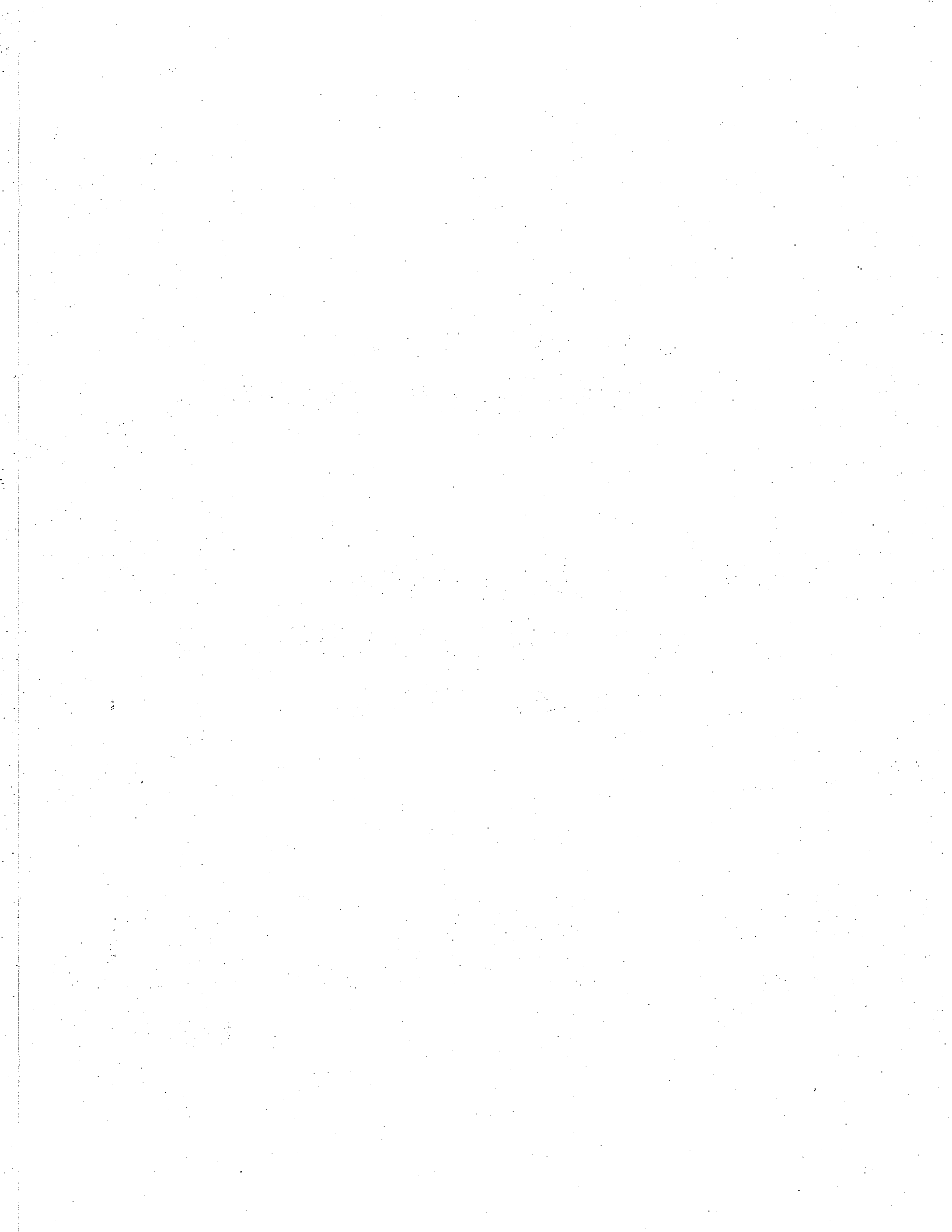


*State of New Jersey*  
*Commission of Investigation*

**NEW JERSEY  
SCHOOL BOARDS  
ASSOCIATION**

*April 1990*



April, 1990

Governor James J. Florio  
The President and Members of the Senate  
The Speaker and Members of the General Assembly

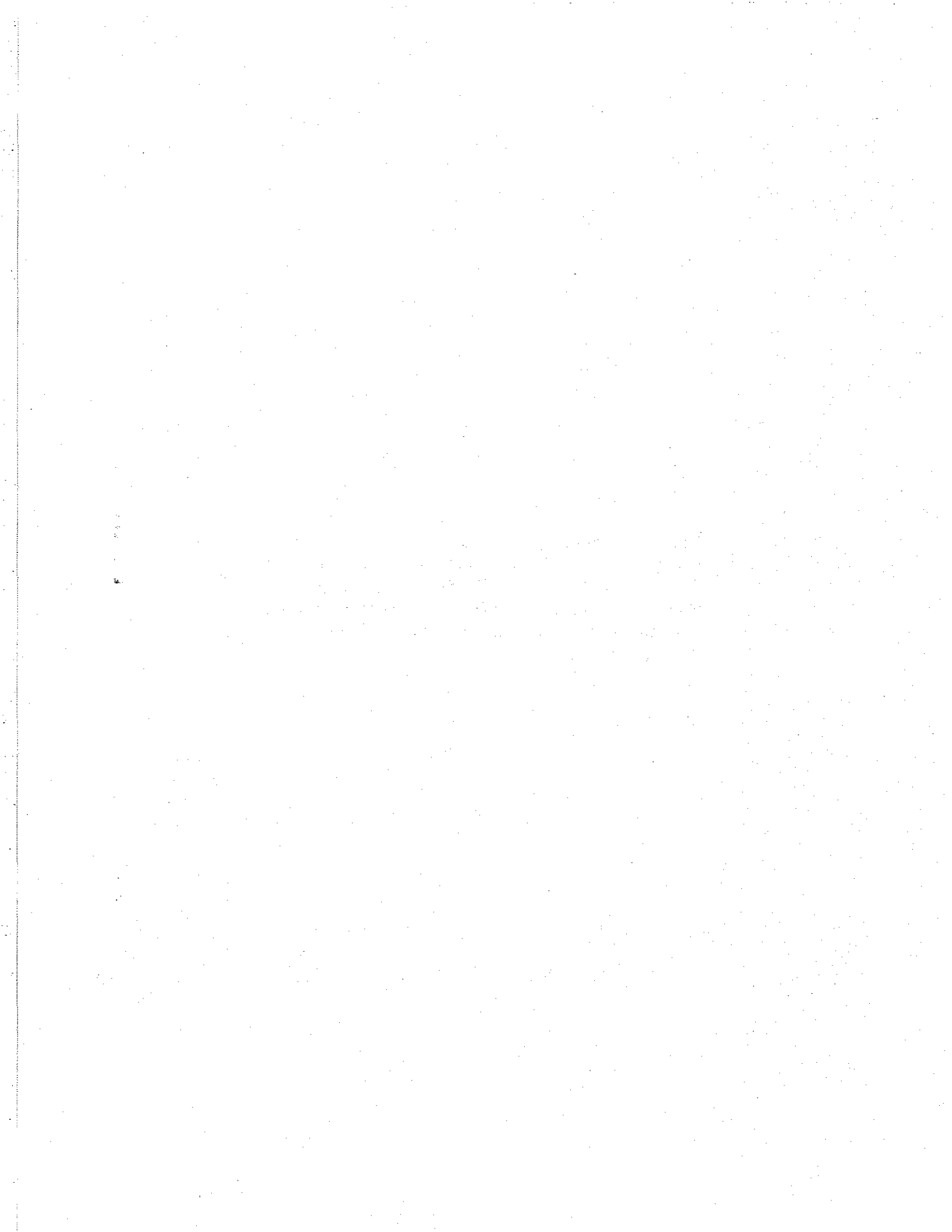
The State Commission of Investigation herewith formally submits, pursuant to N.J.S.A. 52:9M, a report on its investigation into matters at the New Jersey School Boards Association.

