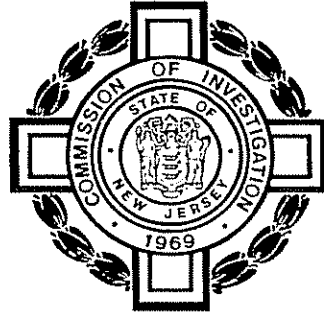


State of New Jersey
Commission of Investigation



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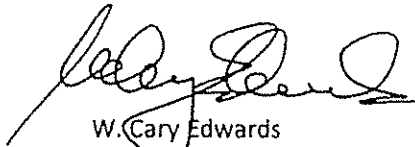
Alan A. Rockoff
Executive Director

September 2010

Governor Chris Christie
The President and Members of the Senate
The Speaker and Members of the General Assembly

The State Commission of Investigation, pursuant to N.J.S.A. 52:9M, herewith formally submits the final report of findings and recommendations stemming from an investigation into the finances and administration of the New Jersey State Interscholastic Athletic Association (NJSIAA).

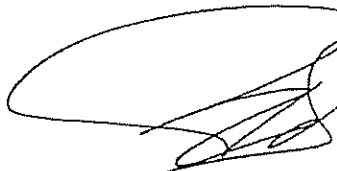
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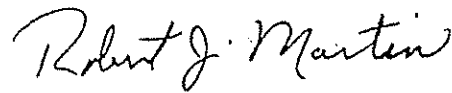
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Executive Summary

When it comes to running high school athletics across this State, the New Jersey State Interscholastic Athletic Association (NJSIAA) is the only game in town. For nearly a century, the NJSIAA has enjoyed a virtually unfettered monopoly in setting and enforcing the rules and regulations of high school sports here, in orchestrating and conducting championship tournaments and in serving as an information clearinghouse on everything from referee training to sports safety. During the 2009-10 school year, the NJSIAA's membership consisted of 434 accredited public, private and parochial high schools in New Jersey, most of which pay annual dues of \$2,150 apiece to help underwrite the organization in its administration of 31 different sports programs for student-athletes.¹

Over the years, the NJSIAA's financial practices have come under scrutiny from time to time, mostly as a consequence of complaints about the ticket prices charged for its post-season tournaments. Five years ago, news media reports revealed that not only was the NJSIAA drawing substantial revenue from ticket sales, but it was also spending a substantial amount of money on perks for staff, including generous compensation and benefit packages and all-expenses-paid out-of-state trips that often included spouses. In response, the organization curtailed a number of those abuses and promised across-the-board steps to get its financial house in order.

More recently, the NJSIAA's financial practices were again called into question after it failed to comply with a law that took effect in January 2010 restricting tournament ticket prices.

¹ The NJSIAA oversees athletic events for approximately 260,000 high school student-athletes. Of the 434 members, 342 are public schools. There are also 15 affiliated non-member federated schools, mostly preparatory schools, that pay reduced fees and receive rule books but don't typically participate in NJSIAA tournaments.

NJSIAA officials bristled at the new requirements, claiming the new ticket-price ceiling was too low and would financially devastate the organization. They agreed to rein in the organization's annual budget of more than \$5 million, but even with that, they raised the specter of having to eliminate some athletic contests, including the popular Tournament of Champions, an annual event that showcases New Jersey's elite student-athletes.

The State Commission of Investigation opened an inquiry into the finances and operations of the NJSIAA in March 2010 after members of the New Jersey Legislature, led by Senate President Stephen M. Sweeney and Assemblyman John J. Burzichelli, expressed continuing concern about the integrity of the organization's finances and subsequently introduced a concurrent resolution calling for a formal SCI probe. The investigation was well under way by late spring when the resolution received final legislative approval with overwhelming bipartisan support.²

In sum, the Commission found that the NJSIAA – despite its assurances of internal reform and warnings of impending financial ruin – is an organization that:

- Lacks basic internal controls to ensure proper oversight, transparency and accountability of its financial practices.
- Routinely violates the very policies and procedures it adopted five years ago in response to the last round of criticism of its financial practices.
- Continues to engage in questionable and excessive spending with little or no scrutiny of its expenditures.
- Maintains questionable relationships with corporate sponsors who do business with the organization under the terms of lucrative no-bid contracts.

² The resolution, ACR-116, sponsored by Burzichelli, Sweeney and Assemblywoman Valerie Vainieri Huttie, passed the Assembly on March 15, 2010 by a vote of 70-7. Posted in the Senate as SCR-88, the measure gained final approval on June 10, 2010 by a vote of 32-3.

The inquiry revealed that longstanding primitive fiscal and accounting practices, combined with what can only be described as a cavalier approach to oversight, accountability and transparency by the NJSIAA's staff and its governing board – the "Executive Committee" – reflect a culture of lax management that invites waste and abuse. During the past four years alone, the NJSIAA has presided over the spending of nearly \$800,000 on food – mostly involving catered banquets – travel, lodging, flowers and other specialty items that have little or no direct bearing on the elements of its core mission, i.e. advancing and administering quality high school sports. Even over the past 18 months, at a time when the organization publicly claimed to be cutting its budget to the bone to save its core mission from reduced ticket revenue, it continued to indulge in questionable spending practices, including catered tournament buffets and receptions featuring filet mignon and prime rib and the purchase of thousands of dollars worth of flower arrangements.

The NJSIAA's own records also show that employees still are not explicitly required to – and routinely do not – submit itemized receipts to document travel and meal expenses. Moreover, the Commission found that members of the Executive Committee have been routinely provided with blank mileage-expense reimbursement forms approved for payment before any such expenses were actually incurred. In other instances, irresponsible accounting practices resulted in duplicate payments to vendors. And in the final analysis, the NJSIAA has failed to implement its own recommendations for more stringent internal financial controls.

What renders these findings particularly problematic is the fact that although the NJSIAA is chartered as a private, not-for-profit organization, it is also the steward of substantial amounts of public money and has jurisdiction over athletic contests that impact hundreds of

thousands of public high school students. Indeed, nearly three-quarters of the \$5.5 million in revenue collected by the organization in FY2009 derived from public sources, including more than \$900,000 in dues and, on top of that, nearly \$1 million in tournament entry fees paid by its member schools, plus almost \$2 million in revenue from ticket sales to the general public. Despite this deep public stake, there are no safeguards to ensure its integrity. Aside from the organization's own lack of internal oversight and accountability, there is no substantive oversight by any outside agency. While the NJSIAA is required to file certain basic documents, such as the minutes of its governing board meetings and copies of its annual budgets, with the State Department of Education (DOE), that agency does not oversee the conduct of its operations and finances. To the extent that DOE has become actively involved with regard to the NJSIAA, it has focused narrowly on a statutory requirement that it review and sign-off on any proposal by the organization to raise ticket prices. In that context, it bears noting that DOE's minimal role here is inconsistent with the department's direct involvement in and control over matters such as compensation for personnel of private special-education schools whose budgets are heavily funded by the public schools that send students to them.

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Throughout this investigation, the objective has been to provide a thorough and dispassionate examination of the NJSIAA's financial practices with the ultimate goal of recommending operational reforms and improvements as warranted by the facts. The Commission recognizes the value and importance of the mission this organization was established to fulfill and the job it has done to fulfill it. High school athletics is an integral part of New Jersey's educational system, and the public expects children to be given the opportunity

to compete in organized sports. Over the years, hundreds of thousands of students and their parents have had the chance to cheer on athletic champions in the many tournaments successfully conducted by the NJSIAA, which also bestows student-athlete scholarships, provides training for officials and coaches, and administers programs, such as steroid testing, vital to the health and safety of young athletes.

But the public also expects that the steward of this mission conduct its affairs in a credible and trustworthy manner to ensure the integrity of the substantial public dollars at stake in its operation. The obligation to fulfill that expectation, and to do it well, is all the more vital given the financial pressures facing this organization. And in that regard, the NJSIAA has done itself no favors by failing to undertake many of its own promised internal reforms and by continuing to engage in wasteful spending. It is against that regrettable backdrop that the organization is grappling with the budgetary impact of the new ticket-price-limit law that took effect in January. The Commission analyzed tournament gate receipts for the first six months of 2010 and found that the organization collected approximately \$475,000 less in ticket revenue compared to the same period in 2009 – a substantial figure, to be sure, but one that nonetheless is being met by drawing down on the NJSIAA's surplus and that could be additionally absorbed by a substantial reduction in the organization's expenses.

In the final analysis, the organization has itself provided the best evidence for why it should be subject to regular outside scrutiny and supervision, if not completely restructured and placed under governmental or third-party control. Pursuant to that, as part of a series of recommendations at the conclusion of this report, the Commission offers stakeholders, legislators and policymakers several options by which that scrutiny and external supervision

could be achieved. If the NJSIAA remains a stand-alone entity, it should, at a minimum, also be required to adopt and implement a wide range of appropriate internal financial controls, along with practical restrictions on expenditures for travel, food and other purposes having no direct bearing on its core mission. As an entity that receives taxpayer funding, it should be required to adhere to all applicable laws governing public-bidding requirements and adopt a strong code of ethics for its employees. Depending upon the ultimate configuration and placement of the NJSIAA for operational and oversight purposes, consideration might also need to be given to the sale of the organization's headquarters with the proceeds dedicated to the performance and completion of its core mission.

Key Findings

During the course of this investigation, the Commission subjected the NJSIAA's financial transactions and operations to a thorough forensic review. Thousands of pages of documents and other materials spanning a period of five years, FY2006 through FY2010, were catalogued, examined and analyzed. Staff investigators and accountants conducted detailed interviews with NJSIAA personnel, school officials, corporate sponsors, vendors and others in New Jersey, as well as with officials in similar scholastic sports organizations in other states around the nation. Select NJSIAA personnel provided sworn testimony.

The Commission's findings fall broadly in four main areas:

- **Questionable and Excessive Expenditures**
- **Lack of internal Controls**
- **Problematic Corporate Sponsorships/Vendor Contracts**
- **Reforms Undertaken in Other States**

Background

The NJSIAA occupies a 15,600-square-foot building-and-warehouse facility in Robbinsville near Trenton that was purchased in 1968 and, beginning in the early 1990s was expanded and renovated, at a total cost of more than \$3.5 million, approximately \$2 million of which was financed by a special assessment charged to member schools over and above regular membership dues.

