline.

Golf Purchases

Mr. Henry made 102 purchases totaling \$20,694 on golf green fees, accessories, and equipment. He stated that he routinely played golf with sponsors at various locations picked at his discretion. According to Mr. Henry, the golf clubs were given away as door prizes for business meetings and that some items, such as golf gloves, were for his personal use. Neither the LHSAA nor Mr. Henry could provide documentation indicating which items were given away as door prizes and which items were for his personal use. Mr. Small stated that he was responsible for obtaining door prizes for LHSAA events and that he contacted sponsors to donate most of the door prizes. He further stated that the door prizes which were not donated were usually purchased with tournament entry fee funds.

In-Town Meal Purchases

From June 2005 to October 2007, American Express records indicate that Mr. Henry charged 450 meals totaling \$29,565 at restaurants in Baton Rouge. Meal charges ranged from \$3 at CC's Coffee House to \$1,833 at Sullivan's Steakhouse. Since Mr. Henry did not maintain receipts or other documentation of attendees or the purpose, we could not determine the business purpose or the necessity of these meals.

According to the Mr. Small, Mr. Henry often treated staff to lunch to discuss upcoming tournaments, rule violations, and/or new sponsorships. Former President of the Executive Committee Kim Gaspard stated that he attended meals at Ruth Chris and Primo's Steakhouse with Mr. Henry in Baton Rouge. Although LHSAA staff and executive committee members did attend some meals with Mr. Henry in Baton Rouge, there are no records to explain the business necessity of the local meals purchased by Mr. Henry. During our audit period, LHSAA did not have a policy to address the use of LHSAA funds to purchase meals for employees while not traveling.

Recommendations

We recommend LHSAA adopt detailed written policies for the use of credit cards. These policies should provide guidance and restrictions for the business use of the credit cards and supporting documentation to be maintained. The credit card statement alone is not adequate documentation as it does not provide sufficient detail to evaluate the charges. This policy should include:

- (1) a credit card usage policy that:
 - a. outlines guidelines and restrictions for credit card usage,
 - b. requires employees to turn in all receipts, including itemized receipts for meal purchases, and
 - c. requires documentation of the business purpose and attendees of all meals charged to the credit card;
- (2) a requirement for credit card users to sign a form acknowledging their understanding of the policy; and
- (3) a rule to discontinue the use of the credit cards for personal purchase and a requirement that the commissioner or executive committee review and approve credit card purchases before payment.

In November 2009, the LHSAA Executive Committee adopted a policy manual that, if implemented, should address the improper credit card usage. In addition, the LHSAA changed the signature stamp policy for check approval effective July 1, 2010.

Travel Expense Reimbursements

During our audit period, Mr. Henry received \$96,649 in travel expense reimbursement checks. Of this amount, \$14,594 was for meal expenses on days when he also charged at least one meal on his LHSAA American Express card. In addition, Mr. Henry submitted and received reimbursement for \$431 in meals by claiming the same expenses on two different expense reports.

Duplicate Meal Expenses

- From June 2005 to October 2007, we noted 467 instances totaling \$14,594 where Mr. Henry claimed meal reimbursements on his expense reports on days he also purchased at least one and as many as three meals with his LHSAA American Express card.

LHSAA does not have a written travel policy, but in practice it allows its staff a daily meal per diem rate of \$40 for in-state travel and \$50 for out-of-state travel. When questioned regarding this practice, Mr. Henry agreed that while on travel status he did

purchase meals with his American Express card and later claimed meals on his expense report for reimbursement. He stated that all his expenses were approved by the executive committee and thus it approved of this practice. He further stated that the executive committee had open access to the LHSAA records and should have informed him to discontinue this practice if it was not allowed; however, no one on the committee informed him to do so.

According to past presidents of the executive committee, Marlin Ramsey (2007), Kim Gaspard (2006), and William Duplechain (2005), LHSAA requested their signatures for signature stamps to sign LHSAA checks. All three presidents stated they never personally signed a check written by LHSAA, including expense checks for Mr. Henry. In addition, they were not informed when their signature stamp was being used nor did they review any documentation supporting Mr. Henry's travel check. Mr. Gaspard and Mr. Ramsey both stated that if Mr. Henry charged meals on his American Express card while traveling then he should not have claimed meal reimbursement on his expense report.

