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NATIONAL SENIOR GAMES ASSOCIATION

FINANCIAL STATEMENTS

JUNE 30, 1999

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date APR 12 2000

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LEGISLATIVE AUDITOR BATON ROUGE LA 70804 DATA COLLECTION
FORM FOR REPORTING ON AUDITS OF STATE AND LOCAL
GOVERNMENT AND QUASIPUBLIC ENTITIES

OMB Form 0348-0057 may be used as a substitute for this form.

Date Submitted 4 / 10 / 00

RETURN to: Legislative Auditor
Attn: Engagement Processing
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

1. Fiscal Year Ending Date For This Submission: June 30, 1999

2. Type of Report: Single Audit GAO Audit Standards Audit
Compilation Compilation/Attestation Program Audit Other

3. Audit Period Covered: Annual Biennial
Other _____ to _____

4. AUDITEE INFORMATION

Auditee Name: National Senior Games Association
Street Address (Number and Street) 3032 Old Forge Drive
Mailing Address (PO No.) Same
City Baton Rouge State Louisiana Zip 70808
Auditee Contact
Name Victoria Curry Title Controller / Business Manager
Telephone (225) 925-5678 Fax (225) 216-7552 Email (Optional) vcurry@nsga.com

5. AUDITOR INFORMATION

Firm Name: The Gautreau Group, LLC
Street Address (Number and Street) 8641 United Plaza Blvd.
Mailing Address (PO No.) P. O. Box 82430
City Baton Rouge State Louisiana Zip 70884-2430
Auditor Contact
Name Jennifer Derousselle Title CPA
Telephone (225) 924-6744 Fax (225) 929-6916 Email (Optional) jennifer@tggcpa.com

Component Units Included Within the Report and for Which No Separate Report
Will Be Issued: Not applicable

If there are no modifications to the auditor's financial opinion, no reportable conditions, no material weaknesses, no reported instances of noncompliance, and no management letter, check this box; do not complete the rest of the form.

6. FINANCIAL STATEMENTS

a. Type of audit report on financial statements. Not Applicable
 Unqualified Opinion Qualified Opinion Adverse Opinion Disclaimer of Opinion

b. Is a 'going concern' explanatory paragraph included in the audit report?
 Yes No

c. Do any of the funds have deficit fund balances? Yes No

d. Is there a related party footnote? Yes No

7. INTERNAL CONTROL Do the comments on internal control include:
 material weaknesses reportable conditions not applicable

8. COMPLIANCE Do the comments on compliance include:
 illegal acts fraud/criminal acts not applicable

9. MANAGEMENT LETTER (Finding Caption and No.)

1. Pre-approval of expenditures		Resolved
<input checked="" type="radio"/> Yes <input type="radio"/> No <input type="radio"/> No Longer Applicable		
2. Record storage and retrieval		Resolved
<input checked="" type="radio"/> Yes <input type="radio"/> No <input type="radio"/> No Longer Applicable		
3. Formal background checks on employees		Resolved
Yes <input checked="" type="radio"/> No <input type="radio"/> No Longer Applicable		
4. Bank statements mailed directly to President		Resolved
<input checked="" type="radio"/> Yes <input type="radio"/> No <input type="radio"/> No Longer Applicable		
5. Implement an Ethics Line		Resolved
Yes <input checked="" type="radio"/> No <input type="radio"/> No Longer Applicable		
6. Control of blank checks		Resolved
<input checked="" type="radio"/> Yes <input type="radio"/> No <input type="radio"/> No Longer Applicable		
7. Bonding of employees		Resolved
<input checked="" type="radio"/> Yes <input type="radio"/> No <input type="radio"/> No Longer Applicable		
Yes <input type="radio"/> No <input type="radio"/> No Longer Applicable		Resolved
Yes <input type="radio"/> No <input type="radio"/> No Longer Applicable		Resolved