The organization is nominally governed by a 49-member Executive Committee consisting of public and parochial school principals and headmasters, superintendents, athletic directors, business administrators, coaches, at-large public members and various *ex officio* members drawn from government and assorted interest groups, including the State Department of Education, the New Jersey School Boards Association and the New Jersey Association of School Administrators. According to the NJSIAA's bylaws, the panel is also supposed to include two members of the New Jersey Legislature, one each from the Senate and General Assembly, serving *ex officio*, but these seats are currently vacant.

The NJSIAA's bylaws are geared primarily toward the operation of sporting events and rules governing athlete eligibility. They contain very little in the way of specificity with regard to the actual governance, operation and administration of the organization. For example, there are only a few vague references in the bylaws to the duties and responsibilities of the Executive Committee vis-à-vis financial matters. At one juncture, the document states, "The Executive Committee shall direct the financial affairs of this association, and shall appropriate such monies as may be necessary or useful for its operation." Another brief reference in the NJSIAA's Constitution states only that "administration of the finances of the Association shall be the duty of the Executive Committee." A committee structure that underlies the Executive Committee is similarly geared predominantly toward matters of athletics. There is a 13-member Finance Committee, but, again, the organization's bylaws do not specify or enumerate any discrete duties and responsibilities for it.

The Commission found that, for all practical purposes, nearly all significant matters involving the day-to-day operation, administration and governance of the NJSIAA ultimately

rest in the hands of a single individual, the organization's Executive Director, Steven J. Timko. Hired by the NJSIAA as an assistant director in 2001 after retiring as athletic director for the Hopewell Valley Regional School District, Timko was appointed to the top job in January 2006 and is paid an annual salary of \$136,100. Beneath him is a senior staff consisting of an associate director and four assistant directors, whose FY2010 budgeted salaries range from \$96,157 to \$119,273 and whose job duties primarily involve the orchestration and conduct of the NJSIAA's various sporting events. As retirees of New Jersey's public education system, Timko and four of these individuals also collect pensions through the State's Teachers Pension and Annuity Fund (TPAF). The organization also employs a support staff of nine employees whose salaries range from \$30,430 to \$44,725 per year.³

In his role as executive director, Timko drafts the organization's annual budget and is the gatekeeper for all fiscal matters presented to the finance and executive committees. He is the only official responsible for reviewing and approving employee expense vouchers, including his own. He has unilateral authority to sign off on most of the organization's expenditures for goods and services. He negotiates some of the organization's contracts with corporate sponsors and, per standard NJSIAA operating procedure, often presents them to the finance and executive committees after they have already been signed. Perhaps most significantly, he is in charge of ensuring the organization's adherence to a detailed Financial Policies and Procedures Manual adopted by the organization five years ago under pressure from then-State Education Commissioner William L. Librera amid revelations of profligate spending by the

³ The NJSIAA's annual personnel costs for 15 employees totaled \$1.42 million for the fiscal year that ended June 30, down from \$1.47 million in FY2009. These costs include payroll and related taxes, contributions to the organization's own pension plan and health insurance coverage, and represent approximately 27 percent of the NJSIAA's total annual budget of \$5.3 million.

NJSIAA on employee travel, pay and perks. Other internal reforms undertaken at the time included reductions and/or caps on senior staff salaries, including a \$27,755 cut in the salary for the position of Executive Director. Payouts for unused sick leave at retirement were capped at a maximum of \$15,000. Also, the organization's defined contribution pension plan for employees was scaled back, and expense-paid travel for employee spouses was prohibited. Moreover, a regimen was established through which the finance and executive committees were to receive monthly financial reports. The organization also agreed to subsidize a cut in tournament ticket prices with its then-existing surplus of more than \$1.6 million.⁴

The Financial Policies and Procedures Manual was drawn up as a comprehensive blueprint for enabling the NJSIAA to improve its financial operations and internal controls for stronger oversight, accountability and transparency. Among other things, the manual called for the establishment of an internal accounting office, stronger control of cash receipts, new requirements for purchase orders, a more efficient accounts-payable operation and more stringent documentation and review of employee expenses. As stated at its outset, the ". . . Manual is offered to provide a user-friendly document relative to the financial operations of the NJSIAA in fulfillment of its mission. In large part, the [M]annual is based on the best practices recommended by the National Federation of State High School Associations ("NFHS") in that national organization's own Financial Procedures Manual and adapted to the NJSIAA's own Constitution and Bylaws, as approved by its membership. The [M]annual will support the policies

⁴ The price cut was temporary. One year later, ticket prices were raised to prior levels, and, facing a diminished surplus, the organization boosted school membership dues for the first time in 17 years. The 2007-08 school year membership fee rose from \$850 to \$1,500. The following year, annual dues were increased again to the current level of \$2,150.

of the Executive Committee and the internal operations of the NJSIAA at the direction of the Executive Director and the Finance Committee.”

Despite both the intent and the content of this document, the Commission found that the NJSIAA has never implemented key guidelines and directives set forth in the manual. In fact, the financial policies and procedures as outlined on paper have so little to do with the day-to-day operations of the organization that Timko – who himself assisted the NJSIAA’s attorney, Michael J. Herbert, in writing the manual – expressed a lack of familiarity with some the document’s basic requirements. Moreover, the chairman of the NJSIAA’s Finance Committee told investigators that he had never seen the document until just recently even though it outlines duties and responsibilities for his own committee. Even the organization’s bookkeeper stated she was in that position for approximately one year before the manual’s existence was brought to her attention.

Questionable and Excessive Expenditures

The Commission examined thousands of financial transactions and found that between FY2007 and FY2010 the NJSIAA directed the spending of more than \$795,000 on food, flowers, gifts, donations, travel and lodging. Of that amount, \$440,500 derived from the organization’s operating budget. The balance – \$355,000 – represented spending in those areas by the NJSIAA for which it was reimbursed by school districts, corporate sponsors and other sources. The amount spent on flowers, gift baskets and similar items alone between FY2007 and FY2010 – \$17,727 – could have covered the costs of one of the smaller tournaments run by the

organization, such as boys' volleyball, or paid the greens fees for two years of NJSIAA golf championships.

Even as its spending practices fell under the microscope in recent months, the organization proceeded largely with business as usual. At its monthly Executive Committee meeting in June, for example, the organization picked up the tab for an array of breakfast refreshments and paid a local restaurant to provide a buffet lunch for staff, Committee members and representatives of the news media. In a large pile stacked next to the food and beverages were napkins embossed with the NJSIAA logo – by any measure, a small indulgence, but over time, such expenditures add up. During the four-year period examined by the Commission (FY2007-FY2010), nearly \$600,000 – including money drawn from its own operating budget, member schools, corporate sponsors and other sources – was spent by the organization on food and beverages alone, primarily for catered banquets, but also for the catering of Executive Committee meetings and tournament hospitality suites, plus dinners, luncheons and meals for employees attending events out-of-state, as well as various other gatherings.

Beyond the exorbitant nature of these collective expenditures, the Commission discovered systemic problems in the way various expenses are incurred, approved and accounted for by the NJSIAA. For example, the organization often relies on staff to pay catering and other big-ticket costs out of their own pockets and then file for reimbursement. Also, with regard to these and many other types of expenses, employees rarely attach itemized receipts to reimbursement claim vouchers and, in many cases, provide no information as to the purpose

for the expense or how many people it included, despite an explicit NJSIAA policy provision which states:

Each month, all staff are required to submit expense reports, accompanied by all appropriate receipts, to the Accounting Manager. Every receipt, whether from the corporate credit card or a personal credit card, should note the purpose of the expense. All expense reports will be available to the Finance Committee.

Commission investigators found wholesale violations of this policy. Apart from the fact that the organization does not even employ an "accounting manager," a review of food-related expenses between FY2007 and FY2010 for which staff sought reimbursement revealed that more than 75 percent did not include appropriate or itemized receipts of any kind. Even for substantial expenditures, including out-of-state travel or catering for large events, typically the only documentation provided was the statement of activity from a staff member's personal credit card. While such documents offer evidence that a claimed purchase actually occurred, they fail to deliver a reasonable level of transparency about the details of an expense that an itemized receipt would provide.

The NJSIAA also assigns a corporate credit card to Timko. A review of activity involving this credit card showed almost zero compliance with the organization's expense-reporting policy. The Commission reviewed food and beverage expenses charged to this credit account between June 2006 and May 2009, and only two were found to have been submitted for reimbursement with appropriate receipts or other documentation. Even more problematic is the fact that Timko regularly signs and approves his own expense vouchers with no independent review.

Indeed, the Commission found that no employee expense claims are subjected to more than cursory scrutiny before being paid, a gap in oversight that has led the organization to

blindly pay for patently inappropriate add-ons such as valet parking and a pool-view hotel room upgrade for traveling staffers. When asked under oath whether employees are required to justify expenses, the organization's bookkeeper stated, "The only thing that I was ever told was once Mr. Timko signs it, you pay it." In some instances, these vouchers claimed reimbursement for thousands of dollars in expenses, including catering costs incurred during championship sporting events staged at large venues such as Boardwalk Hall in Atlantic City and Giants Stadium in East Rutherford. The NJSIAA has a history of hosting hospitality suites at these events featuring complimentary food and beverages for its staff and Executive Committee members, news media representatives, coaches and field officials. Earlier this year and during the course of the Commission's investigation, the organization scaled back dramatically on its menu of freebies, basically offering bottled water and, on occasion, fare of the sort sold at concessions stands. In the recent past, however, the NJSIAA's hospitality suites have included lavish spreads, such as the filet mignon lunch for 40 during the spring 2009 State High School Wrestling Championship at Boardwalk Hall. Documents examined by the Commission showed that the tab for one day's "Beef Petite Filet Mignon Lunch Buffet" alone totaled \$1,360. During this event, the NJSIAA also picked up the bill for two days of breakfast buffets for staff and media representatives, as well as dinner buffets featuring shrimp scampi and prime rib. In total, the NJSIAA spent \$5,879 for catering throughout this three-day event above and beyond a \$2,500 tournament contribution from a corporate sponsor, Levine Industries,⁵

⁵ NJSIAA officials told the Commission that unrestricted revenue it collects through corporate sponsorship agreements funded some of its discretionary spending, such as the balance of catering costs not borne by the organization and items such as complementary articles of clothing distributed as gifts.