\*Commissioner Zazzali did not participate in the vote authorizing the issuance of this report.

\*\*Commissioner Merin was appointed on January 12, 1990 by Governor Thomas H. Kean to replace Chairman Henry S. Patterson II, who could not be reappointed.



**The investigation on which this report is based was conducted under the direction of Counsel Carol L. Hoekje, who was assisted by Special Agent Patricia England, Investigative Accountants Michael R. Czyzyk and Jeanne M. Jackson, and now-retired Investigative Accountant William V. Miller.**



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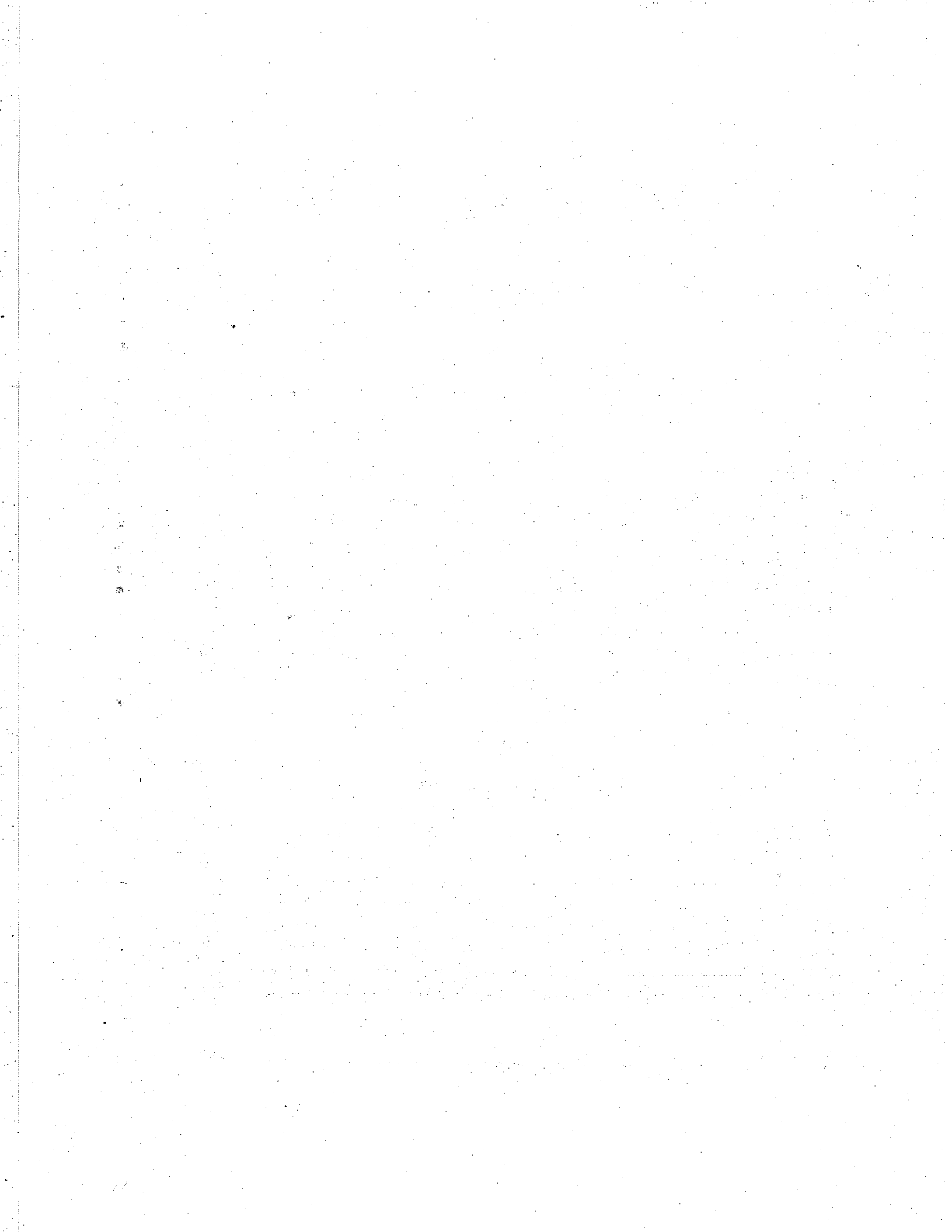
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## INTRODUCTION AND RECOMMENDATIONS

The investigation of the New Jersey School Boards Association (NJSBA) has been a lengthy and difficult one. It began with the public revelation in 1987 that an adjunct of the Association, the Insurance Group, because of bad investments had lost nearly a million dollars in premium funds entrusted to it by local boards of education. But as the investigation progressed, it became apparent that the investment losses were only a symptom of much deeper problems that went far beyond the Insurance Group to the leadership of the Association itself.