10. SCHEDULE OF CURRENT YEAR FINDINGS/QUESTIONED COSTS
(Finding Caption and No.)

1998-1 Reportable Condition in Internal Control				\$	<u>N/A</u>	
Resolved	Yes	<input checked="" type="radio"/> No	No Longer Applicable			
1999-1 Material Instance of Noncompliance				\$	<u>N/A</u>	
Resolved	Yes	No	<input checked="" type="radio"/> No Longer Applicable			
1999-2 Known Fraud				\$	<u>190,000</u>	(Total Fraud)
<input checked="" type="radio"/> Resolved	Yes	No	No Longer Applicable			

Do any findings address nepotism, ethics violations or related party transactions? Yes No

Do any findings address violation of bond indenture covenants? Yes No

11. SCHEDULE OF PRIOR YEAR FINDINGS/QUESTIONED COSTS (Finding Caption and No.)

#1 Reportable Condition in Internal Control				Resolved
Yes	<input checked="" type="radio"/> No	No Longer Applicable		
#2 Non-compliance with the Cooperative Endeavor Agreement				Resolved
<input checked="" type="radio"/> Yes	No	No Longer Applicable		
Yes	No	No Longer Applicable		Resolved

AUDITEE SIGNATURE

Date APRIL 10, 00



THE
Gautreau
GROUP, L.L.C.
Certified Public Accountants

John C. Gautreau, II, CPA*
J. Curt Gautreau, CPA*
Crissie Head, CPA
Jennifer D. Derousselle, CPA
Michael A. McNulty, III, CPA
Kati M. Williamson, CPA
*A Professional Accounting Corporation

To the Board of Directors
National Senior Games Association
Baton Rouge, Louisiana

We have audited the accompanying statement of financial position of the National Senior Games Association (the Association) as of June 30, 1999 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Senior Games Association as of June 30, 1999, and the changes in its net assets, its functional expenses, and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 10, 2000 on our consideration of the National Senior Games Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

To the Board of Directors
National Senior Games Association

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures by Funding Source on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements of the National Senior Games Association. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The Gautreaux Group, LLC
March 10, 2000

NATIONAL SENIOR GAMES ASSOCIATION

BATON ROUGE, LOUISIANA

STATEMENT OF FINANCIAL POSITION

JUNE 30, 1999

ASSETS

CURRENT ASSETS:

Cash and cash equivalents - See Note 1		\$485,758
Accounts receivable		1,260
Other receivable - See Note 10		58,675
Prepaid expense		<u>3,733</u>
Total Current Assets		549,426

FIXED ASSETS:

Computer hardware and software	\$ 45,818	
Furniture, fixtures and equipment	25,399	
Leasehold improvements	<u>6,135</u>	
	77,352	
Accumulated depreciation and amortization	<u>(17,198)</u>	60,154

OTHER ASSETS:

Deposits		<u>3,743</u>
Total Assets		<u>\$613,323</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 23,960	
Payroll taxes payable	18,681	
Deferred revenue - See Note 2	<u>634,728</u>	
Total Current Liabilities		677,369

NET ASSETS:

Unrestricted		<u>(64,046)</u>
Total Liabilities and Net Assets		<u>\$613,323</u>

See accompanying notes to financial statements.

NATIONAL SENIOR GAMES ASSOCIATION

BATON ROUGE, LOUISIANA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 1999

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUES:			
Grants in aid--State of Louisiana	\$ 750,000	\$ -	\$ 750,000
Corporate sponsor contributions	428,195	-	428,195
Membership dues	112,509	-	112,509
Other income	14,985	-	14,985
Interest income	3,558	-	3,558
Net assets released from restrictions:			
Restrictions satisfied by payments	19,776	(19,776)	-
Expiration of time restrictions	<u>1,001</u>	<u>(1,001)</u>	<u>-</u>
Total Revenues	1,330,024	(20,777)	1,309,247
EXPENSES:			
Program services	1,142,498	-	1,142,498
Management and general	314,261	-	314,261
Fund raising	<u>171,961</u>	<u>-</u>	<u>171,961</u>
Total Expenses and Losses	<u>1,628,720</u>	<u>-</u>	<u>1,628,720</u>
Change in net assets	(298,696)	(20,777)	(319,473)
NET ASSETS at beginning of year	<u>234,650</u>	<u>20,777</u>	<u>255,427</u>
NET ASSETS at end of year	<u>\$ (64,046)</u>	<u>\$ -</u>	<u>\$ (64,046)</u>

See accompanying notes to financial statements.