NJSIAA employees often dine out while working and submit expense vouchers for meals both in New Jersey and when attending events out-of-state. Not only is the staff required to submit expense reports accompanied by all appropriate receipts and note the purpose of the expense, they must also follow reasonable meal expenditure guidelines. To that end, the NJSIAA's policies and procedures manual establishes maximum meal allowances for staff, officers and volunteers that are in accordance with standards adopted by the New Jersey School Boards Association (NJSBA).⁶ Any meal expense in excess of the stated limits is supposed to be borne by the individual submitting the reimbursement request. Absent any itemized receipts, however, it was difficult to determine the level of compliance with this rule, particularly in cases involving meals expensed for groups of people. Without itemized receipts, such as a copy of the actual restaurant bill, it is also impossible to determine whether any non-food items, such as alcoholic beverages, were purchased. In some instances, notes handwritten by staff employees indicated the number of individuals present or the name of the conference or event that coincided with the meal. When questioned under oath about how she could be sure such expenses were accurately stated, however, NJSIAA's bookkeeper stated she ultimately has no recourse but to take an employee at his/her word.

Commission investigators found dozens of examples of employees seeking reimbursement for group meals with no itemized receipts attached, some involving sizable expenditures. In 2006, during the National Federation of State High School Associations Annual Meeting in Orlando, Florida, an NJSIAA staffer sought reimbursement for a \$572.37 dinner

⁶ The standards established by the NJSBA provide place limits for meal allowances (including gratuity) of \$13 for breakfast, \$15 for lunch and \$30 for dinner. The limits are set slightly higher when employees dine in Atlantic City or out-of-state, with a maximum allowance of \$20 for breakfast, \$22.50 for lunch and \$50 for dinner.

charged on her personal credit card. A hand-written notation on the expense voucher indicated only that the expense was for eight individuals, but no other information was provided. Another expense voucher requested reimbursement for a \$400.98 dinner charged at an upscale Atlantic City restaurant, the Knife and Fork, in March 2008. No receipt was attached, and a notation included as part of the type-written summary of expenses submitted with the employee's personal credit card statement simply stated, "DAANJ Convention" and "Dinner for 6 people," apparently in reference to an event involving the Directors of Athletics Association of New Jersey. The same problematic issue turned up regarding use of the organization's corporate credit card. For example, the only documentation for a July 2007 charge on that card for \$706.02 at the Palm Desert Chop House in Palm Desert, California, was the account's statement of activity merely identifying the total amount of the charge.

The NJSIAA has also incurred tens of thousands of dollars in travel and lodging costs in recent years for its own personnel, members of its Executive Committee and others. Over the past four years alone, the organization spent a combined sum of nearly \$143,000 on travel and lodging, including airfare, hotels and related costs, much of it associated with attendance at various conferences, conventions and other events in states across the nation. Last year, for example, four of NJSIAA's senior managers, along with the President of its Executive Committee, attended the four-day NFHS Summer Conference in Chicago at a total cost to the NJSIAA of \$11,500. In direct violation of the NJSIAA's internal policy prohibiting travel-related expenses for spouses to be covered by the organization, the cost of two meals and a conference activity fee for the wife of the Executive Committee President was billed to the

NJSIAA. Commission investigators found no evidence that the organization was reimbursed in that instance.

Lodging and travel expenditures examined by the Commission ranged from big-ticket accommodations to small, but revealing, premium expenses. During the March 2010 NJSIAA wrestling tournament in Atlantic City, the organization – following a pattern of practice it established at this event some years ago – spent more than \$12,000 for rooms at the Trump Plaza Hotel and Casino for members of its staff, tournament workers and corporate sponsors. At the other extreme, a non-staff NJSIAA rules interpreter attending an athletic conference in Indianapolis in 2008 billed the organization more than \$324 for round-trip ground transportation from her home in Wayne, N.J., to LaGuardia Airport in New York City. Add the round-trip airfare of \$579, and this trip cost the NJSIAA more than \$900 for transportation alone.⁷

In other examples of questionable spending:

- The bulk of the more than \$17,700 spent on flowers, gift baskets and similar items over the past four years – \$15,541 – went for floral decorations, corsages and boutonnieres at NJSIAA banquets. That included two expenditures totaling \$2,865 in the spring of 2010 when the NJSIAA was publicly warning of possible cuts in athletic programs due to budgetary concerns.
- Nearly \$900 was spent on Christmas cards between FY2008 and FY2010.

⁷ It is noteworthy that this individual, while not an employee of the NJSIAA, did adhere to the organization's policy of submitting appropriate receipts with the reimbursement voucher, which was paid in full despite the exorbitant claim for traveling to and from the airport.

- After spending \$1,088 on designer Vera Bradley insulated lunch bags given away to attendees at an NJSIAA-sponsored administrative assistant workshop in 2008, more than \$1,000 worth of designer-embossed computer mouse pads intended for the same use are sitting in storage in the NJSIAA warehouse because the 2009 event for which they were purchased was cancelled.⁸

The NJSIAA has also made it a practice to cover purely personal expenses of employees. For example, it pays for administrative staff to attend retirement dinners and golf outings. In one instance, it paid \$600 for a golf outing in 2008 that included two people who are not even employed by the NJSIAA. The organization has also made charitable contributions in memory of deceased individuals with some connection to the organization and has routinely purchased and sent sympathy and “get well” gifts, including more than \$2,100 for flower arrangements and/or fruit baskets over the past four years. These types of expenditures are contained within a catch-all line item in the NJSIAA budget labeled “contingencies.” In some instances, the recipients were NJSIAA staff members, but most were not. Additionally, over the past four years, the NJSIAA spent approximately \$2,500 for staff holiday functions.

Mileage

The NJSIAA’s five-member senior staff – the Associate Director and four Assistant Directors – travel to dozens of schools, tournament sites and other locations each year pursuant to the responsibilities of their jobs. For that purpose, each is provided with a vehicle

⁸A fee of approximately \$70 fee was charged to those who attended the 2008 workshop which included lunch and training for administrative assistants who work for athletic directors on procedures for scheduling games and assigning field officials.

at the organization's expense. At the same time, however, the NJSIAA also reimburses these employees as if they were driving and maintaining their own cars. These mileage reimbursements cost the organization more than \$47,000 between June 2006 and June 2010 for cumulative travel totaling more than 140,000 miles.⁹

The rationale for this practice is contained in the organization's Financial Policies and Procedures Manual, which states, "The NJSIAA has determined that it is much more efficient and economical to purchase automobiles and to reimburse the executive staff for any gas . . . based on the submission of monthly expense reports." That determination, however, is contradicted by the facts. The Commission found that the NJSIAA would actually have saved nearly \$28,000 during that four-year period if it had eliminated full mileage reimbursements for employees who are provided with cars and instead covered only the actual cost of the fuel they purchased. This finding was made by comparing the value of the mileage reimbursement to the cost of gasoline per mile, using a baseline price of \$2.75 per gallon for a vehicle with a fuel economy of 20 miles per gallon. Thus, if the organization had issued these employees gas credit cards for business use, it would have incurred a true fuel cost of approximately \$19,361 during the period in question. It is also noteworthy that the practice of providing cars plus reimbursement for mileage is virtually unheard of in the public sector.

⁹ The current mileage reimbursement rate for NJSIAA staff provided with vehicles is 37 cents per mile, established in 2008. From June 2006 to June 2008, it was 31 cents per mile, the same rate allowed for state government employees who drive their own vehicles. Members of the organization's volunteer Executive Committee are reimbursed for mileage at a higher rate of 50 cents per mile per U.S. Internal Revenue Service (IRS) guidelines.

Extra Compensation

In addition to salaries and standard fringe benefits, the NJSIAA also provides a generous pension plan at no cost to its 15 full-time employees. Until 2005, the organization annually set aside cash in amounts equal to 19 percent of each salary with no contribution required of the employee. That year, in response to critics, the set-aside was lowered to 10 percent for future staffers, but eight existing employees were “grandfathered in” at the 19 percent rate. In FY2009, NJSIAA paid \$135,759 into this retirement fund, including contributions of more than \$20,000 for the associate director and approximately \$18,000 each for two assistant directors, all of whom continued to qualify at the higher rate. As noted earlier, five of the NJSIAA’s highest paid employees are retired education officials who already collect public pensions through New Jersey’s Teacher’s Pension and Annuity Fund (TPAF).

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In 2007, Executive Director Timko received a direct cash payout of approximately \$12,000 when the organization changed the type of life insurance it provided him. The policy had been universal life coverage, a type that not only pays benefits at the time of death but also serves as a kind of savings account that can be cashed out by the insured. NJSIAA personnel said the decision to switch to a term-life policy, which does not have a cash-out option, represented a savings to the organization because it carried a substantially lower annual premium. Timko testified that he accepted the payout because the policy was in his name, and thus he was entitled to the money. The Commission found no indication that the NJSIAA’s Executive Committee and/or its Finance Committee participated in or signed off on this transaction.

That payout, however, pales in comparison to the amount of compensation awarded to his predecessor upon retirement. When former Executive Director Boyd H. Sands left the organization in January 2006, a total of more than \$549,000 was placed in various investment, insurance and retirement accounts for him by the NJSIAA. The bulk of this – \$323,607 – represented his lump-sum entitlement under terms of the organization’s pension plan. The total also included the cash value of a whole-life insurance policy – \$128,154 – for which the NJSIAA had been paying premiums since 1993. Sands also received \$97,333 for accumulated unused sick and vacation leave placed into a retirement account via three separate payments by the organization between January 2006 and January 2008. The award of this retirement package came approximately four months after the NJSIAA, in response to pressure from then-Education Commissioner William L. Librera, had developed a Financial Policies and Procedures Manual aimed at tightening its budgetary and operational practices. That document, among other things, placed a \$15,000 limit on payouts for unused sick leave but contained language that had the effect of exempting Sands from the new cap.

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In another instance of added compensation for select personnel, the NJSIAA used corporate sponsorship money provided through the National Federation of State High School Associations (NFHS) for employee bonuses.