Duplicate Expense Reports

Mr. Henry submitted expense reports for January and February 2006 in June 2006, then submitted additional undated expense reports for these same two months and received reimbursement in June 2007. The expense reports paid in June 2007 contained meals he had already been reimbursed for in June 2006 totaling \$431. Since Mr. Henry had already received reimbursement for the \$431 in meals, he was not entitled to receive the funds again. According to the cancelled checks, Mr. Henry received and deposited the funds.

We recommend LHSAA adopt a detailed written travel policy. This policy should:

- (1) adopt specific rules regarding lodging and meals;
- (2) discontinue reimbursing travel expenses charged to the agency's credit cards; and
- (3) require proper review and approval of travel expense reports before payment.

In November 2009, the LHSAA Executive Committee adopted a policy manual that, if implemented, should address the travel expense reimbursement finding.

Ticket Collections at Sporting Events

From fiscal year 2006 to fiscal year 2010, we reviewed tournament ticket sale records for events where the LHSAA conducts the ticket sales. LHSAA records indicate the total cash collected from these events plus start-up cash totaled \$1,455,400; however, bank statements indicate \$1,482,208 was deposited. Ms. Leblanc, finance director, stated that collections from

back-door pass sales by assistant commissioners are included in each event’s deposit, but that there are no records of the amounts collected at the back-door. We could not confirm the amount of sales by the assistant commissioners since no records were kept of these sales; therefore, the \$26,808 difference could be attributed to the back-door sales.

Our review revealed that at the seven events listed below, at least \$943 collected at the events was not deposited. Since the back-door sales were included in these deposits, which would have increased the deposit amount, the actual amount of the shortage could not be determined.

Ticket Collections at Sporting Events				
Sporting Event	Time Period	Total Tournament Cash (per LHSAA records)	Total Deposit Amount (per bank statements)	Shortage
Swim Meet	Nov-05	\$28,857	\$28,732	\$125
Wrestling Tournament	Feb-06	46,144	46,119	25
Wrestling Tournament	Feb-07	52,160	52,107	53
Wrestling Tournament	Feb-08	51,752	51,692	60
Wrestling Tournament	Feb-09	49,916	49,682	234
Volleyball Tournament	Nov-09	99,696	99,575	121
Swim Meet	Nov-09	34,484	34,159	325
Total		\$363,009	\$362,066	\$943

LHSAA hosts four sporting tournaments in which they sell tickets and collect cash. These events are volleyball, ladies basketball, wrestling, and swimming. Tickets sales for the remainder of its sporting tournaments are handled through Ticketmaster. For the purpose of having start-up cash for change at the tournaments, a check is made payable to Ms. Leblanc, her assistant, or to cash. Ms. Leblanc is also responsible for ordering the tickets, maintaining custody of the tickets, and receiving and depositing the cash collected.

At the conclusion of the event, each ticket seller completes a ticket reconciliation form; however, the reconciliation form is not always signed by the ticket seller and Ms. Leblanc. The completed reconciliation form and the remaining tickets and cash are turned over to Ms. Leblanc. A cash count is then conducted by Ms. Leblanc or her assistant and compared to the reconciliation. Ms. Leblanc stated if the difference is immaterial, it is documented as an overage or shortage, and the funds are deposited. Ms. Leblanc further stated that she makes the deposit most of the time. Since Ms. Leblanc has custodial and record-keeping duties, there is an inadequate segregation of duties and we could not rely upon the accuracy of the reconciliation forms or the ticket counts to determine if all ticket sales were deposited.

We recommend LHSAA require proper separation of duties with regard to ticket sales and the subsequent deposit of those collections. LHSAA should:

- (1) assign separate employees responsibility for:
 - a. custody of tickets,
 - b. record-keeping of ticket sales, and
 - c. custody of cash, to include the deposit;
- (2) require all employees collecting funds at sporting events to complete the reconciliation form and sign it;
- (3) require independent reconciliations of ticket sales to cash collected and deposited;
and
- (4) require record-keeping and reconciliations for back-door ticket sales.

Beginning July 2010, the LHSAA outsourced the ticket sales function at all state championship events.