Specifically, the Commission has found that Executive Director Octavius T. "Ted" Reid, Jr., through his manipulation of the Association's Board of Directors, the Board's Executive Committee, the Trustees of the Insurance Group and the professional staff of the Association, is primarily responsible for the conditions at the Association. But the Commission also found that over the years, various officers of the Association abdicated to the staff oversight responsibilities that were theirs. In short, they allowed themselves to be manipulated — sometimes knowingly, sometimes naively — but at all times with little apparent concern for the taxpayers' funds that were squandered.

The investigation revealed that Reid to this day takes credit for every success of the NJSBA, especially passage of any legislation related to the Association's mission, but refuses to accept responsibility for problems, diverting blame instead to others. A case in point is his claim that he engineered passage of the 1983 legislation permitting school boards to pool their assets to buy insurance, a worthy bill that stabilized insurance coverage for local

boards at a time when many had had difficulty obtaining adequate coverage. In testimony before the SCI, Reid referred to enactment of the new law as "another legislative accomplishment" of his. But when an issue arose as to the wording of the statute regarding the permissibility of certain kinds of investments, Reid professed ignorance as to how that language got into the statute. Further, he denied knowledge of a state proscription of any but the safest kinds of investments, brushing off the matter with an expression to which he frequently resorted in his testimony, "It was never an issue."

The Commission also determined that Reid's credibility as a witness before the SCI is questionable. On virtually every key issue, his testimony was at variance with other principal participants, especially when it came to accepting responsibility for things that went wrong. At other times, he was evasive or forgetful when the line of questioning involved conduct that was his alone.

Moreover, the investigation revealed that time and again Reid misled the Association's directors or the Insurance Group's trustees. At other times, he withheld information that would have been material to matters before them. For instance, when Reid decided to retain Dan Druz, a securities broker from Dean Witter Reynolds, to handle investments for the Insurance Group, he told the trustees four months after the fact. But he never told the trustees that he had had a personal brokerage account with Druz several years earlier, nor did he ever tell them that during the period when Druz worked for the Insurance Group, Reid asked for and received a \$12,000 personal loan from him. And for more than a year, he continually referred to Druz as an "investment consultant" instead of as a broker who was earning

thousands of dollars in commissions. When he and Druz decided to invest in more speculative instruments, he did not inform the trustees, nor did he properly control Druz's penchant for, in effect, gambling in the market with Insurance Group funds and turning the Group into a personal money machine for Druz's brokerage firm. And when those investments began going sour — to the tune of more than \$800,000 — he told a trustee who inquired that things were "never better."

Meanwhile, Reid managed to secure for himself a generous compensation package that included a \$92,000 salary, an insurance policy, annual contributions toward an IRA despite his membership in the State pension system, unrestricted use of an NJSBA car and virtually unlimited use of an expense account that went all but unmonitored by the fiscal staff of the Association or the Association's officers. His expenses were approved by a subordinate and by the Executive Committee, which never saw detailed vouchers, just dollar amounts. When the Association bought him a new car, instead of asking to purchase the old one as was common practice, he asked the Association to give it to him. And when they refused, he simply took it home — and kept it until the president found out about it nine months later. In testimony before the Commission, Reid justified his extravagant lifestyle by frequent invocation of the lofty goals of the Association, yet he never mentioned the municipal school boards and their taxpayers who unwittingly supported him.

Reid also invoked these goals and his concentration on the "big picture" as reasons for his delegation to the staff of mundane matters such as expense vouchers, travel advances and the details of administrative housekeeping. It was this "big picture," no doubt, that kept him out of the office for about a third of the working days over a three-year period, and that required him to dine in many of the best restaurants in New Jersey — and in other states as well—during his frequent travels to places such as San Francisco, Vancouver, New Orleans, the Virgin Islands and Paris. For the 37-month period from

July 1, 1985 through July, 1988, Reid submitted expense vouchers totaling more than \$130,000. During that period, Reid also received a total of almost \$35,000 in travel advances. At one time in 1987, his outstanding advance balance reached a high of \$16,000. Much of the advance funds were never properly accounted for.

The Commission staff found that Reid submitted expense vouchers years late, again claiming he was too busy with more important matters. In July 1988, for example, Reid submitted vouchers totaling more than \$53,000 for three years worth of expenses he said had not been reimbursed. A former NJSBA president also submitted about \$5,000 worth of vouchers three years late.

Reid often double-billed the Association for meals and other expenses. In at least one case, he even triple-billed the Association for a single lunch. In another case, he submitted different receipts for the same dinner as justification for meals in two different cities — Vancouver and New Orleans. In yet another case, he submitted on his expense voucher travel expenses of another Association staffer that had already been paid. The auditing firm of Ernst & Whinney disallowed about \$4,700 in expenses as being either double billings or questionable because of insufficient documentation. And the SCI staff found an additional \$20,000 in duplicate or questionable expenses.

Many of the meals Reid sought payment for were questionable. In a limited check to verify business lunches or dinners Reid claimed to have had with various officials, the SCI staff found many of those claims to be false. Of 48 meals checked, only five appear to have been legitimate. All those persons Reid said were at the other 43 meals denied either being there or that Reid had paid for their meals. The Commission also determined that documents and signatures were fabricated, minutes were doctored and tapes and records sought during the investigation disappeared or were destroyed. These and other matters uncovered during the investiga-

tion will be referred to the Attorney General's office for further review.

As a taxpayer-supported agency, the NJSBA claims tax-exempt status and enjoys governmental exemptions from certain statutes, yet it does not adhere to any kind of governmental-type practices in terms of record keeping or limitations on expenses. Nor does it submit to fiscal oversight by public agencies. The only exception is the oversight by the State Insurance Department mandated by the statute that authorized creation of the Insurance Group. But that oversight, which came too late to prevent more than \$800,000 in investment losses, is limited to insurance matters and does not extend to other Association activities.

