



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

September 24, 2014

Mr. Tom Early, President,
and Members of the Board of Directors
Louisiana Thoroughbred Breeders Association
1751 Gentilly Boulevard
New Orleans, Louisiana 70119

Dear Mr. Early:

As you are aware, my Investigative Audit Services staff visited the Louisiana Thoroughbred Breeders Association (LTBA) to review certain financial matters. This letter briefly summarizes the results of our work. We stress the importance of addressing these issues and encourage you to consider our recommendations as you work to resolve the following:

Conflict of Interest

The Breeders Sales Company of Louisiana (BSCOL), a wholly-owned subsidiary of LTBA, is a for-profit company that conducts an annual yearling sale in Louisiana. Several members of LTBA's board of directors have an ownership interest in Equine Sales of Louisiana, a direct competitor to BSCOL, which also conducts an annual yearling sale in Louisiana. Although LTBA's board of directors has a conflict of interest policy, the policy may not effectively address the fiduciary responsibilities of board members to the LTBA and BSCOL. We recommend that the LTBA request a Louisiana Attorney General's opinion regarding the potential conflict of interest that a board member may have due to ownership in a competing sales company and, further, if such conflict would violate a LTBA board member's fiduciary responsibility to the LTBA and/or BSCOL.

No Documentation for Management Fee

BSCOL has only one employee and, therefore, relies on LTBA employees to conduct BSCOL's business. However, BSCOL and LTBA do not have a written agreement to specify how LTBA will be reimbursed for its costs to operate BSCOL. In 2013, BSCOL paid LTBA a management fee of \$20,000, but there is no documentation to explain how this amount was determined. In addition, in 2013, LTBA's board of directors voted to pay \$15,000 in bonuses to LTBA employees for their work on the annual BSCOL yearling sale. However, BSCOL did not reimburse LTBA for the cost of the employee bonuses.

A not-for-profit could jeopardize its tax exempt status in situations where the parent is involved in the day-to-day management of the subsidiary, or where transactions between the two entities are conducted on an informal basis. We recommend that the LTBA and BSCOL boards of directors discuss their arrangement with legal counsel and enter into a written agreement outlining their joint operations.

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Scholarship Disbursement

LTBA pays approximately \$10,000 in scholarships annually with its operating fund. LTBA's operating fund includes revenue from public sources^{1,2} and private sources. The revenue from public sources is restricted for LTBA's administrative and operating expenses, to promote the thoroughbred breeding industry, and to pay breeders' awards. Since the scholarships are neither an administrative or operating cost nor a promotion of the thoroughbred breeding industry or breeder award, LTBA may not have the legal right to use these funds to pay the scholarships. In addition, because LTBA does not have a legal obligation to pay scholarships, these payments may violate the Louisiana Constitution's³ prohibition against the donation of public funds. Therefore, we recommend that LTBA cease using public funds to pay scholarships.

Outstanding Accounts Receivable Balance

LTBA's audit report for the year ended December 31, 2013, disclosed that LTBA's accounts receivable balance was \$61,932. Of this amount, \$33,443 was over 90 days past due. The report also disclosed that six members of LTBA's board of directors owed \$19,128 of the accounts receivable balance. As of June 30, 2014, the accounts receivable balance had dropped to \$48,429, with four members of the board of directors still owing balances. The accounts receivable balance consists solely of advertising fees due for ads purchased in LTBA magazines. LTBA allows accounts owing past-due balances to continue to advertise unless LTBA deems that account to be uncollectible.

We recommend that the LTBA adopt a policy to prohibit past-due accounts from advertising in LTBA publications until they are paid.

Should you have any questions, please contact Roger Harris or Kevin Kelley at (225) 339-3800.

Sincerely,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/aa
LTBA 2014

¹ **Louisiana Revised Statute (La. R.S.) 4:165(C)** provides, in part, that "amounts withheld from supplemental purses...shall be paid to the Louisiana Thoroughbred Breeders Association and the amounts so withheld...for use by these associations for operating and administrative expenses."