Management's Response



KENNETH W. HENDERSON
Executive Director

B.J. GUZZARDO, JR.
RHONDA McCULLOUGH
KEITH ALEXANDER
Assistant Executive Directors

September 22, 2010

Mr. Daryl Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804

Dear Mr. Purpera,

On behalf of the Louisiana High School Athletic Association and our member schools, I would like to thank you for your staff's courtesy and professionalism during the recent compliance audit administered by your organization.

Please find enclosed the written response to the compliance audit report on the Louisiana High School Athletic Association. The LHSAA requests that this response be included as part of the official report.

Feel free to contact me at (225) 296-5882 if you have any further questions or concerns.

Sincerely,

Kenny Henderson
LHSAA Commissioner

KWH:rbo

Enclosure

LHSAA... Beyond the Game

LHSAA COMPLIANCE RESPONSE

The following is a written response to the compliance audit report on the Louisiana High School Athletic Association (LHSAA) that was recently completed by the Louisiana Legislative Auditor (LLA). The LHSAA requests that this response be included as part of the published report.

Background:

The LHSAA is a nonprofit entity established in 1920. As a private nonprofit entity, the LHSAA does not consider itself to be a public or “quasi-public organization” subject to LLA oversight. However, the LHSAA has conducted annual independent financial statement audits and has filed a nonprofit tax return Form 990 with the IRS each year. The LHSAA auditor must be on the approved list of the state and a copy of the annual financial audit report would be submitted to the LLA.

In recent years, the State Legislature has exerted its power and claimed that the LHSAA be considered a “quasi-public organization” because it receives public funds in the form of membership dues from public schools. This is in direct conflict with current state law that states that “*Assistance shall not include* guarantees, *membership dues*, vendor contracts for goods and services related to administrative support for local or state assistance program, assistance to private or parochial schools, assistance to private colleges and universities, or benefits to individuals.” The LLA states in his report that LHSAA is primarily funded through sponsorships, funds raised from ticket sales from hosting state championship tournaments, and membership dues. However, the report fails to emphasize what a small percentage of LHSAA revenues come from membership dues. Membership dues from public school members are only 6.5% of LHSAA overall revenues. Furthermore, the LHSAA contends that the public schools pay their dues out of self-generated funds, through fund raisers, supporters, or by the athletic department selling tickets to its events. No tax-appropriated money is involved.

On January 25, 2010, the Legislative Audit Advisory Council (LAAC) requested a compliance audit of the LHSAA. The LLA justified conducting an audit by stating that the LHSAA agreed to the audit in a letter dated February 17, 2010. The LHSAA agreed to the compliance audit, but the report failed to point out that in that letter the LHSAA stated it would submit to an audit on a one time basis, but that it was reserving all of its rights as a private entity including the right not to be audited by the LLA and all of its statutory, constitutional, civil and other rights.

Though no litigation has occurred, Attorney General’s Opinion 10-0023 was issued on April 22, 2010. The report fails to point out that the Attorney General’s Opinion 10-0023 was rendered *after* the LLA made his request to audit the LHSAA. The LLA lists the justification for conducting an audit stating that the LHSAA is a “quasi-public organization”. The report also fails to point out that the conclusions about the LHSAA being a “quasi-public organization” by

the Attorney General is in contradiction of at least fifteen (15) written court opinions holding that the LHSAA is a *private* organization. Invariably, written court opinions have more legal authority than an Attorney General's Opinion.

After using the Attorney General's Opinion that the LHSAA is a "quasi-public organization", the LLA's report cites statutes that deal with the expenditure of public funds. The LLA's report goes from citing the Attorney General's Opinion concerning a "quasi-public organization" to a discussion of laws governing the expenditure of public funds. This is done without any explanation of how those laws dealing with expenditure of public funds would apply to the LHSAA whether it is considered a private entity (which it is) or a "quasi-public organization." It should be pointed out that there is not a definition of the term "quasi-public organization" in the Louisiana Constitution. As pointed out above, the only statutory definition of this term specifically provides that receiving membership dues from a public entity does not make a private organization a "quasi-public organization."

On page five (5) of the report the LLA correctly refers to the funds in question as "LHSAA assets." The report then says that a former employee, through the personal use of LHSAA assets, may have violated state law. This part of the report correctly confirms that if misappropriation occurred, the victim of that misappropriation was the LHSAA. Prior to the LLA making the report, the LHSAA had already discovered these facts and had taken numerous steps to prevent this from occurring again by instituting internal policies and procedures.