Since the disclosure in 1987 of the losses, and the suspension and reinstatement of Reid and Dolores Jarvie (the Association comptroller and Insurance Group treasurer), the Group has made remarkable strides, under the leadership of Carolyn Smith and Eugene Burns, in asserting its independence from the Association, changing its procedures to protect the integrity of its investments and professionalizing its staff.

Similarly, the Association has taken some steps to reform itself. Some credit should go to former President Joseph Zemaitis. Initially, his overindulgent stewardship allowed conditions at the Association to deteriorate, but his assertive actions following disclosure of the losses led both to unpleasant confrontations with Reid and with his fellow directors and to the beginning of reform. More credit is due the current president, Jeremiah Regan, who has tried vigorously to bring his fellow directors to the realization that the NJSBA is financed by public monies and should be accountable for proper use of those funds.

Nevertheless, events that have taken place during the period of the investigation and that continue to this day give the Commission concern that some NJSBA officers and directors are not genuinely committed to reform. This report is being sent to

each school board in the State because the Commission believes it is important that local boards, who are the only constituents of the NJSBA, know in detail the facts uncovered by the SCI so that they can provide some impetus toward reform.

The Commission believes strongly that Reid is a quasi-public official because his only clients are public bodies and he is paid entirely with public funds. This report should be read in that context.

These issues and others not mentioned here will be discussed in detail in the body of the report.

\* \* \*

The Commission makes the following recommendations:

- As executive director, Octavius T. Reid's penchant for self promotion and his lack of leadership have resulted in a serious detriment to the mission of the School Boards Association. His lack of candor and ethical insensitivity require that he forfeit any expectation of keeping his position of responsibility. The Commission therefore recommends that Reid be dismissed and that he be sued for restitution of any monies that he received improperly and for any breach of fiduciary responsibility.

- In the event that the Association does not take immediate and meaningful steps to reform, the Legislature should amend the Association statute to make membership optional, relieving local districts of the burden of funding continuing extravagances. Even if there is reform, the legislature should consider whether mandatory membership in the Association is wise. Only Washington and New Jersey require local boards to join their state school boards associations.

- The School Boards Association statute should be amended to declare that the Association, funded as it is by public monies, is a quasi-public agency that should be subject to the controls and limitations

inherent in such status. These controls should include, at a minimum, requirements for public bidding and control of employee compensation and expenses. While there should be an arms-length relationship with any department of state government, the State Auditor should have authority at least to examine the books and records of the Association.

- The statute that authorized the creation of school board self-insurance pools should be clarified to eliminate any confusion regarding the kinds of investments such pools may purchase.

- The Insurance Group has sued Dan Druz and Dean Witter Reynolds in connection with the losses caused by the index options trading. The Attorney General should monitor this litigation to ensure that it is pursued vigorously and, if necessary, intervene to ensure that the interests of the public are protected. In addition, the State Bureau of Securities should investigate whether charges should be brought against Dean Witter for failure to supervise Druz in his handling of the Insurance Group account.

- As a non-profit agency, which is also exempt from the requirements of the state's lobby registration law, the Association should not be able to spend public funds entertaining government officials or their staffs.

- In order to provide greater accountability, the size of the Association's Board of Directors should be substantially reduced. In the alternative, the Association's Executive Committee should be given greater authority to supervise more of the day-to-day activities of the professional staff.

- Although it has severed its administrative relationship with the Association, the Insurance Group's Board of Trustees still includes Association representatives. In order to achieve complete independence, the Group's by-laws should be amended immediately to eliminate this unwarranted representation. The Group should also explore the feasibility of requiring that at least some of its trustees possess expertise in relevant subjects such as law, finance and insurance.

- The Association should be subject to the state's Open Public Meetings Act.

## PART I

# THE INSURANCE GROUP

## BACKGROUND

The New Jersey School Boards Association Insurance Group (NJSBAIG) is one of eight groups of public school boards formed in this state to participate in a joint self-insurance fund. The Insurance Group is by far the largest of these. Its membership includes about 180 of the state's 600 school boards. The other seven groups consist of about 20 boards each. All the smaller groups have confined their coverage to workers' compensation insurance, whereas the Insurance Group since 1985 has offered not only workers' compensation but also property, casualty and liability insurance. It is also the only group that ever invested in limited partnerships, mutual funds and stock index options. The primary source of income to the Insurance Group is premiums paid by its member school districts. The Group enjoys tax-exempt status.

The Insurance Group was organized by the School Boards Association (NJSBA) in 1983 after enabling legislation was enacted. Until 1988 the Insurance Group shared staff, office space and even books and records with the Association. To this day, the Association president appoints eight of the nine members of the Insurance Group's Board of Trustees, three of whom must also serve on the Association's Board of Directors. The president serves *ex officio* as the ninth trustee. In retrospect, this symbiotic relationship, perhaps necessary at the outset, proved detrimental in succeeding years when more independence surely would have better served the financial interests of the Insurance Group.

The purpose of the 1983 legislation was simple: to allow school districts to join together to stabilize and reduce costs, to increase efficiency, and to prevent insurance cost cycles from adversely affect-

ing school district budgets. In fact, a witness told the SCI that since enactment of the statute costs for insurance pool members are 30 to 40 percent below what other districts have to pay.

Linda Ditmars, the first full-time director of the Insurance Group, described the origin and purpose of the Insurance Group in her executive session testimony at the SCI:

*The purpose was to have a ready market for all school districts to obtain insurance, and to offer it at a reasonable cost without wild fluctuations in the market. Hopefully, it would be a stable force, and they wouldn't have to worry about periodic swings in the insurance market.*

## INITIAL ORGANIZATION AND RELATION TO ASSOCIATION

The NJSBA, which had taken an active role in sponsoring the enabling legislation, advanced start-up money to the Group. A 1983 contract specified the nature of the relationship and required the Group to reimburse the Association for its actual expenses or an amount to be capped at three percent of actual incoming premiums.