NATIONAL SENIOR GAMES ASSOCIATION

BATON ROUGE, LOUISIANA

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 1999

	PROGRAM EXPENSES	MANAGEMENT AND GENERAL	FUND RAISING	TOTAL
Salaries and wages	\$ 339,560	\$ 85,400	\$ 92,843	\$ 517,803
Fringe benefits and taxes	75,986	19,110	20,790	115,886
Accounting and legal	-	65,160	-	65,160
Advertising and marketing	444,479	-	-	444,479
Bank charges	428	108	116	652
Computer expense	4,808	1,209	1,316	7,333
Depreciation	7,160	1,801	1,958	10,919
Insurance	2,790	702	763	4,255
Meetings and conferences	17,570	5,857	-	23,427
Membership expenses	23,075	-	5,769	28,844
Merchandising expenses	21,953	-	-	21,953
Miscellaneous	1,614	406	441	2,461
Moving	-	9,993	-	9,993
Postage	34,674	7,144	2,201	44,019
Printing	29,070	3,450	9,296	41,816
Rent	45,079	11,337	12,333	68,749
Repairs and maintenance	2,299	578	629	3,506
Supplies	22,643	5,661	-	28,304
Telephone	21,062	10,531	3,511	35,104
Travel - Staff	48,248	-	19,995	68,243
Travel - Board	-	38,639	-	38,639
Theft loss	-	47,175	-	47,175
Total Functional Expenses	<u>\$1,142,498</u>	<u>\$314,261</u>	<u>\$171,961</u>	<u>\$1,628,720</u>

See accompanying notes to financial statements.

NATIONAL SENIOR GAMES ASSOCIATION

BATON ROUGE, LOUISIANA

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 1999

Cash Flows From Operating Activities:

Change in net asset		\$(319,473)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	\$ 10,919	
Changes in operating assets and liabilities:		
Accounts receivable	(1,260)	
Other receivables	(58,675)	
Prepaid expenses	(3,733)	
Deposits	(3,743)	
Grants receivable	160,124	
Unconditional promises to give	6,998	
Accounts payable	(36,401)	
Settlement payable	(75,000)	
Deferred revenue	<u>634,728</u>	<u>633,957</u>
Net cash provided by operating activities		314,484
Cash Flows From Investing Activities:		
Purchases of furniture and equipment		<u>(27,710)</u>
Increase in cash and cash equivalents		286,774
Cash and cash equivalents beginning of year		<u>198,984</u>
Cash and cash equivalents end of year		<u>\$ 485,758</u>

See accompanying notes to financial statements.

NATIONAL SENIOR GAMES ASSOCIATION

BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The National Senior Games Association (the Association) promotes healthy lifestyles for seniors through athletic competition programs, wellness and education programs, and research initiatives. As part of its athletic competition programs, the Association sanctions and coordinates the efforts of senior games organizations across the United States. The Association presently serves 50 member organizations and well over 250,000 constituents. The Association is a member of the United States Olympic Committee and serves as its official arm to the senior population.

Sources of revenue consist principally of government grants, corporate sponsorships, and membership dues.

Financial Statement Presentation

The financial statements of the Association have been prepared utilizing the accrual basis of accounting. Contributions (including memberships) are recorded as revenue when received. Grants are recorded at the time monies become collectible from the reporting agency, according to the terms of the grant.

The Association has adopted Statement of Financial Accounting Standards (SFAS) No. 117 "Financial Statements of Not-For-Profit Organizations." Under SFAS No. 117, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the organization is required to present a statement of cash flows. The Association does not have any temporarily restricted or permanently restricted net assets.

Contributions

The Association has adopted SFAS No. 116 "Accounting for Contributions Received and Contributions Made," whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and / or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Association reports the support as unrestricted.