Findings:

The LLA compliance team focused on the time period from June 2005 through October 2007 during the tenure of the previous Commissioner Tommy Henry. All of the findings related to Mr. Henry had already been identified by the current LHSAA Management and corrective action in terms of internal accounting controls and polices had already been implemented by current LHSAA Executive Director Kenny Henderson before the compliance audit even began. These changes were noted by the LLA in their report.

Improper Credit Card Usage:

One of the major findings of the LLA is that there were expenses for which proper documentation was not maintained. Mr. Henry did not submit receipts to support his American Express charges. The LHSAA accounting department would use the month end American Express statements to classify expenses and pay the statement. Other LHSAA employees with access to an LHSAA credit card submitted proper receipts. Upon compliance audit examination, it was not possible to determine the business purpose of many charges because the supporting receipt was not attached to the monthly American Express statement. This resulted in the questioned costs noted in the audit report.

The LLA's report did not state how much of this was due to Mr. Henry's failure to maintain records and how much was intentional, but to the extent that any money was misappropriated or misspent, the *victim* of this conduct is the LHSAA, a private entity. The funds involved were the monies of the LHSAA, and it did not involve any tax money or any money appropriated from tax dollars. Based on the audit findings, however, it appears that the LHSAA may be due restitution and its legal counsel is reviewing the options.

The LHSAA had already modified its policy regarding credit card charges to require receipts be attached to the month end statement and that the Executive Director sign off on all charges monthly and that the Executive Director's charges be approved by the Finance Committee on a quarterly basis. The LHSAA also changed its check signing policy to require that LHSAA Management sign all checks with approved documentation. Signature stamps shall not be used. Again, these policies were changed *before* the compliance audit began.

Travel Expense Reimbursements:

The other major finding of the LLA is that there were duplicate expense reimbursements for travel and meal expenses. The LLA compliance team focused on the time period from June 2005 through October 2007 which is during the tenure of the previous Commissioner Tommy Henry. All of the findings related to Mr. Henry had already been identified by the current LHSAA Management and corrective action in terms of internal accounting controls and policies had already been implemented before the compliance audit began. These changes were noted by the LLA in their report. To the extent that any money was misappropriated or misspent, the victim of this conduct is the LHSAA, a private entity. The funds involved were the monies of the LHSAA, and it did not involve any tax money or any money appropriated from tax dollars.

Reimbursement is authorized for reasonable expenses incurred in carrying out the responsibilities of the job in keeping established LHSAA guidelines. The following are illustrative—but not all inclusive examples—of these: mileage or transportation, parking fees, business telephone calls, meal costs, lodging when away from home on authorized overnight trips, taxi, and bus fares and tips for baggage handling etc. All mileage incurred in connection with LHSAA business is eligible for reimbursement, subject to supervisor's approval. All out of state travel must be approved in advance by the Executive Director.

Expense reimbursement forms are provided by the LHSAA for all approved business travel. Travel must be approved in advance by the Executive Director. Reimbursement will be made at forty dollars (\$40) per day for meals and fifteen (\$15) per day for incidentals. All other expenses must be the actual amount and must include receipts for reimbursement. The LHSAA Executive Committee may elect to increase these amounts if traveling to a high cost area. Mileage reimbursement, if using a personal vehicle, will be the approved IRS mileage rate. Before submitting the expense form to the business office, the supervisor and/or Executive Director

must sign off as approved. A member of the Finance Committee will complete a quarterly review of all Administrators' reimbursements.

Ticket Collections at Sporting Events:

Besides the Legislative Auditor's Report, two major findings of possible failure to document expenses and duplicate reimbursement of expenses, the report makes what might be considered a minor finding in stating that the LHSAA, in handling their own tickets for some of its tournaments, could not account for \$943.00 in ticket sales out of \$1,455,400.00 in sales that were collected from sixteen championship events over a four year period from 2005 to 2009. \$943.00 is far less than 1% (.065%) of the total ticket sales.