Douglas Cowan, who served as an officer of the NJSBA from 1982 until 1986, recalled the initial organization period:

*It seems to me I remember thinking, it [the Insurance Group] should be even more autonomous than they were seeming to make it. It's great Monday morning quarterbacking,*

*but I think that part of the problem was that it should have been further separated from [the Association]...You have to remember that the Association gave money to the pool. And that there ought to be an association until that money was paid back, which would be quickly if the pool was successful.*

The governing body of the Insurance Group is its Board of Trustees. The Trustees' role, as seen by Trustee Norman Field, "was to set a policy and to develop the procedures for implementing that legislation and to act as the overseers, so to speak, for making available that coverage to school boards."

Staff initially consisted of a full-time Director of Insurance Programs (Linda Ditmars) and four staff persons from the Association who also worked part-time for the Insurance Group. The executive director of the Association served also as administrator of the Insurance Group and appointed the three additional staff persons — a treasurer, deputy treasurer and secretary.

Lloyd Newbaker was administrator of the Group from its inception in 1983 until early 1985 when he was replaced as NJSBA executive director by Octavius T. Reid, Jr. Dolores Jarvie, comptroller of the NJSBA, was treasurer of the Group from its inception until 1988. Kathleen Donohue, business manager of the NJSBA, was deputy treasurer of the Group from its inception until 1988. Various persons served as secretary.

## **MARKETING TO SCHOOL DISTRICTS**

Promoters of the new Insurance Group emphasized to school boards the expected stability and other financial advantages of the insurance pooling program. For example, Bernard Kirshtein, Association president from 1982 to 1984, described for the SCI the importance of dividends in the initial marketing:

*We tried to make a big PR issue out of it to enhance the organization's ability to provide such services. So yes, rebates were a very necessary thing in my opinion, because it was a nonprofit organization. The intent was not to make money, but to provide the service.*

Former Executive Director Newbaker described the importance of assuring the safety of investments:

*[T]he Association, in promoting the Insurance Group, had to demonstrate to local boards of education that their investments would be safe. The whole idea was to have boards of education pay a reasonable premium, probably discounted below insurance rates, that those moneys would go into a pool, that they would be kept track of, that the loss record of the district would be kept track of, and that if you had no losses, you would, through proper investments, be generating additional income, and you could return a dividend to the boards of education with no losses or very low losses.*

Newbaker continued:

*The obvious statements that you made when you were out talking to boards of education is that you would be investing in safe financial instruments so that you wouldn't be messing around with their premium and lose it somewhere else.*

Insurance Director Linda Ditmars, told the SCI:

*[W]hen we made our presentations, the whole thrust of it was that we would sort of be the best of the commercial carriers and a trade association carrier in the sense that we would charge low premiums, but we would run it very conservatively, we would make safe investments, we would charge them*

*fairly. If their experience was good, they would get a discount or a rebate. If it was bad, we'd try to help them improve their experience...we were going to be a very stable force, we would be there for the future, we would offer coverage to any district that needed it at a reasonable cost and we would be stable and conservative in our management style.*

## **INITIAL INVESTMENTS**

The initial investment policy (Exhibit C-2) adopted by the Board of Trustees of the Insurance Group is found as Exhibit 1 in this Appendix. It states, in part:

*The primary concern of investments shall be the security of invested funds, followed by the interest yield and the maturity date.... Investment instruments specifically omitted are corporate bonds, stocks and other speculative securities of long term duration, one year or longer.*

The Insurance Group investment policy mirrored the Association's conservative investment policy. Linda Ditmars testified:

*Our premiums were cut to the bone...We knew what we had to make in order to cover the premium and we assumed a certain return on our investments, that we had to get that return.*

*Q. What was the return you assumed?*

*A. Well, it was very low. We were limited to extremely conservative vehicles for investing, but we couldn't take any risk with that money. We had to get at least that amount, but we couldn't take any chances with it.*

## PERMISSIBLE INVESTMENTS

Before discussing investment losses, it is important to understand 1) what the enabling statute authorizes in terms of investments by a school insurance group, 2) how the statute differs from what the State Investment Council authorizes, 3) what the "prudent man" rule is and 4) how the NJSBA Insurance Group changed its investment policy from conservative to speculative.

### THE STATUTE

The enabling statute authorizes the trustees of a school boards joint self-insurance fund to:

*Invest moneys held in trust under any fund in investments which are approved for investment by regulation of the State Investment Council for surplus moneys of the State.*  
[N.J.S.A. 18A:18B-4(b)(2)]

Both the term "surplus moneys" and the direction to follow approved Investment Council regulation are problematic. "Surplus moneys" is not a term defined in the state investment statutes, although the term "surplus public moneys" is found in the section authorizing school districts to invest in a state cash management fund. See N.J.S.A. 52:18A-90.4.

Independent insurance consultant Richard Lofberg, who was retained by NJSBA during the bill drafting process, told the SCI that the language covering investments was borrowed from legislation in other states. He noted that the ambiguous and broad nature of the language in this statute was flagged shortly after its passage by Roland Machold, Director of the State's Division of Invest-

ment. In a memorandum dated August 25, 1983 to the assistant state treasurer, copied to the NJSBA, Director Machold expressed his reservations about the language. Machold testified about that memo:

*The subject of my memorandum was that I did not approve of this kind of wording, had not seen it in advance of the passage of the bill, and the reason that I had reservations about the wording was that neither the Division nor the Council liked to be fiduciaries for third parties. This sort of language is so broad that it, in fact, invites abuses of some form or another. It's not that the Council regulations are not complete and accurate and prudent in respect to the investments of the Division, but it's not necessarily the case that those investments will be appropriate for some third parties whose investment programs and investment needs would be foreign to the Division of Investment.*

Machold also noted, "I had a concern related to the actual Council regulations. For example, if one were to blindly follow our regulations, they would not be aware that there might be approved securities that we were not, for a variety of reasons, purchasing." He added, "It's not enough simply to have the right investments for the right funds and the right investment objectives, but it's important to carry out the appropriate procedures."

Machold's memorandum stated in part:

*By copy of this memorandum I am expressing my concern to the School Boards Association. I believe that they would be better off if they were simply subject to the prudent*



man rule.