Between FY2007 and FY2009, the NJSIAA received \$10,000 annually from the NFHS, an entity that sets national standards for interscholastic sports, provides rule books and sanctions interstate athletic contests. The money derived from a multi-million-dollar sponsorship arrangement between the NFHS and T-Mobile, a leading cell-phone service provider, to

underwrite the NFHS/T-Mobile Invitational High School Basketball Tournament and other athletic events. The money was shared with the NJSIAA and other high school interscholastic sports associations in other states and the District of Columbia that are NFHS members. Although New Jersey schools have participated in these T-Mobile events – St. Anthony’s High School in Jersey City won the boys’ basketball tournament in 2007 – the NJSIAA for at least two of the years in question did not earmark its share of the money for that event or for any other athletic purpose. A total of \$20,000 was instead used by the organization to pay lump-sum bonuses to members of the organization’s support staff.¹⁰ In 2007, each of these employees received a check for \$1,250 and in 2009, each received \$1,111. As far as the Commission could determine, the bonuses were not paid in 2008.

Lack of Internal Controls

In July 2005, as part of a purported effort to address weaknesses in its operations and internal financial controls, the NJSIAA took steps to establish its first Financial Policies and Procedures Manual, using as a template a similar document maintained by the NFHS. The NJSIAA’s manual ostensibly was designed to strengthen oversight of the organization’s fiscal practices and impose restrictions and guidelines for staff benefits and travel. It also outlined purchasing procedures, established requirements for expense reports and set forth various other standards of accountability to bolster the organization’s fiscal and operating practices.

¹⁰ The NJSIAA’s auditor found that the 2007 bonus payments were not properly processed by the organization through its payroll system.

The Commission conducted a thorough review of NJSIAA fiscal practices and procedures and found that not only does the organization routinely fail to adhere to key provisions of its own manual, but also that the manual, in significant ways, is not even applicable to the manner in which the NJSIAA conducts business. Furthermore, the employee currently charged with the critical task of overseeing the bulk of the organization's finances – its bookkeeper – testified that she did not even know of the manual's existence until the NJSIAA's external auditor pointed it out to her approximately one year after she was assigned the organization's bookkeeping duties. Even the chairman of the organization's Finance Committee admitted under oath that he had never seen the policies and procedures manual – which delineates rules and duties for his own panel – until July 2010 when he was given a copy in preparation for sworn testimony before the Commission.

Chief among the manual's requirements is the position of "Accounting Manager," whose occupant, according to the document, is required to implement the policies of the Executive Committee and carry out procedures as charged by the Executive Director and Finance Committee. Moreover, the accounting manager is tasked with supervising the "Accounting Office." The NJSIAA does not have an accounting manager nor does it have an accounting office. Instead, it has a bookkeeper with no formal educational background or professional experience in accounting and finance who was promoted in 2008 from an administrative assistant-type position. She was abruptly moved into her current position after the death of its previous occupant and told the Commission she learned the job on her own primarily by following records that were on file from the prior year. She cuts all NJSIAA checks, enters all financial transactions into a general ledger and creates brief financial reports showing monthly

account activity. Asked during sworn testimony whether she considered herself qualified to hold the position of accounting manager, she replied, "No." The NJSIAA's longtime outside auditing firm, J.H. Cohn LLP, has repeatedly noted weaknesses in the organization's accounting practices. Timko stated the organization does not have sufficient resources to bolster its staff with an accounting manager.

The Commission found a number of other examples emblematic of a major disconnect between the protocols set forth on paper in the manual and the reality of how the NJSIAA conducts its day-to-day affairs:

- The manual stipulates that the Accounting Manager "shall have maintained at all times a procedural manual at his/her workstation for use by her/his cross-trained replacement, especially in the event of emergency. Step-by-step procedures to complete specific job transactions shall be reviewed and updated on a regular basis." No such procedural manual and no cross-trained replacement exist.
- The manual requires that purchase orders be used for the acquisition of any good or service costing more than \$3,000. A review of the NJSIAA purchasing practices revealed that the organization does not utilize purchase orders. Timko told the Commission in sworn testimony he was unaware of the purchase order requirement. He also stated that it was unusual for the organization to make purchases in excess of \$3,000. For the four-year period from FY2007 to FY2010, however, the organization's check register reflects that hundreds of checks in

amounts exceeding \$3,000 were paid by the NJSIAA for purchases of everything from printing services to catering.

- The manual mandates that “a chronological log book of all purchases shall be maintained by the NJSIAA. As goods are received, the merchandise shall be counted to ensure quantity and product is as ordered and ultimately paid by the NJSIAA.” In fact, the organization does not maintain any such log book for purchases. Packing slips are kept on file for one year and then discarded.
- The manual also requires the preparation, on a weekly basis, of an “open payables report” for review by the Executive Director to track outstanding bills. In fact, there is no weekly list of open payables. Invoices are paid as they are received, usually two to three times a week. Apropos of this issue, Commission investigators found that sloppy accounting practices led to at least three instances involving duplicate payments and/or overpayments by NJSIAA between 2008 and 2009, totaling approximately \$10,000. In two of these instances, the organization made double down-payments on the same purchase – a mistake that could easily have been avoided if officials had followed the open-payables system requirement in its own policies and procedures manual. In none of the instances discovered by the Commission did NJSIAA staff detect the duplicate payments.

As noted by the Commission earlier in this report, NJSIAA employees regularly fail to submit proper expense-report documentation, as required by the manual, and there is little to no scrutiny to verify the accuracy of such reports. Until a year ago – when the outside auditor

told the organization to stop the practice – employees also used expense vouchers pre-approved by the Executive Director. Investigators found that the NJSIAA still uses pre-approved mileage expense forms for members of its Executive Committee. These individuals, unpaid volunteers, are routinely given blank vouchers signed in advance by Timko to record travel expenses.

Petty Cash

The investigation also revealed inappropriate use and poor oversight of the NJSIAA's petty cash fund.

The organization's own policy states, in part, "The accounting office shall maintain a petty cash fund to be used in the event of emergency or reimbursement to staff of small purchases." At any given time, the organization typically has \$300 to \$750 in cash on hand ostensibly for this purpose. Those numbers, however, do not provide a true picture of the total amount of money run through this fund on an annual basis, nor do they reflect how the policy has been subverted. During the four-year period examined by the Commission, expenditures attributed to petty cash totaled more than \$33,000, an average of more than \$8,200 annually. The Commission found that NJSIAA staffers regularly purchase items via this account, either directly with cash or by check, that do not fall into the emergency or incidental category, including substantial amounts of food and beverages from restaurants and retail outlets. On occasion, the petty cash account has been used to pay for the catering of Executive Committee meetings. Between May 2006 and August 2009, approximately \$4,900 from petty cash was spent on Dunkin Donuts purchases. During the same period, another \$4,500 attributed to petty

cash was used to buy snacks, drinks and cookies. Many of those items were purchased during almost monthly recurring shopping trips to BJ's Wholesale Club – clearly not the type of purchase that should be made with petty cash or that is authorized by the NJSIAA's own petty cash policy. Two employees – the bookkeeper and a support staffer – have access to a key to the drawer where cash is kept, but the Commission found evidence of broader access. In one instance, an employee other than those two staffers removed cash and left behind a handwritten I.O.U. As to a proper accounting of how and why the money is spent, there is little beyond a hand-written log to memorialize purchases. Moreover, investigators also found wide inconsistencies in the availability of receipts involving petty cash, and in many instances it was impossible to determine the purpose for the expense. Hand-scrawled notes sometimes provided the only information relating to use of the fund.

Cash-Based Tournaments

The Commission found that the NJSIAA, with few safeguards, utilizes a peculiar cash-based compensation system for workers at some of its championship tournaments and other events. Under an archaic process fraught with the potential for abuse, the NJSIAA typically places large sums of advance cash – often in excess of \$10,000 – in the hands of a single individual, a site manager, who is responsible for breaking it down and dispensing it in pay packets to event workers. In one particularly startling example, the Commission found that during the organization's track events last winter, two checks made out to cash totaling \$68,750 were issued to an NJSIAA assistant director who cashed them to pay dozens of workers including field officials, scorekeepers, ticket-takers and security. Aside from this extreme

example, the same practice nonetheless applies on a lesser scale at tournaments involving other sports such as swimming, cross country and fencing.

The organization has taken some steps to guard against possible losses through theft or other untoward circumstances. One is to require that only NJSIAA assistant directors serve as the site managers/paymasters at many of its tournaments. As employees of the organization, these individuals are bonded, thus indemnifying the NJSIAA against any loss caused by their actions. Also in such instances, the cash is stored in a locked, fire-proof filing cabinet at NJSIAA headquarters until the day of the event at which time it is removed and transported in a box or computer-type carry-bag to the tournament venue. As limited as they are, however, these safeguards do not apply at all NJSIAA events, particularly at the pre-championship level – such as semi-final competitions – where the designated site managers are usually high school athletic directors who are not bonded NJSIAA employees. In such cases, an NJSIAA check is conveyed to the site manager approximately one week before the scheduled event. That individual is then personally responsible for cashing the check, safeguarding the money, and dividing and placing it in distribution envelopes labeled with workers' names, jobs and amounts paid.

How the NJSIAA accounts for this cash payroll is another problematic issue. Typically, at the completion of each event, the designated site manager is responsible for filling out an "operations report" that is designed essentially to provide a ledger of key data, including the number of tickets sold, the gate receipts and the amount of money conveyed to workers, each of whom must sign an attached form affirming they were paid. The operations report, with a check reflecting the event's net receipts, is then to be sent immediately via First Class Mail to

the NJSIAA. Contrary to this rule, the Commission found examples in which cash was simply dropped off at the organization's headquarters. Moreover, investigators found instances in which the reports lacked key information or were not properly completed, including entire sections that were left blank. Also, the reports are subjected to only the most cursory of internal reviews to determine whether the calculations submitted by site managers are accurate. The chairman of the NJSIAA's Finance Committee told the Commission in sworn testimony he was not aware that large sums of cash are routinely taken to various venues to cover tournament payrolls.