NATIONAL SENIOR GAMES ASSOCIATION

BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Functional Expenses

The costs of providing various program and supporting services have been reported on a functional basis in the statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated among the various program and supporting services based on estimates made by management.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statement of financial position and statement of cash flows, the Association considers all short-term investments with original maturities of three months or less to be cash equivalents. Included in cash and cash equivalents is \$474,454 invested in U. S. Government securities. These securities are stated at cost, which approximates market at June 30, 1999.

Income Taxes

The Association is a non-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are recorded at cost. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets.

NOTE 2 - NET DEFERRED REVENUE

The Association hosted Senior Games during October 1999 at Orlando, Florida. During the year ended June 30, 1999, the Association received revenues associated with these games of \$834,750 and paid expenses associated with these games of \$200,022. The \$634,728 excess of the revenues over the expenses are recorded as deferred revenue June 30, 1999, and will be recognized as income and expense in the fiscal year the games actually occurred.

NATIONAL SENIOR GAMES ASSOCIATION

BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 3 - DONATED FACILITIES

The Association's operating headquarters occupied space through the end of January 1999 under a lease agreement that called for a lease payment of \$1. The estimated fair value of this lease was \$24,493 from July 1998 through January 1999. This amount was recorded as an expense at June 30, 1999. Of this amount, \$17,495 was recognized as a contribution as of June 30, 1999. The additional \$6,998 was recorded as a contribution and unconditional promise to give at June 30, 1998.

NOTE 4 - NON-CASH CONTRIBUTIONS

During the year ended June 30, 1999, the Association received a non-cash contribution of approximately \$353,700 from a sponsor. This amount is reflected on the statement of activities as contribution revenue and on the statement of functional expenses as advertising and marketing expense.

NOTE 5 - CONCENTRATION OF RISK

For the year ended June 30, 1999, the Association received approximately 57 % of its support from grants provided by the State of Louisiana. The State grant ceased June 30, 1999.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

At June 30, 1998, the Association remained obligated under a prior lease agreement for office space. Management was negotiating a settlement of the obligation but an estimate of any settlement amount was not made at June 30, 1998. Therefore, no liability was recorded in the financial statements at June 30, 1998. During the year ended June 30, 1999, management settled this obligation for \$25,000. This amount was charged to rent expense for the year ended June 30, 1999.

NATIONAL SENIOR GAMES ASSOCIATION

BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 6 - COMMITMENTS AND CONTINGENCIES - (CONTINUED)

In addition, at June 30, 1998 the Association was involved in a dispute with the host of the 1998 Senior Games whereby the host claimed amounts owed them from registration fees and reimbursement of incurred costs. Management believed \$75,000 would be the ultimate cost to the Association and therefore a liability was recorded in that amount. During the year ended June 30, 1999, management settled this obligation for \$65,275. The difference, \$9,725, was credited to other income during the year ended June 30, 1999.

NOTE 7 - DONOR CONDITIONS

As a condition to receiving the government grant from the State of Louisiana, the 2001 Senior Games must be held in Baton Rouge, Louisiana.

NOTE 8 - OPERATING LEASE

During February 1999, the Association began leasing office space from an unrelated party under a noncancellable operating lease that expires on June 30, 2002. The lease contains an option to renew for three periods of one year each. Rent expense under this lease was \$18,717 for the year ended June 30, 1999.

Future minimum lease payments are as follows as of June 30, 1999:

2000	\$44,968
2001	\$44,968

NOTE 9 - PENSION PLAN

The Association has adopted a 401(K) Profit Sharing Plan that covers substantially all employees. The plan began on January 1, 1999. The Association can contribute up to 3% of the employees' annual compensation to the plan. During the year ended June 30, 1999, the Company contributed 3% of annual compensation. The total expense to the Association under this 401(K) plan for the year ended June 30, 1999 was \$7,803.