Machold had no recollection of any response from the Association to his memorandum. No change was made in the insurance group statute and no subsequent state regulation was promulgated formally adopting the prudent man rule as the authority for investments by such groups.

Machold hypothesized that the term "surplus monies" might refer to the state's general investment fund, the large revolving fund out of which the state's major disbursements are made. The investments authorized for that fund, Machold said, are short term investments such as treasury bills and notes, commercial paper and obligations of treasury agencies or other U.S. agencies. Such instruments were, in fact, what the Insurance Group's original investments were in.

#### **THE STATE INVESTMENT COUNCIL**

Stock index options, limited partnerships and mutual funds are not investments specifically authorized under regulations of the State Investment Council. According to Director Machold, if they are not specifically authorized they are impermissible.

Machold testified:

*I saw a newspaper report...in which someone said that investments were legal because they had not been disapproved by the Council. I want to make it very clear that no investment is legal unless it has been approved by the Investment Council. As I told one reporter, under the first premise warehouses would be legal investments simply because they were not specifically excluded by the Council, and the appropriate view is that warehouses are illegal investments because they have not been approved by the Council.*

**No Stock Index Options.** An index is a statistical measure designed to represent the performance of a particular group of stocks. An index option gives the holder the right to purchase or sell the underlying index within a specified period of time. Index options differ from equity options (those based on individual stocks) primarily in that they are settled in cash.

Machold said investment in index options or futures is impermissible under Investment Council regulations. He noted that investment in equity options is permissible "but those are options of individual stocks and the regulation in question states that they must be covered call options. That is to say, we can only write an option if we own the underlying stock."

**No Limited Partnerships.** Machold testified:

*Limited partnerships are not permitted by the Division of Investment. Generally speaking, such partnerships relate to securities which are highly illiquid, which are not possible to evaluate in the market place and in many cases have substantial tax benefits which would not have any value to a tax exempt organization such as the state or, for that matter, the School Boards Association. I would add, editorially, many of these investments also command very high commissions upon the placement, high front end loads and sometimes ongoing fees on an annual basis.*

**No Mutual Funds.** Director Machold discussed mutual fund investments under the Investment Council guidelines:

*Again, mutual funds are not permitted specifically by Council guidelines and regulations. In point of fact, the Division cannot employ outside investors at all. There is no provision in state law that allows us to delegate our authority to another party.... More than that, it wouldn't be appropriate for us to*

*do so, because most mutual funds have very high fees, well in excess of the overhead of managing the assets of the Division.*

Under a prudent man approach, however, Machold thought mutual funds "would be permissible—again, supposing that the investment objectives of the funds were appropriate to the fund and clearly stated by the fiduciaries."

Machold continued:

*People ask me what is going to happen to the market and I always say I don't know. Because I don't know, and markets will always surprise one. If people knew what the markets were going to do, we would all be rich....*

### **THE PRUDENT MAN RULE**

Director Machold in his memorandum referred to the "prudent man rule" as a suggested alternative to the ambiguity of the statute. Even though the "prudent man" rule is considered more liberal than the Investment Council regulations, Machold emphasized in his testimony that an investor must still be mindful of the principal purpose of his investment fund and must manage his investments accordingly.

The prudent man rule is generally defined as a requirement that a fiduciary invest funds only in securities that any reasonable individual interested in receiving a good return while preserving his capital would purchase. The standard does not require that an individual possess exceptional investment skill, only that he exercise discretion in making generally sound investments.

In response to questions from SCI Counsel Carol L. Hoekje, Machold testified:

*What I was trying to say in its simplest form was that every independent investment en-*

*tity within the state or created by the state should, in the authorizing legislation, be directly tied at least to the state prudent man law. I say at least to the state prudent man law because that does not preclude other regulation that might be provided in line with whatever the specific investment objectives are.*

### **WHO KNEW THE RESTRICTIONS?**

None of the Insurance Group trustees who testified before the SCI knew what kinds of investments were authorized. Nor did Reid or Jarvie. But others on the Insurance Group staff certainly understood clearly. Former NJSBA Executive Director and Insurance Group Administrator Newbaker testified:

*I thought it was very clear what we could invest in and what we could not invest in...since my general understanding is that there was the same investment policy for the Insurance Group that there was for the Association, that all staff knew clearly what you could invest in and what you could not invest in. [Emphasis added]*

*Q. Did you have an understanding that certain kinds of investments would not be permitted?*

*A. Absolutely.*

*Q. What kinds of investments?*

*A. Oh, stock market was number one. I'm not sure that I'm familiar with all of the kinds of investments that could be made, but certainly any definition that's risky, and as far as I recall, risky investments were clearly identified by the state, and they were a "no-no" for the Insurance Group.*

*Q. Do you think there was any anticipation by the Insurance Group at the time that you were associated with it that the Insurance*

*Group would ever invest in stock index options?*

*A. Never.*

To Insurance Director Ditmars, the issues raised by Machold's 1983 memorandum rightly were of no concern to the Insurance Group:

*Our policy was so conservative that we didn't think we had any problem under this. We didn't have to choose which funds that we would fall under, we didn't have to decide whether there were stock lists that we might not be aware of because we weren't going to invest in those types of instruments.*

As will be discussed later, however, Ditmars' understanding was not commonly shared, and her differences with Reid over a change in investment policy led eventually to her forced resignation.

In testimony before the SCI, Reid claimed that he "had the primary role behind the creation of the Insurance Group...and it was my primary responsibility as chief lobbyist to lobby it through the legislature." While he claimed he had "most of the ideas" for and reviewed the legislation, he denied any role in drafting the particular language relating to investments, said he did not know who drafted the language, and had no information about its origin.

Reid admitted he did not know specifically what the Group's investments were at the time he became administrator in 1985, or, more importantly, what was permissible. "I couldn't detail now without going back and looking at it." "The investments were not an issue" at that time, he said. Once the legislation was passed, Reid testified, "that was simply another legislative accomplishment." He said he had no subsequent involvement with the creation of

the Insurance Group, its initial agreement with the Association or its marketing.