Investigators also found problems involving the manner in which NJSIAA accounts for the actual number of tickets sold at its events. The organization relies on school site managers to record the numbers of both the first and last tickets sold at each event and to return all unused tickets by mail, but compliance has been spotty at best. In 2007, 2008 and 2009, the NJSIAA's outside auditor noted that the organization relied heavily on an "honor system" with regard to gate receipts. In response to that criticism, the NJSIAA stated that "the return of unused tickets from state games has always been a concern." In 2007 and 2008, the organization further elaborated that while, in the past, approximately 50 percent of unsold tickets were not returned, it had managed to reduce that number to about 30 percent. This issue is significant because the NJSIAA calculates tournament revenues based primarily on the number of tickets sold. If unused tickets are not returned, the organization has no way of knowing whether reported sales, and thus revenues, are accurate.

The Commission surveyed officials at interscholastic sports organizations in other states and found most pay event staff with gate receipts or via check. It also bears noting that the

NJSIAA itself does not rely exclusively upon this advance-cash procedure. Rather, it maintains a patchwork system for paying tournament workers depending on the venue and the sport. Some officials and workers are paid in cash out of ticket proceeds collected during an event. In other cases, workers are compensated by check. The use of checks is limited, but it nonetheless signifies that the organization can and does utilize some mechanism other than cash to pay its event workers. NJSIAA officials told investigators they prefer using cash because it makes the job of recruiting field officials and other workers easier and that writing dozens of checks would be cumbersome.

Problematic Corporate Sponsorships/Vendor Contracts

A number of years ago, the NJSIAA began a concerted effort to boost revenues by enlisting corporate sponsors. Currently, the organization has approximately three dozen such sponsors. Underlying the success of this strategy, however, are questionable arrangements involving vendors that do business with the NJSIAA and an overall absence of internal rules and standards governing the award of sponsorships.

The Commission found that the NJSIAA engages essentially in two types of corporate sponsorships. One involves a straightforward arrangement in which companies pay a fee for the exclusive rights to provide a particular product and/or service endorsed by the organization. These sponsors do not receive any business directly from the NJSIAA, and typically there is no requirement that member schools purchase anything. Sponsorship agreements of this type often provide advertising opportunities and may include provisions offering the company a

booth at certain tournaments and coaches' clinics from which it can promote and/or sell its products. In some cases, these sponsors agree to share a portion of their proceeds with the NJSIAA or provide scholarships for student-athletes. The organization's largest corporate sponsorship of this type is with the *Star-Ledger* of Newark. Under a new five-year contract that took effect in June, the *Star-Ledger* will pay the NJSIAA substantial annual fees, starting with \$100,000 during the 2010-11 school year, to be the organization's official media outlet. As part of this agreement, the *Star-Ledger* holds exclusive rights to create, license and sell programming in connection with NJSIAA sporting events and is the only daily newspaper authorized for sale at all tournaments.

The organization engages in another type of corporate sponsorship, however, that is patently questionable. Under these arrangements, vendors hold exclusive no-bid goods or service contracts with the NJSIAA that include provisions under which they agree to make monetary contributions in exchange for earning the organization's business. Like the other corporate agreements, these give companies the distinction of being official NJSIAA sponsors – but with an added kick: guaranteed access to potentially lucrative earnings at the organization's expense.

In 2006, Riegel Printing Co. of Ewing Township was awarded a contract to serve as "the Official Printer of the NJSIAA." Under the terms of this five-year deal, the firm agreed to make annual contributions to the organization starting with \$10,000 in the first year and increasing incrementally to \$15,000 in the contract's final year. Riegel also agreed to donate four \$500 student-athlete scholarships during each year of the contract. In addition to these payments, Riegel also rebates money to the NJSIAA based on the volume of business it receives from the

organization, in accord with the following schedule: 2 percent on the first \$100,000, 3 percent on the second \$100,000, and 5 percent on any amount over \$200,000. Since 2007, the organization has received \$106,295 in contributions and rebate revenue from Riegel.

The arrangement has been more lucrative for the printer. Over the first four years of this contract, Riegel has received some \$1.4 million in business from the NJSIAA – approximately \$350,000 annually. Timko, the organization’s Executive Director, testified that prior to the award of this contract NJSIAA personnel consulted informally with other printing companies and found that none other than Riegel could handle the printing volume the organization required.

The NJSIAA has a similar contract with Blue Ribbon Awards, Inc. of Somerset to serve as the sole supplier of all medals, trophies and plaques awarded annually at its sporting events. The two-year contract calls for the company to pay the NJSIAA \$5,000 in both 2010 and 2011, to provide an annual \$1,000 scholarship and to contribute \$1,500 to the New Jersey State Coaches Association Hall of Fame. In return, the NJSIAA provides Blue Ribbon with signage and program advertisements at its tournaments, places the firm’s logo on championship awards, endorses it as the “official award company of NJSIAA” and provides company officials with complimentary tournament tickets. A review of NJSIAA financial records showed that between FY2007 and FY2010, Blue Ribbon received more than \$728,000 worth of contracted business from the organization for selling it medals, trophies and plaques, an average of \$180,000 a year.

The NJSIAA maintains the same type of arrangement with Bollinger Insurance Co. of Short Hills, the organization’s longtime exclusive insurance broker. Under terms of its latest three-year contract, the firm agreed to pay \$12,500 annually to the organization specifically

earmarked for the support of bowling and fencing. The firm also provides \$5,000 annually for student-athlete scholarships. The NJSIAA also provides the company with free promotional advertising, including a print ad prominently displayed on the back page of the organization's bylaws. Under the terms of its insurance contract, Bollinger is paid approximately \$250,000 a year by the NJSIAA as the organization's insurance broker.

Meanwhile, the NJSIAA in July abruptly postponed a controversial sponsorship deal brokered during the course of the Commission's investigation that would have given a Central Jersey sporting-goods company, Honig's of New Jersey, a virtual monopoly on the sale of logo-bearing clothing for referees officiating events sanctioned and conducted by the organization. The arrangement mandated that uniforms worn by all field officials bear a new NJSIAA logo, replacing the existing patch with a design embroidered directly into the fabric of all shirts, hats, jackets and ball bags. Officials were told they could either buy new uniforms bearing the logo from Honig's or have it sewn onto existing uniform components by the firm at their expense. They were also told that failure to comply would render them ineligible to referee any NJSIAA high school sporting event, including regular season games. Furthermore, no other vendor would be authorized to market the new emblem unless it entered into a licensing agreement with Honig's for the right to do so.

The proposed contract triggered numerous complaints. Organizations representing field officials protested that the NJSIAA was attempting to balance its budget unfairly at the expense of their members. In a June 22, 2010 memorandum to officials' associations, the NJSIAA bluntly explained that the arrangement with Honig's was designed to generate more corporate revenue to counter losses it blamed on the new law restricting increases in tournament ticket

prices. The memo noted that Honig's had agreed to increase substantially the value of its corporate sponsorship but only if the NJSIAA could guarantee the firm larger product sales volume.¹¹ In the final analysis, however, the organization decided to table the arrangement for reconsideration in two years.



The Commission found the NJSIAA's handling of corporate sponsorships problematic on two systemic levels.

First, the organization has no written policies or procedures governing how any of these arrangements are negotiated and executed. Each deal is tailored to a particular sponsor under circumstances that generally frustrate or defeat appropriate transparency and accountability.

More troubling is the air of potential impropriety that naturally surrounds instances where corporate sponsors give money to the NJSIAA coincident with, or as an actual requirement for, the receipt of contracts that enable them to profit from the exclusive sale of certain goods and/or services to the organization. This practice is particularly questionable given the fact that NJSIAA does not solicit bids for these contracts; indeed, it rarely seeks formal bids for any vendor contracts it awards. Although NJSIAA personnel say they sometimes solicit other vendors informally, that is an inadequate means for ensuring it obtains the best service or product at the most reasonable price – particularly in light of the fact that taxpayer money is a source of funding for the organization. Under New Jersey's Public School Contracts Law, school districts – including those whose high schools are dues-paying members of the NJSIAA – are

¹¹ The proposed contract included \$2,000 in scholarships each year.

subject to public bidding requirements for all proposed procurements costing in excess of a designated threshold.¹²

Reforms Undertaken in Other States

The Commission surveyed high school interscholastic sports organizations in 10 other states and found a mix of entities – mostly private and nonprofit in nature but with some oversight by public entities – that share the same essential mission as the NJSIAA. One common denominator is that all rely to some extent on public sources of funding. A number of these out-of-state entities, however, have undertaken some type of action to ensure proper oversight and accountability with regard to their operations and fiscal affairs.

In several states, notably Pennsylvania, Florida and Missouri, efforts to improve oversight and accountability were spurred by complaints and revelations of questionable practices. A decade ago, the Pennsylvania Interscholastic Athletic Association (PIAA) was the target of a nine-month legislative inquiry that resulted in extensive reform of both the organization’s administration of high school sports and its own internal operations. Among other things, the PIAA’s financial apparatus was overhauled to incorporate accounting “best practices”. The organization also installed a better system for tracking and controlling employee expenses, including a rule expressly prohibiting its executive director from approving his own expense vouchers. In the wake of this inquiry, the PIAA also adopted a competitive bidding process for the procurement of goods and services, such as trophies and printing. It

¹² N.J.S.A. 18A:18A-et seq.

also employs a director of business affairs. In order to facilitate effective and consistent scrutiny of the organization's practice over the long term, the Legislature established the Pennsylvania Athletic Oversight Committee, comprised of six members drawn evenly from the state Senate and House of Representatives. This panel meets at least once a year and issues an annual report detailing the PIAA's compliance with reform measures.

High school sports organizations in a number of other states have also sought to strengthen internal financial and operational oversight by establishing finance sections or, at the very least, recruiting personnel with appropriate accounting credentials. The Florida High School Athletic Association maintains an internal finance unit administered by a certified public accountant (CPA) who is also a former school superintendent for finance. For its part, the Michigan High School Athletic Association also employs a CPA and has two other staffers with graduate degrees in business administration overseeing its finances.

Other states have established mechanisms that give state government at least some measure of oversight. In Texas, high school athletics are overseen by the University Interscholastic League, an entity within the University of Texas. The Delaware Interscholastic Athletic Association is considered a state-level public agency and operates from office space paid for by the State Department of Education. It also uses the State for legal advice, although it relies on non-government sources of revenue from membership dues, ticket sales and corporate sponsorships for its operating budget.