NATIONAL SENIOR GAMES ASSOCIATION

BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 9 - PENSION PLAN - (CONTINUED)

During the year ended June 30, 1998, the Association received \$19,776 from the State of Louisiana for retirement plan funding. As of June 30, 1998 the funds were not placed in a retirement plan. In December 1998, \$25,530, which included the \$19,776, was placed in SEP IRA's for employees of the Association, who were employed during 1998. The \$25,530 was recognized as an expense to the Association during the year ended June 30, 1999.

NOTE 10 - MISAPPROPRIATION OF FUNDS

During the audit of the financial statements for the year ended June 30, 1999, it was discovered that an employee of the Association was misappropriating funds of the National Senior Games Association. It appears that the misappropriation of funds started at the end of January 1999, and amounted to approximately \$190,000, of which approximately \$105,850 occurred during the year ended June 30, 1999.

Evidence of the misappropriation of funds consisted of forged canceled checks which were not recorded on the general ledger.

Status of Legal Action

The former employee has confessed to law enforcement officials.

Potential Recovery

At the time of the theft, the Association did not maintain employee theft coverage under its insurance policy. Therefore no funds are recoverable from the insurance company.

The Association's attorney is in the process of negotiating with various parties regarding the recovery of funds. On March 7, 2000, the Association received a partial settlement for \$80,000. Of this amount, \$58,675 is related to the year ended June 30, 1999 and is recorded on the Statement of Financial Position as Other Receivables. The remainder of the theft loss at June 30, 1999 of \$47,175 has been recorded on the Statement of Functional Expenses as Theft Loss.

Any funds recovered in excess of the \$58,675 recorded as receivables at June 30, 1999, will be recognized as theft recovery income in the year of receipt.

NATIONAL SENIOR GAMES ASSOCIATION

BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 11 - YEAR 2000 ISSUE

The Association has completed an inventory of computers and other electronic equipment that may be affected by the Year 2000 issue and that are necessary to conducting its operation. They have identified such systems as being financial reporting and membership database. All systems have been tested, remediated and validated.

NATIONAL SENIOR GAMES ASSOCIATION

BATON ROUGE, LOUISIANA

SCHEDULE OF EXPENDITURES BY FUNDING SOURCES

FOR THE YEAR ENDED JUNE 30, 1999

	STATE GRANT	CITY GRANT	PRIVATE SOURCES	TOTAL
Salaries and wages	\$374,712	\$143,091	\$ -	\$517,803
Fringe benefits and taxes	75,413	40,473	-	115,886
Accounting and legal	61,076	-	4,084	65,160
Advertising and marketing	23,878	-	420,601	444,479
Bank charges	-	-	652	652
Computer expense	4,393	-	2,940	7,333
Depreciation	-	-	10,919	10,919
Insurance	4,255	-	-	4,255
Meetings and conferences	1,500	-	21,927	23,427
Membership expenses	3,415	-	25,429	28,844
Merchandising expenses	13,537	-	8,416	21,953
Miscellaneous	-	-	2,461	2,461
Moving	-	-	9,993	9,993
Postage	43,554	-	465	44,019
Printing	41,816	-	-	41,816
Rent	17,377	-	51,372	68,749
Repairs and maintenance	-	-	3,506	3,506
Supplies	17,507	-	10,797	28,304
Telephone	27,191	-	7,913	35,104
Travel - Staff	20,988	24,899	22,356	68,243
Travel - Board	14,375	24,264	-	38,639
Theft Loss	-	-	47,175	47,175
Total Expenditures (excluding capital expenses)	744,987	232,727	651,006	1,628,720
Capital Expenses	5,013	-	22,697	27,710
Total Expenditures	<u>\$750,000</u>	<u>\$232,727</u>	<u>\$673,703</u>	<u>\$1,656,430</u>

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
National Senior Games Association
Baton Rouge, Louisiana

We have audited the financial statements of the National Senior Games Association as of and for the year ended June 30, 1999, and have issued our report thereon dated March 10, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the National Senior Games Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 1999-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the National Senior Games Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the National Senior Games Association's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 1998-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the National Senior Games Association in a separate letter dated March 10, 2000.

The report is intended for the information of the board of directors, management and government funding entities.