The report criticized the LHSAA for having one trusted employee to handle too many aspects of collection of ticket funds at some of its smaller events including oversight of the printing of the tickets and the collecting of the money from ticket sales. Although no money was considered missing, the LHSAA understands that the system needed to be changed to improve its internal control over the collection of cash at these events. The LHSAA admits this point is well taken. Coincidentally, before this report was made, the LHSAA had already decided to contract the ticket sales of all its tournaments to a third party vendor.

Conclusion:

In the spirit of cooperation, the LHSAA allowed this audit to go forward. The LHSAA is very open with its activities and we believe this compliance audit will make us even stronger. Thank you to the LLA and his staff for their professionalism.

The LHSAA is a private entity that provides a service to its member schools. In this respect, the LHSAA is no different than any other private entity that provides goods or services to a school. The service the LHSAA provides to its member schools is the regulation of interscholastic athletic programs to promote fair and equitable competition that is in the best interest of the student athlete. The current LHSAA Executive Committee and Administration acknowledge that an appropriate system of documentation and checks and balances was not in place during the previous administration. For this reason, even before it agreed to allow the audit to take place, policies and procedures were instituted to ascertain that the LHSAA will never fall victim to misappropriation, and that funds are used for their intended purpose. Member schools can rest assured that the LHSAA will be good stewards of the funds that have been entrusted to them.

513 Kenilworth Parkway
Baton Rouge, LA 70808
September 16, 2010

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-3987

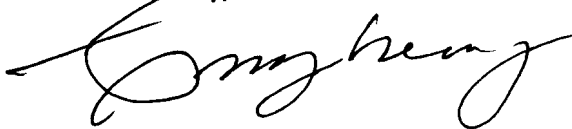
Dear Mr. Purpera:

Attached is the response that I am respectfully requesting be made an official part (in total) of the published report of an audit of the Louisiana High School Athletic Association (LHSAA) for the time period June 2005 to June 2008. Please note that this response was hand-delivered to your office on Thursday, September 16, 2010.

This attached response addresses in the appropriate manner each topic that was contained and reviewed in the auditor's September 2, 2010, report.

Thank you for the opportunity to respond to this audit report.

Sincerely,

A handwritten signature in black ink, appearing to read "Tommy Henry", written in a cursive style.

Tommy Henry

Attachment: Response to September 2, 2010 audit report draft

Improper Credit Card Usage

It is stated in the written Constitution and By-laws of the Louisiana High School Athletic Association (LHSAA) that one of the powers of the Association's Executive Committee (Board of Directors) is to regulate all expenditures of the Association's funds, including those expenditures charged to the LHSAA's American Express credit cards by staff members.

As required in the LHSAA's Constitution, the Executive Committee employs an independent auditor annually to assist the Committee in regulating all expenditures.

This auditor, who must be registered with and approved by the State Legislative Auditor, is answerable to the Executive Committee. Once a year he conducts an audit of LHSAA finances (revenue and expenditures) and prepares an audit report.

The audit report is presented first to the LHSAA's Finance Committee (a sub-committee of the Executive Committee appointed by the LHSAA President) and then to the full LHSAA Committee for review. It is my understanding that this report is reviewed by another auditor who is also registered with the state auditor.

If the full committee approves the audit, it is presented to the LHSAA membership for review and approval or rejection at the Association's annual general business meeting in late January. In all of these presentations, all Finance Committee members, and all principals attending the general business meeting are afforded an ample opportunity to question and challenge any and all revenue received and expenditures incurred during that fiscal year (July 1- June 30). These members also have the right to challenge any and all procedures employed in managing the Association's finances. All of these meetings are conducted in open session.

While I was Commissioner, the individual serving as the Executive Committee's auditor had served in this capacity for approximately 16 years except for one year he was hired as our part-time bookkeeper due to an opening in that position. Although I did not employ this auditor, I found him to be extremely competent, knowledgeable of financial practices and procedures, dedicated, and loyal to the Executive Committee and the LHSAA.

I never involved myself to any close degree in his audit of LHSAA finances, but I do know that he had every financial record at his disposal to review for the audit. Records included the monthly American Express receipt reports and our expense reports.

The auditor always attached his management letter to the audit report.

Since the LHSAA began using American Express credit cards in 1994, I have never been cited for improper use of an American Express credit card in any audit report, in any auditor's management letter, or at any LHSAA Finance Committee meeting or full committee meeting.