In examining the practices of these and other interstate scholastic associations, the Commission also found that some have established more equitable methods of assessing membership dues, such as charging a sliding scale of fees based on school population. As to

corporate sponsorship contracts, which are utilized as revenue enhancers by nearly all associations surveyed, some states, notably Pennsylvania, have taken pains to eliminate even the appearance of impropriety by subjecting such arrangements to competitive public bidding.

Officials at no other state association told the Commission that they transport cash to tournament venues for payment of workers. While some use event gate receipts for this purpose, most collate the cash from ticket sales, place it in a bank account and pay workers by check.

Recommendations

The findings of this investigation reveal an organization that has demonstrated an abject incapacity to undertake necessary and basic internal reforms that would safeguard the integrity of its financial and administrative operations. In large part, this is a consequence of the fact that the NJSIAA occupies, and operates within, a unique zone that enables it to be fiscally accountable to no one beyond the four walls of its headquarters building. On one hand, it is chartered as a private, nonprofit corporation. On the other, its central mission – the conduct of high school interscholastic sports tournaments and related endeavors – is grounded in activity that is overtly public. More importantly, this organization draws the bulk of its operating budget from public sources, including substantial taxpayer dollars. Despite that weighty public component – and the fiduciary responsibility implied by it – the NJSIAA has not acted in a fiscally responsible manner. It has ignored its own written policies and procedures and has misrepresented itself as an organization fully motivated to change the way it does business. Simply put, the NJSIAA cannot be trusted to put its own house in order in a lasting and effective manner. Although the organization has undertaken incremental steps in that direction in recent months coincident with this investigation, the overall circumstances demand far more fundamental action.

Thus, the Commission makes the following recommendations for administrative and legislative action to address the organization's vulnerability to waste, fraud and abuse and to ensure that it is equipped with proper and appropriate mechanisms for accountability and transparency:

1. Establish Effective Oversight and Control

High school athletics is an integral part of New Jersey's educational system, and the public expects children to be given the opportunity to compete in organized sports. The public also expects that when such competition rises to a regional and statewide tournament level, a trustworthy centralized entity exists to schedule, arrange and coordinate such events, establish fair admission prices and ensure equitable standards of play. But as this investigation has revealed, the NJSIAA as presently structured and administered is wide open to real and potential waste and inefficiency. Stubbornly reliant upon the weakest form of self-oversight, the organization has itself provided the best evidence for why it should be subjected to outside supervision, if not completely restructured and placed under governmental or third-party control. Left to its own devices, the NJSIAA ultimately is at risk of undermining its own core mission.

In providing guidelines toward a resolution of this issue, the Commission is loathe to dictate a single course of action. Rather, it suggests several options, deferring final debate and judgment to the Legislature, the Governor and other concerned parties and urging all stakeholders, as part of that process, to consider not only the full record of interscholastic sports administration in New Jersey but also the experience in other states. Regardless of the option ultimately chosen, the overriding objective should be to establish and maintain effective, efficient administrative and fiscal practices without disrupting or impeding the universe and quality of scholastic sports programs and events that so many New Jerseyans have come to expect. Furthermore, every effort should be made to ensure that the core mission will continue to be carried out dispassionately without undue intrusion by politics or any other

phenomena that could undermine the fair administration of these vital high school athletic programs.

- ***OPTION – Appoint an Outside Monitor***

The Legislature and Governor should consider the appointment of an outside monitor empowered to oversee and, where necessary, to intervene in the NJSIAA's fiscal, administrative and programmatic operations on a full-time basis. This individual would serve essentially in the role of an independent, resident internal inspector general to ensure that the organization undertakes and complies with all proper operational "best practices," particularly those outlined elsewhere in these recommendations to protect the taxpayers' vested interest in the NJSIAA. This monitor could be drawn from personnel with appropriate auditing expertise at the Office of the State Auditor or the Office of the State Comptroller.¹³ He/she would prepare periodic public reports to the Governor's Office and to appropriate Legislative committee(s) detailing progress in NJSIAA's adoption of and adherence to various reforms. Within one year of the effective date of the monitor's appointment, a review would be undertaken to determine whether this arrangement should continue.

¹³ There is recent precedent for this type of approach. In 2006, personnel from the New Jersey Office of Inspector General were placed within the New Jersey School Development Authority in an effort to improve oversight and accountability at that entity. The Office of Inspector General was consolidated into the Office of the Comptroller in the FY2011 state budget.

- ***OPTION – Consolidate the NJSIAA within the New Jersey School Boards Association (NJSBA)***

The publicly-supported core functions of the NJSIAA would be transferred from that stand-alone entity to the New Jersey School Boards Association (NJSBA), a quasi-public organization established by statute to provide a range of services to New Jersey's local school boards, including training, legal guidance and resources for the advancement of public education. Accomplishing this option could require the sale of the NJSIAA's headquarters property, a dissolution of the nonprofit corporation and use of proceeds from the liquidation of its assets to fund start-up costs associated with the consolidation.

- ***OPTION – Establish the NJSIAA within the New Jersey Department of Education***

The NJSIAA would be dismantled, its assets liquidated in support of its core mission and its duties and responsibilities assigned to a unit "in but not of" the New Jersey Department of Education, directly accountable to the Commissioner of Education and subject to all appropriate state rules and regulations governing programmatic administration and fiscal oversight and review. This unit would not be funded through a line-item appropriation in the state budget; rather, it would be self-supporting through the NJSIAA's existing mix of revenue sources, including school membership dues, event ticket sales and the proceeds of corporate sponsorships. Additional revenue could be realized through the sale of its headquarters property near Trenton. Under this configuration, the organization would not only be able to rely upon a wider

network of immediately available support services at the state level, but financial savings would also be realized through reduction in the number of essential senior staff personnel, elimination of building maintenance (more than \$76,000 per year) and other overhead costs, and recovery of expenditures now dedicated to the retention of certain professional services, such as an outside auditor and private legal counsel.

2. Strengthen Internal Financial Controls

One fundamental conclusion drawn from the findings of this investigation is that, regardless of where the NJSIAA's functions are housed, the administration of high school interscholastic sports in New Jersey will require strong and effective internal financial controls if it is to be at all credible. Certainly, if the organization remains intact outside state government, it will be vital that either of the two alternative oversight mechanisms established pursuant to Recommendation #1 – a full-time monitor or the NJSBA – play a central role in developing better controls and in ensuring adherence to them. As this report makes abundantly clear, the NJSIAA does have financial policies and procedures in writing, but many key elements are routinely ignored in practice. Moreover, although some of the existing policies do embody acceptable standards of accountability – such as requiring purchase orders for expenditures greater than \$3,000 – others do not go nearly far enough to ensure the ultimate integrity of the organization's finances, as detailed in the findings of this investigation.

Any new accountability structure should, at a minimum, incorporate "best practices" established by national leadership groups in the nonprofit sector. In recent years, guidelines have been published for nonprofit organizations consistent with the intent and reach of the

Sarbanes-Oxley Act, a federal law enacted in 2002 imposing strict new governance and internal control requirements on publicly-traded, for-profit companies in the wake of the financial collapse of a number of large private companies. While compliance is voluntary for nonprofits, many organizations have recognized it makes good business sense to abide by Sarbanes-Oxley guidelines published jointly in 2003 by BoardSource and Independent Sector, two leading national organizations that advise nonprofits and promote good governance. In addition, the U.S. Internal Revenue Service three years ago posted preliminary guidelines for good governance practices by nonprofit charitable organizations.

Only by adopting and actually adhering to reasonable governance standards will this organization finally send a message that it is committed to change in the direction of strong and effective accountability and transparency. The following areas should be addressed immediately:

- **External Auditor**

One firm, J.H. Cohn LLP, has served as the NJSIAA's external auditor for more than a decade. Best practices under Sarbanes-Oxley guidelines for nonprofit organizations "... requires that the lead and reviewing partner of the auditing firm rotate off the audit every five years." Those guidelines propose that "... the most direct way to comply with this requirement" is to change the auditing firm. Such action would protect the arm's-length independence of the vital auditing function from becoming compromised as a result of an accustomed relationship with the organization.

- **Corporate Sponsorship Agreements**

Corporate sponsorships are recognized collectively as an important and valuable source of outside revenue by high school interscholastic sports associations across the nation. But given the fact that such arrangements can involve an exchange of considerable sums of money for favored treatment, steps should be taken to ensure that they are established with the utmost transparency and accountability. Thus, the NJSIAA should adopt formal written policies governing the negotiation and awarding of corporate sponsorship agreements. All such contracts should be reviewed and approved by the organization's governing board before they are signed and executed. Furthermore, the solvency and integrity of the corporate sponsor should be periodically re-examined during the term of the agreement or upon its renewal. Particular care should be taken in instances where corporate sponsors are also doing business with the NJSIAA. At a minimum, to remove even the appearance of possible impropriety, all NJSIAA vendor contracts costing in excess of a designated threshold should be subject to open and competitive public bidding.¹⁴

- **Compensation of Tournament Workers**

Field officials, scorekeepers, ticket-takers and others who work to make NJSIAA events successful deserve fair compensation in a timely fashion, but it is also reasonable to expect that the organization paying them should avoid the risk of

¹⁴ N.J.S.A. 18A:18A-et seq.

theft, fraud and other abuses invited by taking large sums of cash to event venues for payroll purposes. This practice should be discontinued immediately. The organization already pays some of its event workers by check, an *ad hoc* practice that should be made standard operating procedure across the entire spectrum of NJSIAA events.

- **Petty Cash**

Based on the findings of this investigation, it is plain that the NJSIAA has lost sight of the purpose and nature of maintaining a petty cash fund. It should establish a written policy restricting the use of petty cash to small and incidental and/or emergency purchases that are determined by the Executive Director to be necessary outside normal purchasing channels. The petty cash fund should contain a reasonable but minimal amount of cash at any given time, and one employee should be assigned responsibility as custodian. The designated custodian should maintain a log to record withdrawals, and itemized receipts should be required as part of the record for each disbursement.

- **Expenses of the Executive Director**

The practice of allowing the Executive Director to review and approve his own expense vouchers should be terminated immediately. To avoid an obvious conflict of interest, this authority and responsibility should rest with an Associate Director and/or the individual who chairs NJSIAA's governing board.

- **Mileage Vouchers**

The practice of providing members of the NJSIAA's governing board with mileage reimbursement vouchers authorized for payment before the actual expense has been incurred should be terminated immediately. These vouchers should only be submitted after the fact for review and approval/disapproval by the Executive Director.