The Gaudreau Group, LLC

March 10, 2000

**NATIONAL SENIOR GAMES ASSOCIATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 1999**

We have audited the financial statements of the National Senior Games Association as of and for the year ended June 30, 1999, and have issued our report thereon dated March 10, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of June 30, 1999, resulted in an unqualified opinion.

SECTION I – SUMMARY OF AUDITOR’S REPORTS:

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control:

Material Weakness	Yes
Reportable Conditions	Yes

Compliance:

Compliance Material to Financial Statements	Yes
---------------------------------------------	-----

b. Management Letter

Management letter issued	Yes
--------------------------	-----

SECTION II – FINANCIAL STATEMENT FINDINGS:

1998-1: Reportable Condition in Internal Control:

Criteria: The organization shall establish and maintain a system of internal controls that facilitates sound financial reporting and safeguarding of assets.

Condition: There is a lack of segregation of duties with regards to cash disbursements.

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED):

Cause: The condition is inherent in the fact that the Association operates in a small office environment.

Effect: The condition is common in small office environments however, under such a condition, there is a greater risk of misappropriation.

1999-1: Material Instance of Noncompliance

Requirement: All engagements must be completed and transmitted to the legislative auditor within six months of the close of the auditee's fiscal year.

Condition: Engagement not completed and transmitted within six months of the close of the auditee's fiscal year.

Cause: The National Senior Games Association was not able to meet this requirement due to the fraud discussed in Finding 1999-2.

1999-2: Known Fraud:

During the audit of the financial statements for the year ended June 30, 1999, it was discovered that an employee of the company was misappropriating funds of the National Senior Games Association. It appears that the misappropriation started around January 1999, and amounted to approximately \$190,000, of which approximately \$105,000 occurred during the year ended June 30, 1999. Approximately \$58,675 of this amount was recorded as other receivables

Evidence of the misappropriation consisted of forged canceled checks which were not recorded on the general ledger.

NATIONAL SENIOR GAMES ASSOCIATION

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED JUNE 30, 1999

**SECTION 1: INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE
FINANCIAL STATEMENTS:**

Finding #1 (June 30, 1998): Lack of segregation of duties with regards to cash disbursements. The Association planned to separate the duties of signing checks and recording transactions upon employment of an accountant.

Outcome: Lack of segregation of duties unresolved and referenced to in current year findings. The Association did separate the duties of signing checks and recording transactions.

Finding #2 (June 30, 1998): The association requested \$19,776 from the State of Louisiana to fund contributions to a retirement plan for the benefit of its employees. No plan was established at June 30, 1998. State allowed the Association to retain funds so long as a retirement plan be established and funded with the funds by December 31, 1998.

Outcome: Resolved.

SECTION 2: MANAGEMENT LETTER:

Finding #1 (June 30, 1998): Reduction in the number of checking accounts.

Outcome: Resolved.

Finding #2 (June 30, 1998): Settlement of accounts owed to City account and Private account.

Outcome: All amounts consolidated into one account making this recommendation germane.

Finding #3 (June 30, 1998): Take steps to ensure that your computer hardware and software are year 2000 compliant.

Outcome: Resolved.

NATIONAL SENIOR GAMES ASSOCIATION

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED JUNE 30, 1999

(CONTINUED)

SECTION 2: MANAGEMENT LETTER (CONTINUED):

Finding #4 (June 30, 1998): Adhere to established policies and procedures regarding disbursements greater than \$4,000.

Outcome: Resolved.

Finding #5 (June 30, 1998): Adhere to established policies and procedures regarding prohibition against the company credit cards for personal expenses.

Outcome: Resolved.

Finding #6 (June 30, 1998): Development of controls regarding travel policies and procedures.

Outcome: Resolved.

Finding #7 (June 30, 1998): All expenditures should be pre-approved through the use of purchase orders and travel requests.

Outcome: Unresolved and referenced to current year finding.

Finding #8 (June 30, 1998): Utilization of general ledger.

Outcome: Resolved.