Additionally, in January each year another group of LHSAA principals reviewed the annual audit report and the LHSAA's finances with the Association's Business Manager (I was never present), and this committee never cited me for the improper use of an American Express credit card or for mismanaging the Association's finances.

In my 24 years as the LHSAA's Commissioner, the organization went through 24 of these audits and reviews of finances by this group of other LHSAA principals. During this time the Executive Committee employed three different independent auditors to conduct the annual audits. The LHSAA never received a single negative audit report, and I never received a single negative statement in the auditor's management letter attached to the audit report.

Once the annual audit report was approved by the LHSAA membership in January, a copy was mailed to all LHSAA members schools which afforded all LHSAA principals another opportunity to question any and all LHSAA revenue and expenditures.

In recent years, as a courtesy, a copy of the annual LHSAA audit report was made available to the State Legislative Auditor's office.

Every June I met with the LHSAA Finance Committee in open session and presented an upcoming fiscal year detailed, written budget which included all projected revenue and planned expenditures along with balance sheet reports, tournament reports, marketing and promotional reports, charts and graphs, and other important financial information. The budget was prepared by our Business Manager with my input. Our Business Manager and the Executive Committee's auditor along with the Association's financial planner were always present at this meeting. At times the Association's attorney was also present.

At this meeting every member of the Finance Committee had the opportunity and authority to review, question, challenge, and revise any budgeted item and business practice or procedure used in managing the Association's finances.

The budget was then reported by the Finance Committee to the full Executive Committee in an open meeting, and these members also had the opportunity to review, question, challenge, and revise any budgeted items and any business practices or procedures used in managing the Association's finances.

In all of these June meetings I was never questioned about American Express charges and/or procedures. Nor was I ever cited by any of these committees for the improper use of an American Express credit card.

In January the written budget was again reviewed and presented to these committees for review and comparison to actual revenue received and expenditures incurred for the first six months of the fiscal year along with end-of-the-year projections. Again, committee members had the same opportunity for review, questions, challenges, and revisions. In all of the January meetings I was never cited for the improper use of the American Express credit card.

At these meetings and throughout the year, all of our financial records were always open for any LHSAA principal to review, question, and challenge. All LHSAA principals including those on the Executive Committee are familiar with school financial management, school system audits, and school system policies and procedures. I have the greatest respect for all of

the principals and other members (196 total) that I served under on our Executive Committee, and I complied with their decisions, rules, policies, and directives.

In 2000 our Business Manager at the time resigned because her husband was transferred. During her employment 1994-2000, she required actual American Express receipts to be attached to our expense reports. I complied fully with that requirement.

Her replacement was Allison LeBlanc who, shortly after she was hired, came to me and said that it was no longer necessary to "attach" the actual American Express receipts to our expense reports. She explained the American Express "Receipt Report" would suffice. She further said this had been cleared by the Executive Committee's auditor. In my presence the term "maintained" was never used. Although I kept my American Express receipts for at least each fiscal year, I never received a request from the Business Manager or the auditor to produce them.

When we first went with American Express in 1994, we were informed that, if necessary, copies of the actual receipts could be requested and obtained from American Express. Thus, I believed that copies of the actual receipts were kept on file by American Express.

I never told Allison LeBlanc at any time that we did not have to "maintain" actual American Express receipts. I would have had to clear this with the Executive Committee's auditor before I gave such a directive. I might add that I never told this to our previous Business Manager who required these receipts.

I never interfered with the inner operations of our financial program. I did not have access to the financial files in two business managers' computers, and I did not possess a key to our financial filing cabinets.

Since 2000 the other employees did not attach their actual American Express receipts to their expense reports. This is validation that we were not required to do so by the Executive Committee and its auditor. Both the Executive Committee and its auditor had every opportunity to review, question, and revise this procedure if they deemed necessary.

The procedure we used with the American Express receipt reports was accepted and approved by the LHSAA Executive Committee which regulates all LHSAA expenditures.

At every Finance Committee meeting we received verbal commendations on the manner in which we were managing the Association's finances, and I was never cited for the improper use of an American Express card.