3. Overhaul NJSIAA's Executive Staff

The NJSIAA promised five years ago to take a range of steps to put its financial house in order, not the least of which was to establish an accounting office and to recruit an accounting manager to run it. As the results of this investigation show, it is quite likely that had the organization taken its own advice, some of the lingering fundamental problems and issues detailed in this report might already have been addressed. NJSIAA officials have consistently taken the position that the organization simply does not have sufficient resources to hire a senior staff manager with appropriate financial credentials. To the contrary, however, it is plain that the organization could readily afford to establish such a position and fill it with a competent individual if it were serious about adopting a viable strategy to accomplish that goal, such as the following:

- Scale back spending on travel, food and other non-core mission expenditures.
- Cut the current annual salaries for the Executive Director, Associate Director and Assistant Directors by 10 percent.

- Remove all employees who are currently collecting public pensions through the Teacher Pension and Annuity Fund (TPAF) from the NJSIAA's own internal pension program. Given the fact that five of the NJSIAA's six senior staff employees receive State-funded pensions, their removal from the organization's plan would save approximately \$80,000 annually based on current salaries.

These steps alone would result in budgetary savings of a sufficient magnitude to enable the NJSIAA to hire a qualified accounting manager who is a Certified Public Accountant.

Also, in order to further bolster management's grip on the organization's spending and financial structure, priority for filling any future vacancies for existing senior management positions should be given to individuals with a professional background in finance and accounting, such as an experienced school business administrator.

4. Restructure NJSIAA'S Executive Committee

With a total of 49 voting and *ex officio* members, the NJSIAA's Executive Committee is the largest governing board of any interscholastic high school sports association in the nation. All key sectors of the organization's membership base are represented, but this panel is not adequately equipped for them to exercise proper governance.

First, the NJSIAA's current bylaws are written entirely too loosely and generally on the vital matter of operational control and oversight. The bylaws should be recast such that the Executive Committee is given a discrete set of specific powers, duties and responsibilities that

confer ultimate authority over the organization's finances and its day-to-day administration in keeping with the new internal-controls structure embodied by Recommendation #2. Given the level of public funding involved and the thousands of student-athletes, parents and others who rely on the successful execution of the NJSIAA's mission, there is too much at stake for the governing board of this organization to remain what it largely has been over the years – a glorified advisory committee that defers almost all major decision-making to the NJSIAA's senior staff.

Second, the Executive Committee's underlying subcommittee structure should be revamped to give more emphasis to oversight, accountability and transparency with regard to the NJSIAA's finances and operations. In particular, it should require that at least several members of the Finance Committee have professional experience in accounting and/or financial administration. The governing board should also establish an internal Audit Committee to work closely with the outside auditor and to keep the Executive Committee apprised of the organization's true financial position. The chair of this committee should, at a minimum, have background and experience in accounting and/or auditing.

5. Reduce and Control Spending and Personnel Expenses

The findings of this investigation make plain that the NJSIAA has not significantly scaled back on expenditures in areas that have little to do with the fulfillment of its core mission to advance the quality of high school athletic competition. It spends entirely too much money on food and travel. It spends money for inappropriate purposes, such as gifts, holiday parties and coverage of personal expenses. It provides staff with free cars and reimburses them for

mileage as an added benefit. Taken individually, these items may appear inconsequential, but together their sheer volume adds up to a disturbing level of indulgence that should concern any reasonable person, especially given the public dollars involved and the financial pressures routinely cited by this organization in its efforts to sustain the number and quality of high school athletic events it conducts each year. In sum, the NJSIAA's priorities need to be reassessed. Regardless of where this organization ultimately is placed, a thorough review should be conducted to eliminate from its budget all unnecessary and gratuitous spending. Also, the NJSIAA's wide reliance on a peculiar kind of honor system for handling personnel expenses – whether in the form of pre-signed reimbursement vouchers or expense claims submitted without any meaningful documentation – leaves it vulnerable to waste, fraud and abuse on a regular basis. In that vein, the following areas should be addressed immediately:

- **Itemized Receipts**

Any NJSIAA employee, volunteer or consultant seeking reimbursement by the organization for authorized business expenses should be required to submit a signed voucher with itemized receipt(s) and any other appropriate documentation attached.

- **Personal Expenses**

The NJSIAA should immediately terminate the practice of using the organization's funds to pay for personal expenses, such as golf outings, retirement dinners, gifts, illness and bereavement acknowledgements and holiday parties.

- **Mileage Reimbursement**

The practice of paying employees for mileage associated with the operation of vehicles provided by the organization should be discontinued. If the organization is intent on underwriting the fuel costs incurred by employees on official business, it should do so by issuing dedicated gasoline credit cards.

6. Establish a Code of Ethics

While the NJSIAA has established an internal policy setting forth rules designed to preclude conflicts of interest, it provides no written guidance to its governing board members, employees, volunteers and others with regard to ethical conduct. The need to address this discrepancy is particularly critical in areas that, under current circumstances, remain highly vulnerable to pay-to-play and other questionable activities, such as the recruitment of vendors and corporate sponsors. Thus, the organization should adopt a code of ethics outlining an official position on proper and acceptable conduct by Executive Committee members, employees, event workers and volunteers. At a minimum, this would serve to help communicate the organization's commitment to adequate levels of accountability and transparency.

APPENDIX

N.J.S.A. 52:9M-12.2 provides that:

- a. The Commission shall make a good faith effort to notify any person whose conduct it intends to criticize in a proposed report.*
- b. The notice required under subsection a. of this section shall describe the general nature and the context of the criticism, but need not include any portion of the proposed report or any testimony or evidence upon which the report is based.*
- c. Any person receiving notice under subsection a. of this section shall have 15 days to submit a response, signed by that person under oath or affirmation. Thereafter the Commission shall consider the response and shall include the response in the report together with any relevant evidence submitted by that person; except that the Commission may redact from the response any discussion or reference to a person who has not received notice under subsection a. of this section.*
- d. Nothing in this section shall be construed to prevent the Commission from granting such further rights and privileges, as it may determine, to any person whose conduct it intends to criticize in a proposed report.*
- e. Notwithstanding the provisions of R.S. 1:1-2, nothing in this section shall be deemed to apply to any entity other than a natural person.*

The following materials are responses submitted pursuant to those statutory requirements.

CERTIFICATION OF DR. JAMES SARRUDA

Dr. James Sarruda, of full age, according to law, certifies and says:

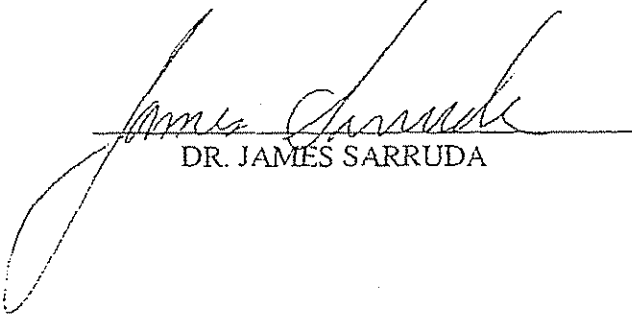
1. I am the Superintendent of the Northern Burlington Regional High School District and served as the President of the New Jersey State Interscholastic Athletic Association ("NJSIAA") during the 2009-10 school year.

2. Please accept this response to the page in the proposed SCI draft report referring to my attendance at the NFHS summer meeting. I understand that this response will be incorporated in the final report.

As President of the NJSIAA in 2009, I attended the NFHS Summer Conference in Chicago. As expressly allowed by Section 7.3 of the Association Financial Policies and Procedures Manual ("Manual"), I was reimbursed \$1,645 by the NJSIAA for the "customary expenditures" set forth in that Section (airfare, mileage and parking at the Philadelphia Airport, taxi fare and lodging). The expectation of the NFHS was that spouses of representatives of State Associations from throughout the country would participate at the Conference, and they did. Therefore, at my own expense, I paid for my wife's airfare and meals with the exception of her registration to so participate (which included breakfast), one lunch and one dinner. Since my wife, along with the spouses of the other State Association representatives were to participate at the Conference, I did not reimburse the NJSIAA. However, even though I believe there was no violation of the terms of the Manual, I nevertheless am reimbursing the NJSIAA the \$145 to cover my wife's participation through registration and the two other meals at the Conference.

3. I am attaching a copy of the Registration Form and pertinent portions of the NFHS Summer Conference Program in support of the above response.

I certify that the foregoing statements made by me are true. I am aware that if any of the foregoing statements made by me are willfully false, I am subject to punishment.


DR. JAMES SARRUDA

Dated: September 16, 2010

CERTIFICATION OF GENUINE SIGNATURE

I make this Certification pursuant to *R. 1:4-4(c)*. I certify that the signature on the attached Certification is genuine and that of Dr. James Sarruda, who spoke with me personally and informed me that he has read and signed the attached Certification and was sending it by e-mail. If the original Certification is requested, same will be provided forthwith.

I certify that the foregoing statements made by me are true. If any of the foregoing statements made by me are willfully false, I am subject to punishment.



MICHAEL J. HERBERT

Dated: September 16, 2010

CERTIFICATION OF STEVEN J. TIMKO

Steven J. Timko, of full age, according to law, certifies and says:

1. I have served as the Executive Director of the New Jersey State Interscholastic Athletic Association (“NJSIAA”) since January 1, 2006 and I am submitting this Certification to respond to a number of statements that were contained in the draft SCI Report; statements that refer to me personally.

2. For the convenience of the SCI, I have set forth the STATEMENT contained in the draft Report in each of the paragraphs below, together with the RESPONSE to that statement.

DRAFT STATEMENTS AND RESPONSES

3. The Commission found that, for all practical purposes, nearly all significant matters involving the day-to-day operation, administration and governance of the NJSIAA ultimately rest in the hands of a single individual, the organization’s Executive Director, Steven J. Timko.