² **La. R.S. 4:218** provides, in part, that "the commission may collect a license fee not to exceed one and one-half percent of the total amount wagered at each offtrack wagering facility. This fee shall be distributed as follows: (1) Fourteen percent to the Louisiana Thoroughbred Breeders Association...for promotion of the appropriate breeding industry and for breeder awards."

³ **Louisiana Constitution Article VII, Section 14(A)** provides, in part, that "Prohibited Uses. Except as otherwise provided by this constitution, the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private."

APPENDIX A

Management's Response

Louisiana Thoroughbred Breeders Association

P.O. Box 24650 New Orleans, Louisiana 70184 | www.louisianabred.com | 1.800.772.1195 | 504.947.4676 | fax: 504.943.2149

September 12, 2014

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Purpera,

Thank you and the team led by Mr. Roger Harris for providing us with the confidential-draft of our Investigative Audit Report. The team's professionalism was beyond reproach.

The following is management's response to the four findings of the audit ensuring the recommendations provided by the legislative audit team. We understand that this will be included in the final report.

1. **Conflict of Interest:** The Louisiana Thoroughbred Breeders Association (LTBA) agrees that this has been a contentious topic within the organization. The Audit teams suggestion that we obtain an opinion from the Louisiana Attorney General regarding the potential conflict of interest that a board member may have due to ownership in a competing sales company, and if such a conflict would violate an LTBA board member's fiduciary responsibility to the LTBA and/or Breeders Sales Company of Louisiana (BSCOL) will be requested. This opinion will be requested after ratification by the LTBA's Board of Directors at its next meeting scheduled in early October.
2. **No Documentation for Management Fee:** As you have pointed out the LTBA and the Breeders Sales Company of Louisiana do not have a written agreement specifying how the LTBA will be reimbursed for its cost to operate the BSCOL. Your recommendation for the two groups and their legal counsel to enter into a formal written agreement outlining the responsibility of each operation will begin immediately as the boards have been notified of your findings.

OFFICERS
BOARD OF
DIRECTORS
TRACKS

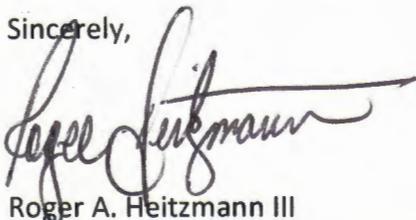
President - Thomas B. Early | 1st Vice President - Jake Delhomme | 2nd Vice President - Brett Brinkman
Jay Adcock | Charlotte Clavier | Jeff Delhomme | Bobby Duhon | Michelle LaVoice | Neal McFadden
Jim Montgomery | Val Murrell | Keith G. Myers | Michele Rodriguez | Secretary/Treasurer - Roger Heitzmann, III
Delta Downs, Inc. | Evangeline Downs, Inc. | Fair Grounds Corporation | Louisiana Downs, Inc.

3. Scholarship Disbursement: The scholarship program was started to attract a younger/college type crowd to the races on our premier nights of racing. It was slow at the beginning but we find that in recent years it has become more of an attraction for our young fans. We understand the confusion that may be caused since we do receive public funds. The L.T.B.A. will address at the next Board of Directors Meeting the discontinuation of the scholarship program or self funding such a program.

4. Outstanding Accounts Receivable Balance: At our last Board of Directors Meeting an adjustment was made to the Louisiana Horse Accounts Receivable Policy. However, after meeting with the Louisiana Legislative Auditors team, we understand their recommendation that the policy needs to be addressed to implement and enforce tighter restrictions. The policy for accounts receivable will be addressed at the next regularly scheduled meeting of the Board of Directors and all have been notified that changes will be made at this meeting in order to follow the recommendations of the auditor's office.

In closing I would like to thank you and the staff of the Louisiana Legislative Auditors office for the important work that you do.

Sincerely,



Roger A. Heitzmann III

Secretary/Treasurer

Louisiana Thoroughbred Breeders Association