It is important to understand that for 24 years I was the Commissioner of a multi-million-dollar operation with only two assistant commissioners to service almost 400 schools throughout the year in 23 (later 25) sports. I attended countless meetings and was involved in an array of various LHSAA activities and responsibilities including the following:

1. Annual Convention
2. Executive Committee meetings and socials
3. Eligibility hardship meetings
4. Other eligibility meetings
5. Eligibility investigations
6. Rule violations investigations
7. State tournament meetings
8. Playoff and state tournament events
9. Marketing meetings and public relations efforts
10. LHSAA promotional efforts
11. LHSAA staff meetings and socials
12. Hall of Fame meetings
13. Office management
14. Coaches' education classes statewide
15. State Legislature
16. Louisiana Coaches Association meetings and socials
17. State Athletic Directors Association meetings and socials
18. State universities and colleges
19. Louisiana media
20. Special meetings
21. Everyday LHSAA business
22. School Visitation Program
23. Rules Compliance Program
24. Staff management
25. Building maintenance
26. Office equipment, furnishings, materials, and supplies purchases
27. Legal consultations with LHSAA attorney

Numerous expenses were required to perform all of these tasks. They were documented to the satisfaction of the LHSAA Executive Committee and approved by the LHSAA Executive Committee which has the written constitutional responsibility to regulate all expenditures of the Association's funds.

Most notable is that I was not a state employee, and I was not under the employment of the State of Louisiana when I worked 31 years total for the LHSAA, a private, not-for-profit, and incorporated organization registered with the Louisiana Secretary of State.

Therefore, in being employed by the LHSAA the following must be noted:

1. I worked for a private organization.
2. I was paid by the LHSAA – not the State of Louisiana.
3. I was not eligible for state retirement insurance benefits upon my retirement.
4. The LHSAA was not exempt from state taxes.
5. I was a member of the Louisiana Teachers' Retirement System, not the Louisiana State Retirement System, by virtue of a special state law enacted in 1956.

6. I was required to pay social security and teacher retirement.
7. Ruled by the Social Security System, the LHSAA is not a branch of the Louisiana State Government and is, therefore, required to participate in the Social Security System.
8. The LHSAA did not receive any State-appropriated revenue.

Cigar Purchases

These expenses were incurred over a 27-month period and included beverages from Churchill's for three Coaches' Association socials and several LHSAA staff and guests socials at the LHSAA office.

All of these expenditures were documented to the satisfaction of and approved by the LHSAA Executive Committee.

Out-of-State Travel

Expenditures for all out-of-state travel were documented to the satisfaction of and approved by the LHSAA Executive Committee.

In 1984 I volunteered to personally initiate a marketing and promotional program to assist in financing LHSAA activities. We did not actually get the program in full force until 1986. This was not and never has been a method of financing the LHSAA under the financing methods listed in the LHSAA Constitution nor is it an LHSAA constitutional duty of the Commissioner. In conducting the marketing and promotional program I was afforded a great amount of flexibility by the LHSAA's Executive Committee. The Committee never cited me for misusing or abusing this flexibility.

From 1986 until I retired in 2007, we had generated over \$9,000,000 in marketing revenue for the Association. In the 27 months in question (2005-2007) we generated over \$1,200,000 through the LHSAA's marketing program. Additionally I left the Association right at \$1,000,000 in sponsorship revenue that would serve the LHSAA for three years beyond my retirement.

It should be noted that Gatorade became the LHSAA's first major corporate sponsor in 1986. The LHSAA was the first state high school association in the nation to have a national sponsor. By the time I retired in 2007 - 21 years later - Gatorade had contributed over \$1,000,000 to the LHSAA with two years remaining on its contract.

As a result of this marketing revenue, The LHSAA never had to increase its schools' membership dues and/or fees in my 24 years as Commissioner. The marketing revenue also enabled the LHSAA to purchase two office buildings along with equipment and furnishings (without member-school assessments) as well as provide additional services that our member schools were unable to fund. We were also able to return to all LHSAA schools the money that they paid for the first building. Additionally, we placed the Association in an excellent position to raise the level of all sports, especially girls' sports to equal status with this additional marketing revenue.

Through the Coaches' Education and Certification Program that I also personally established and conducted 30-35 classes a year statewide, we raised an additional \$500,000 or more that helped to finance the LHSAA. This is also not a required way of financing the LHSAA nor is it a constitutional duty of the Commissioner. I never expected nor did I receive additional salary or compensation for conducting these two fund-raising programs for the LHSAA.