RESPONSE: In fact, the day to day operation and administration of the NJSIAA, numerous eligibility issues and controversies, including all of its programs and 32 separate tournaments is shared with an Associate Executive Director and four Assistant Directors, who have specific responsibilities for carrying out these programs. In addition, the governance of the NJSIAA, in terms of policy and major issues presented to the Association, is in the hands of the NJSIAA Executive Committee or Subcommittees of that body, as provided by Article V of the NJSIAA Constitution and Article II of the NJSIAA Bylaws. The Executive Committee meets at least 10 times each year. All meetings of the Executive Committee are open to the public and the press. In addition, governance of the many sports is committed to various sports committees and specialized committees focusing on policies involving student-athletes throughout the state.

4. Hired by the NJSIAA as an assistant director in 2001 after retiring as athletic director for the Hopewell Valley Regional School District, Timko was appointed to the top job in January 2006 and is paid an annual salary of \$136,000. [TEXT DELETED] As retirees of New Jersey’s public education system, Timko [TEXT DELETED] ... collect pensions through the State’s Teachers

Pension and Annuity Fund (TPAF). [TEXT DELETED]

RESPONSE: In January 2006, I assumed the position of Executive Director at the salary of \$115,000 or \$27,755 less than what had been paid to my predecessor. In addition, in accepting the position of Executive Director, I agreed to reduce the NJSIAA contribution to the Association pension program by 9% from what I had received previously as an Assistant Director since 2001. As set forth in Section B.5. of the August 5, 2005 Report of the NJSIAA Finance Committee Report to former Commissioner of Education William Librera, I and the other Directors continued to receive pensions as retirees under TPAF, but none of the executive staff were to receive any medical benefits paid by the Association. Since that time, an Assistant Director was hired who does not receive health benefits, because he is not a retiree.

5. In his role as executive director, Timko drafts the organization's annual budget and is the gatekeeper for all fiscal matters presented to the finance and executive committees. He is the only official responsible for reviewing and approving employee expense vouchers, including his own. He has unilateral authority to sign off on most of the organization's expenditures for goods and services.

RESPONSE: Even though the Executive Director does have authority to sign off on most of the organization's expenditures for goods and services, it is subject to the oversight of the relevant Association Committees. First, all of the expenditures have to be consistent with the detailed annual budget approved by the Executive Committee. Second, the purchases of services and goods are customarily reviewed with the NJSIAA Finance Committee at least 10 times each year. Third, all of these expenditures are placed on a bill list after checks are issued; a list which is approved by the Finance and Executive Committees at their monthly meetings.

6. The NJSIAA also assigns a corporate credit card to Timko. A review of activity involving this credit card showed almost zero compliance with the organization's expense-reporting policy. The Commission reviewed food and beverage expenses charged to this credit account between June 2006 and May 2009, and only two were found to have been submitted for reimbursement with appropriate receipts or other documentation. Even more problematic is the fact

that Timko regularly signs and approves his own expense vouchers with no independent review.

Indeed, the Commission found that no employee expense claims are subjected to more than cursory scrutiny before being paid, a gap in oversight that has led the organization to blindly pay for patently inappropriate add-ons such as valet parking and pool-view hotel room upgrades for traveling staffers. When asked under oath whether employees are required to justify expenses, the organization's [TEXT DELETED] stated, "The only thing that I was ever told was once Mr. Timko signs it, you pay it."

RESPONSE: A corporate credit card has been issued to the Executive Directors of the NJSIAA for the past 30 years. It is the only credit card issued by the NJSIAA and all payments made through that credit card are set forth in the monthly statements in the form of a bill list, which is reviewed and approved by the Finance Committee and the Executive Committee on a monthly basis. As such, expenditures from the credit card are reported in compliance with Sections 1.10 and 2.4 of the NJSIAA Manual. It is correct that I approve my own expense vouchers, which I believe has been the practice for the past 30 years. However, it is incorrect to state that there is no independent review since those expenses are set forth on the monthly bill list. Nevertheless, I will be recommending approval of any personal expenses by a responsible officer/officers of the Associatin.

It is also incorrect to state that employee expense claims are subject to no more than a "cursory scrutiny" before being paid. I review all expenses submitted by employees to assure that they are appropriate and consistent with the budget approved by the Finance and Executive Committees. There may be occasions where valet parking was reimbursed when that parking was a matter of necessity. If any upgrades occurred it was because regular rates for hotel rooms were unavailable.

7. The same problematic issue turned up regarding use of the organization's corporate credit card. For example, the only documentation for a July 2007 charge on that card for \$706.02 at the Palm Desert Chop House in Palm Desert, California, was the account's statement of activity merely identifying the total amount of the charge.

RESPONSE: This statement is misleading. The July 2007 charge of \$706.02 was for a dinner recognizing the fact that the NFHS had honored Boyd Sands and James Loper, the retired Executive and Associate Director of the NJSIAA as well as Jane Hansen who had been inducted in the NFHS Hall of Fame. Those three honorees attended a dinner with their spouses and the then President of the NJSIAA, five Assistant Directors and myself. The dinner amounted to \$54 a person for 13 people in attendance.

On the subject of NFHS conference expenses and in fairness to the NJSIAA, it must be noted that in the 2009-10 school year those expenses were reduced in half. As shown in Attachment A, during the year 2004, the last year before the Finance Committee Report and Manual was adopted and my assuming the position of Executive Director, \$33,322 was spent for attendance (hotels, meals and travel costs) at the NFHS annual and winter meetings, the spring NFHS legal summit meeting and Section 1 NFHS meetings. By limiting staff attending those events and other expenses, \$15,616 was spent for these conferences during the last school year.

8. In 2007, Executive Director Timko received a direct cash payout of approximately \$12,000 when the organization changed the type of life insurance it provided him. The policy had been universal life coverage, a type that not only pays benefits at the time of death but also serves as a kind of savings account that can be cashed out by the insured. NJSIAA personnel said the decision to switch to a term-life policy, which does not have a cash-out option, represented a cost-savings to the organization because it carried a substantially lower annual premium. Timko testified that he accepted the payout because the policy was in his name, and thus he was entitled to the money. The Commission found no indication that the NJSIAA's Executive Committee and/or its Finance Committee participated in or signed off on this transaction.

RESPONSE: Prior to my becoming Executive Director, individuals appointed to that position received a whole life insurance policy. The annual policies were always the personal property of the insured. At the time that I became Executive Director, the annual premium for my policy amounted to \$10,657.97. In 2007, I determined to reduce the premium cost to the NJSIAA by converting the whole life policy to a term life insurance policy. By transforming my whole life policy to a term policy, the annual premium was reduced by approximately \$9,000

each year, or a savings to date of \$27,000. (See Attachment B.) Since premiums would have been required on a whole life policy for an additional seven years, the ultimate saving to the NJSIAA will amount to approximately \$63,000.

The insurance policy for the Executive Director is identified in the annual budgets approved by the Executive Committee. However, since the whole life policy was my personal property, I believed that it was unnecessary for the NJSIAA Executive Committee or Finance Committee to review or participate in the above conversion.

9. The manual requires that purchase orders be used for the acquisition of any good or service costing more than \$3,000. A review of the NJSIAA purchasing practices revealed that the organization does not utilize purchase order. Timko told the Commission in sworn testimony he was unaware of the purchase order requirement. He also stated that it was unusual for the organization to make purchases in excess of \$3,000. For the four-year period from FY2007 to FY2010, however, the organization's check register reflects that hundreds of checks in the amounts exceeding \$3,000 were paid by the NJSIAA for purchases of everything from printing services to catering.

RESPONSE: Section 4.2.2.1 of the NJSIAA Manual states that a purchase order "should be purchased after receiving competitive quotes from vendors." That section also speaks to an evaluation process for such purchases. "Purchases" are clearly meant to mean the actual procurement or acquisition of services or products from vendors. The statement of the SCI confuses "purchases" as defined by the Manual with payment for ongoing services and operating costs. As such, the reference to "hundreds of checks in the amounts exceeding \$3,000 were being paid by the NJSIAA for purchases for everything from printing services to catering" treats two distinct acts as if they were the same. "Purchases" does not mean the issuance of checks for services. To confuse the two terms is quite misleading.

10. The manual also requires the preparation, on a weekly basis, of an "open payables report" for review by the Executive Director to track outstanding bills. In fact, there is no weekly list of open payables. Invoices are paid as they are received, usually two to three times a week.

[TEXT DELETED]

RESPONSE: While the Manual addresses an "open payables report," in fact a list of those payables is presented to the Executive Director. In addition, all payments are contained within the bill list, which is kept current.

11. Until a year ago -- when the outside auditor told the organization to stop the practice -- employees also used expense vouchers pre-approved by the Executive Director. Investigators found that the NJSIAA still uses pre-approved mileage expense forms for members of its Executive Committee. These individuals, unpaid volunteers, are routinely given blank vouchers signed in advance by Timko to record travel expenses.

RESPONSE: The 50 members of the Executive Committee are unpaid volunteers, comprising for the most part superintendents, principals and athletic directors. As such, they are trusted with providing accurate mileage information on travel vouchers. To limit delay in making payments for travel, expense vouchers were signed by me as the Executive Director in advance. Ultimately, all payments to every member of the Executive Committee is set forth in the bill list which is reviewed by the Finance and Executive Committees to assure transparency. Nevertheless, the practice of pre-approving mileage expense forms for the Executive Committee has been halted as of the September 2010 Executive Committee meeting.

12. Over the first four years of this contract, Riegel has received some \$1.4 million in business from the NJSIAA -- approximately \$350,000 annually. Timko, the organization's Executive Director, testified that prior to the award of the contract NJSIAA personnel consulted informally with other printing companies and found that none other than Riegel could handle the printing volume the organization required.

RESPONSE: Riegel Printing received a contract to provide printing services for the NJSIAA after competitive quotes were received from Centurion Printing, another vendor uniquely equipped to provide this service. As such, the contracting procedures conformed with Section 4.2.1 of the Manual which requires competitive quotes and an evaluation of prices as part of the ultimate selection. Riegel produces a huge amounts of printing each year, including the 43 separate tournament championship programs, the NJSIAA Handbook, and the "Blue Book" listing all pertinent information concerning the NJSIAA. Attachment C is a copy of

the contract. As part of the negotiated contract, rebates were requested and are included as a percentage of the payments made to the NJSIAA to assure the most competitive engagement possible.

I certify that the foregoing statements made by me are true. I am aware that if any of the foregoing statements made by me are willfully false, I am subject to punishment.



STEVEN J. TIMKO

Dated: September 17, 2010