Former Treasurer Jarvie testified that she had telephoned the Division of Investment when the Group was first organized to ask about permissible investments. She told the SCI she spoke to someone who told her there were no restrictions on what the Group could invest in. "All we had [was] the prudent man rule...there were no real restrictions on what and how we could use the funds and/or invest the funds," Jarvie testified. Machold said he had no knowledge of such a contact. Jarvie said she had no subsequent contacts and did no other investigation of her own.

As will be discussed in subsequent pages, it was this perfunctory inquiry on which Reid later said he relied when he tried to rationalize new, speculative investments that turned to financial disaster for the Insurance Group.

## THE INVESTMENT STRATEGISTS

On July 1, 1985, the Insurance Group expanded its coverage from workers' compensation to other lines of insurance such as property, casualty, liability and inland marine insurance. This expansion of coverage naturally resulted in a substantial increase in premiums to the Group — premiums that had to be invested. It was during this period that Dan Druz arrived on the scene.

The personal relationship between Reid and Druz added to the investment picture a factor that the Commission still cannot define. At its most innocent, it was a friendship. Yet there were developments during the period covered by the investigation that the Commission finds troubling. At first blush, Reid's role in the investment fiasco would appear to be a product of naivete, carelessness or maybe even recklessness. Whatever the case, the Commission is left with the strong belief that Druz, the only person to profit in this whole scenario — and he did so handsomely — was able to do it only because of a preexisting and continuing relationship with Reid. And denials of impropriety by both persons do nothing to dispel the cloud surrounding Druz's granting of an unsecured, low interest \$12,000 loan to Reid while Druz was, in effect, working for the NJSBA. Whether an innocent transaction or not, Reid should have known better.

The two met when Druz was a summer employee of the NJSBA in the mid-1970s and Reid was the Association's chief lobbyist. Both agree that their next contact was several years later, after Druz had graduated from law school, had become a broker for Merrill Lynch in its Lawrenceville office and in the course of soliciting business approached Reid about investing with his firm. That financial relationship, according to both principals, was not

too successful, since Reid ended up losing money.

**Reid's Brokerage Account with Druz.** Reid's personal account was a margin account, with activity mainly from 1978 until 1980 in stocks and a few options. Most stocks were acquired and held only for a few months. Reid remembered "some real good ones" and "some bad ones" from that investment experience. Reid recalled, "The primary thing I was investing in were the [casino] gambling stocks...and then after that I stopped investing because I think I decided to put some money into real estate or something, but I didn't hear any more from him [Druz] or see him any more until 1985."

Reid and Druz agreed that they made investment decisions on the account "jointly" but Reid could not remember the extent of his contact with Druz while the account was open. Nor did he recall the options he had purchased with Druz.

In his testimony, Druz recalled the relationship:

*Q. Did Mr. Reid ever express any dissatisfaction to you with your handling of his account at Merrill Lynch?*

*A. I don't recall. Nothing strong, but on the other hand, a client doesn't have to express dissatisfaction. If they stop doing business with you, they're not that thrilled.*

*Q. Did Mr. Reid lose money at some point in that account?*

*A. I think he ended up losing money. Yes, he did end up losing money.*

Their next contact came in the late summer of 1985 when Druz, who was then the Princeton branch

manager for Dean Witter Reynolds, said he approached Reid at NJSBA offices about finding a teaching job for his sister-in-law. Both men agreed that during the course of an apparently wide-ranging discussion, the subject of finance and investments naturally came up. And it was then, according to Druz, that he first learned of the investment opportunities involving the Insurance Group funds. When Druz expressed an interest in the possibilities, Reid invited him to submit a formal proposal on behalf of himself and Dean Witter Reynolds, a proposal that Reid accepted just a few weeks later. (That hiring will be examined in greater detail in the next section.)

### **RELATIONSHIP GROWS**

After Reid retained Druz to handle investments for the Insurance Group, the personal relationship between the two apparently grew. Of course, the Group's trustees knew nothing of this, and even the NJSBA staff knew little more.

Jarvie testified that she knew "only from hearsay" about Reid's contacts with Druz and that was when Reid's secretary would tell her Reid was not available because "he's meeting with Dan or he's having lunch with Dan." Reid never told her directly of these contacts. Both men said they considered each other to be friends and Druz said he gave Reid his private telephone number at Dean Witter Reynolds (DWR), something Reid said he could not recall.

Several weeks after a 1986 meeting at which the Insurance Group Trustees approved a new investment policy, Druz and Reid went by limousine to meet with a top official at the DWR home office in New York. When this official was not available, Druz called on the Chairman of the Board because Reid was "such an important client." By letter dated February 24, 1986, Druz thanked the Chairman for meeting with them.

Reid recalled the trip:

*We went to talk with the president of Dean Witter. [Druz] was trying to get me in to see him and he wanted to talk about some ideas that he had with respect to the Insurance Group and investing and so forth and wanted me to meet him and talk about all of that.*

Jarvie testified that she believed Reid had gone to New York on several occasions with Druz but that neither Reid nor Druz ever discussed these trips with her.

**The Testimonials.** In addition to securing for Druz the lucrative investment business of the Insurance Group, Reid appeared to take an active interest in promoting Druz and steering other business his way. For instance, Reid testified that he recommended Druz as a broker to the New York School Boards Association (NYSBA) "because I thought he was doing a good job for us, and I thought I was doing my colleague a favor by suggesting someone who I thought was a hot-shot financial wizard."

Reid also wrote a glowing letter of recommendation for Druz, dated July 3, 1986, to a Pennsylvania foundation. In this letter Reid wrote, "As a result of experiences, I have referred Mr. Druz and his firm to my counterparts in other states" and "During this time, Mr. Druz has made a consistent and conscientious effort to keep us briefed on the progress of our investments. With each report there has been a full and candid disclosure of any attendant risks associated with whatever decision we might be asked to make."

In addition to those personal endorsements, Reid, as Executive Director, set up meetings for anyone on the NJSBA staff interested in investing in IRAs with Druz. Several Association employees eventually opened IRA accounts with Druz after such meetings.

**Employment.** As requested, Reid eventually helped Druz's sister-in-law get a teaching job. By letter dated August 28, 1986, Druz wrote to Reid, "I cannot thank you enough for your help in finding employment for my sister-in-law."