The revenue we received from the marketing and promotional program and the Coaches' Education Program exceeded in much, much greater amounts the expenditures we incurred in conducting these programs.

When I retired, the following were LHSAA corporate sponsors:

1. A-1 Awards
2. Acadian Ambulance
3. Baden Sports, Inc.
4. Chase
5. Cox Sports Television
6. Gatorade
7. Jostens, Inc.
8. Louisiana Coca-Cola Bottlers
9. Musemeche Photography – Division of FLASHPIX, Inc.
10. New Orleans Saints
11. Southern Quality Ford Dealers
12. State Farm Insurance and its Louisiana State Farm Agents
13. United States Marine Corps
14. Wendy's of Louisiana

When I became Commissioner in 1983, the LHSAA had only \$14,000 and was renting a small office. When I retired 24 years later, the LHSAA had \$2,500,000 in assets, and the organization had grown to its third building, a 10,000 square-foot site that was close to being paid off. We had close to \$1,000,000 in reserve to pay off the building if desired or needed.

Clothing Purchases

Expenditures for clothing were documented to the satisfaction of and approved by the LHSAA Executive Committee.

Golf Purchases

Golf expenditures were documented to the satisfaction of and approved by the LHSAA Executive Committee.

I purchased approximately \$1,000 a year at Edwin Watts with an American Express card for the Coaches' Association's annual golf tournament door prizes. Mitch Small was with

me each time to witness payment. The Louisiana High School Coaches' Association reimbursed the LHSAA for these charges each year.

In-town Meals

In-town meals expenditures were documented to the satisfaction of and approved by the LHSAA Executive Committee.

Travel Expense Reimbursements

Travel expenses were documented to the satisfaction of and approved by the LHSAA Executive Committee.

Duplicate Meal Expenses

Additional meal expenses were documented to the satisfaction of and approved by the LHSAA Executive Committee.

In 1993 or 1994 the LHSAA Executive Committee voted to allow LHSAA staff members to spend \$40 a day for meals in state and \$50 a day out of state for meals without providing receipts. However, if a staff member spent more than the daily allotted amount, he/she had to have a receipt. The LHSAA Executive Committee accepted the American Express Receipt Report as a valid receipt for these additional expenses since the year 2000.

I might add that at national meetings, we always provided the LHSAA Executive Committee members and their spouses and LHSAA staff members and spouses attending the meeting with a dinner meal at a considerable expense. (For example, Kim Gaspard and his wife dined with a rather large group when he attended the national meeting.)

This expense was always above my \$50-a-day meal allotment and was always documented on the American Express Receipt Report that was accepted and approved by the LHSAA Executive Committee. This was the case in all similar expenses and in accordance with the policy the LHSAA Executive Committee voted to approve in 1993 or 1994.

None of these were duplicate expenses – they were all approved additional expenses documented to the satisfaction of and approval by the LHSAA Executive Committee.

Duplicate Expense Reports

A \$431 duplicate expense report is news to me, and if it did occur, it was unintentional.

You will find that at no other time during my 31-year career with the LHSAA that I filed duplicate expense reports. I do know that in June 2007 I was in haste to file expense reports from several previous months and had many other tasks to perform relating to an important annual Executive Committee meeting being conducted.

As I do not understand how this occurred, I would like to have the LHSAA show me original copies of the June 2006 and June 2007 expense reports which I feel sure are still on file at the LHSAA office. I was never questioned about these reports, but if this had been brought to my attention, I would have taken immediate steps to correct the oversight. If this part of the report is proved accurate, the LHSAA can expect a \$431 reimbursement.

Closing Comments

In conclusion it is very important to note that during the 24 years that I served as the LHSAA's Commissioner, every member-school principal, every Executive Committee member (consisting of mostly principals elected by their peer principals), the Executive Committee's state-approved auditor, the media, and the general public had access to every record, every meeting, and everything that transpired in the Association each year.

Upon my retirement an overwhelming number of Executive Committee members with whom I had served wrote letters of commendation, praise, and appreciation regarding my leadership of the LHSAA.

The information contained in this response addresses each topic in the report and is important information to add to the published report. I respectfully thank the Louisiana State Auditor for affording me the opportunity to respond in writing to the report I received from his office.