Finding #9 (June 30, 1998): Diminishing private funds – monitor funds available from all sources and control expenses so those most available funds are utilized.

Outcome: Resolved.

Finding #10 (June 30, 1998): Consider employment of an accountant as controller.

Outcome: Resolved.

March 10, 2000

National Senior Games Association
Baton Rouge, LA

In planning and performing our audit of the financial statements of the National Senior Games Association as of and for the year ended June 30, 1999, we considered the Company's internal control in order to determine our auditing procedures for the purpose of expressing an opinion *of the financial statements and not to provide assurance on internal control.*

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. We previously reported on the Company's internal control in our report dated March 10, 2000, which included a schedule of findings and questioned costs, which reported a reportable condition. This letter does not affect our report dated March 10, 2000, on the financial statements of the National Senior Games Association.

1. Pre-approval of expenditures

The Association lacks a pre-approval system for expenditures.

To ensure the availability of funds as well as to obtain proper authorization before expenditures are incurred, all expenditures should be pre-approved through the use of purchase orders.

2. Record storage and retrieval

During our audit we noticed that *accounting records frequently could not be located when needed.* The cause of the problem appeared to be a lack of a clearly specified system for filing records. The result was that employees spent nonproductive time searching for needed documents. This condition could also present a problem when documents are needed in support of tax returns and other reports subject to audit by us or other governmental agencies. We recommend the following:

- Decide on a systematic manner of filing documents. Describe the system in an accounting manual or post a description on the filing cabinets or in the storage room so that employees will know how to find and refile documents.
- Establish a policy specifying which records should be retained permanently and which *records should be kept only for a given period before being destroyed and how long that period should be*. Assign personnel the responsibility to periodically clean out the files in accordance with the established policy.

3. **Formal background checks for all new employees**

We recommend that the Association include in its hiring policies a requirement for a thorough background check before hiring a new employee. It is important to know whom you are hiring, and background checks can point out problems in a candidate's past that may indicate a risk to the Association in the future. We suggest that a private investigation firm perform the background checks. If you decide to make this a personnel policy, please discuss this with your legal counsel to insure that the policy does not conflict with the privacy rights of the individuals you investigate.

4. **Bank statements mailed directly to the President of the Association**

Due to the small size of the organization and lack of segregation of duties, we recommend that all bank statements be mailed directly to the president of the Association. The president should open the bank statement and review the bank statement deposits and canceled checks for unusual transactions before the bank statement is given to the accountant.

5. **Implement an Ethics Line (Fraud Hotline)**

We recommend that you consider implementing a fraud hotline as part of your plans to improve internal controls. We feel that a fraud hotline would be beneficial to your current control environment. It is a very cost efficient means in helping to control possible violations in your organization.

6. **Control of blank checks**

Blank checks should be kept in a locked box or cabinet accessible only to those with proper authorization and, periodically, the checks should be accounted for.

7. **Bonding of all employees who have access to assets**

We recommend that all employees who have access to assets be adequately bonded.

The Gautreaux Group, LLC



National
Senior Games
Association

Promoting healthy lifestyles for seniors through education, fitness and sports

National Senior Games Association
Management's Corrective Action Plan
For the Year Ended June 30, 1999

RE: Section 1 - Internal Control and Compliance Material to the Financial Statements:

1998-1 Reportable Condition in Internal Control

Existing internal policies and procedures are now being reviewed and corrected accordingly. As stated in the response to the "*Internal controls and operating efficiency*", several changes have already been implemented and documented as such.

To establish a complete manual of operating procedures and internal controls, I have ordered a manual titled "The Nonprofit Management Handbook: Operating Policies and Procedures". This book has been on back order since February 15, 2000 which has prohibited our ability to complete an internal manual.

It is believed that this guide will offer additional solutions to the lack of segregation of duties or suggest appropriate steps to implement thus decreasing our risk of misappropriation.

Upon completion of this internal manual, a copy will be forwarded to each of the board members as well as The Gautreau Group.

1999-1 Material Instance of Noncompliance

As stated in the auditors' findings, the National Senior Games Association was not able to complete the audit in the time-line originally allowed for filing due to the absence and destruction of required documentation associated with the employee fraud and embezzlement. However, the auditor has been notified and kept abreast by our attorney.

The National Senior Games Association will see to it that every effort is put forth to meet reporting deadlines on future audits and tax filings.

1999-2 Known Fraud

The National Senior Games Association has amended their policies and procedures in the attempt to ensure such heinous employee acts are never again committed.

As stated above, such procedures have been outlined and an updated internal policy and procedure manual will be forwarded upon completion.

National Senior Games Association
Management's Corrective Action Plan
For the Year Ended June 30, 1999

RE: Section II - Management Letter:

Finding 1. Pre-approval of expenditures

Finding 1 Resolution

Procedures have been implemented that require expenditures over \$100.00 be pre-approved. Purchase Orders are used to request all supplies and out-side contracts for service prior to the cost being incurred. Each of the PO's submitted must contain either the Vice President of Business or the Business Manager's signature. Formal letters have been sent to each vendor currently being used by the National Senior Games Association explaining these procedures.

Finding 2. Record storage and retrieval

Finding 2 Resolution

Filing systems have been put in place to allow immediate access to records. Limited access to such documents allows the business department to keep records organized and readily available.

The senior management team also has defined record purging and destruction. Record purging allows the invoice to be removed from the working file after 12 months where it is placed in a storage file. This file is then kept for an additional 36-84 months, depending on the document, where it is then destroyed.

Please note that bank records, past audits and other financial data is not subject to the same storage and retrieval system. These documents are held permanently.

Also note that much of the difficulty in locating certain documents related to the hiding of documents to mask the misappropriation.

Finding 3. Formal background checks for all new employees

Finding 3 Resolution

The National Senior Games Association is currently researching options and outside services that will allow us to run a complete background check on all new employees. Documentation has already been prepared for which the new hire must sign authorizing the association to complete such an investigation.

This procedure was not in place due to the lack of employee turn over and sufficient *existing staff to complete the needs of the association.*

Finding 4. Bank statements mailed directly to the President of the Association

Finding 4 Resolution

Effective September, 1999, all bank statements are mailed directly to the private residence of our Vice President of Business, William Bankhead. Due to our President and CEO traveling frequently and for extended periods, mailing statements to his personal address would not allow for a timely reconciliation.

Upon receipt of the statement, Mr. Bankhead reviews each of the items for any fraudulent activity. After this verification process, records are submitted to the business manager for reconciliation.

This process will be refined in the future to segregate duties internally and still adhere to internal controls.

Finding 5. Implement an EthicsLine (Fraud Hotline)

Finding 5 Resolution

After careful consideration of this suggestion, the National Senior Games Association must decline implementing such services at this time.

The association has put in place procedures segregating duties to deter employee from committing a fraudulent act of theft. It is now mandatory that upon receipt of any mail item (primary method of funds received), two employees are present for the opening, copying and logging of all funds.

Finding 6. Control of blank checks

Finding 6 Resolution

Blank checks are currently stored in a locked area. A lock is being installed on the office door of the area that houses the checks. Only the Vice President of Business, the Business Manager and our President and CEO will have access to this room.

This control method calls for 3 locked areas to be penetrated prior to the accessibility of blank checks.

A monthly internal audit has been put in place to confirm use of checks and unused checks. This internal audit will require the signatures of the Vice President of Business and a second Vice President of the organization.


Finding 7. Bonding of all employees who have access to assets

Finding 7 Resolution

Effective February 22, 2000, the National Senior Games Association insurance policy has been amended to include coverage of theft up to \$10,000, employee dishonesty up to \$25,000 and forgery up to \$25,000.

Bonding of the employees is currently being considered for only those employees with access to assets.

Broussard, Bush & Hurst is currently writing a proposal, at the National Senior Games Association request, to increase our coverage from the \$10/\$25/\$25 to \$180,000 across the board.

 APR 9, 2000

David F. Hull, Jr. Date
President and CEO

 April 3, 2000

Victoria R. Curry Date
Business Manager