Druz also said he made some recommendations for the employment of Reid's son as a stockbroker with the Cherry Hill office of DWR. "I had met Ted's son a couple of times, I knew he was interested in the business,...I thought he'd do well."

Reid testified:

*...[Druz] said that he would like to put in a good word for him but I believe that my son got his employment on his own merit.*

### **THE \$12,000 LOAN**

On April 14, 1987, Reid asked for and received a \$12,000 loan from Druz. The circumstances surrounding the loan were unusually informal, especially for persons involved in the world of business and finance. Neither man had the original of the note. Druz said Reid promised to repay the loan in three months but the promissory note contained no schedule for repayment. Druz said he asked Reid about repayment several months after the loan was made but Reid never responded.

What is clear is that no payment of any kind was made on the loan until June 8, 1988, nearly 14 months after the loan was made and just a day after Druz was interviewed by the SCI. On June 8, Reid sent Druz a check for \$1,000 for "mortgage interest payment." On July 14, 1988, Reid sent Druz another check, this one for \$12,200 in final payment for the loan.

Purported security for the loan was a mortgage, deliverable on demand, on one of two properties Reid owned. However, no mortgage was either delivered or filed, making the loan in reality an

unsecured one. Druz said he filled out the terms on the note and set the interest rate at 8 per cent, a rate he testified "was probably the money market rate at that time." However, the SCI staff determined that the going rate at the time for an unsecured loan was not 8 per cent but 15.75 per cent.

Reid denied, in response to a question, that the loan was a kickback from the commissions Druz earned by handling the Insurance Group funds. And Druz similarly denied the loan was any kind of a payback to Reid, either for the money he had lost in prior investments with Druz or in return for Reid appointing him broker for the Group. Druz also denied the loan was meant in any way to influence Reid not to fire him when the investments started going sour. Both men insisted they had had discussions months earlier about investing in real estate together and the loan was simply the beginning of such a venture.

The loan was made by cashier's check drawn on Druz's personal account at Dean Witter, payable to Druz and endorsed by him over to Reid. Reid testified that the promissory note for this loan was drawn up by an in-house Association attorney at his request. Reid said that he used the money to make capital improvements on properties he owned in the Camden area.

The existence of this loan remained a secret to the Insurance Group trustees and to the Association's officers and directors until more than a year later. However, Druz said he believed he spoke to an NJSBA attorney as early as the fall of 1986 regarding the propriety of such a loan and was told that it would be "no problem." Therefore, when Reid asked him for the money in April, 1987, Druz said he "felt comfortable" because he had "already cleared the way."

*Q. Did you discuss with [the attorney] whether or not either you or he should disclose the existence of the loan to the Insurance Group Trustees?*

A. No.

Druz said he did not disclose the loan to the Insurance Group Trustees because he felt that "once I had spoken to counsel of the School Boards Association, that I had made my disclosure." Neither did he tell anyone at DWR about it.

*Q. Did you at all consider that lending Mr. Reid the money at that time would at all appear improper?*

*A. Well, clearly, that's why I went to the School Boards Association attorney on my own.*

Druz thought he "may well have talked" to the Association attorney in April, 1987, as well as in the fall of 1986.

Druz explained why he lent Reid the money:

*Q. Did you feel at all because of the commissions that you had earned from this account that you owed something to Mr. Reid?*

*A. No—well, I didn't owe him anything financial.*

*Q. What was it that you owed him?*

*A. Well, he gave me an opportunity to make a proposal for the account, so if I ever had the opportunity to do something like that for him—*

Reid testified that he consulted the same NJSBA attorney Druz did about the propriety of the loan. Reid also said he had no concern that there was any appearance of a conflict of interest in receiving the \$12,000 loan:

*I mean, I saw that was a totally separate thing from what we were doing and I was under the impression...that we were doing quite well and doing so fine that there was no question whatsoever of any impropriety. .... If I thought there was any kind of problem*

*with the Insurance Group I never would have bothered with this.*

*Q. Mr. Reid, was the \$12,000 loan from Dan Druz to you a kickback for the commissions that were earned on the Insurance Group account?*

*A. No.*

Jarvie had no knowledge of a loan between Reid and Druz. And she said she never asked Druz for a loan: "I didn't know he was in the lending business."

Druz testified that he was not aware before the trustees' meeting of April 29 that Reid would recommend that he and DWR be reappointed. In fact, he recalled that Reid had told him in a prior meeting that he would not "be renewed as the broker of record at fiscal year-end [if] the performance didn't improve significantly...at least to the equivalent of a CD rate."

*Q. Did you lend Mr. Reid the money because you wanted him not to carry out his promise?*

*A. Absolutely not.*

Commissions to the "Investment Consultant." Druz testified that the Insurance Group was a large and important account. His assistant, Michele Vitale, said it was his largest.

Druz was asked:

*Q. Why was it an important account?*

*A. Because it generated a lot of commissions.*

The SCI staff's analysis of documents provided by Dean Witter Reynolds showed that in the fiscal year ending June 30, 1986, the Insurance Group paid at least \$250,000, (including \$34,000 on the June options trades alone) in commissions to Dean Witter Reynolds. Calculations by the Arthur Young accounting firm showed commissions of \$297,536,

paid for the next fiscal year ending June 30, 1987, for a total of \$547,000 for the two-year period the Insurance Group dealt with Druz. This represented approximately 40% of Druz's total gross commissions of \$1,368,263 from all clients for this two-year period. Druz's share of the commissions ranged from 30 to 43 percent of the gross.

An SCI analysis of commission schedules received under subpoena from DWR showed that in the eight-month period prior to June 1986, options transactions accounted for no more than .7% of Druz's total commissions. From June 1986 until June 1987, however, commissions from options transactions averaged 46% of total (gross) commissions generated by Druz. In June 1986, the first month the transactions began, Insurance Group trades appear to account for 99% of gross commissions earned by Druz on all his options transactions.

No separate records were kept by the Insurance Group staff of commissions paid to the broker and no reports to the Trustees ever mentioned them. The State Investment Council, in contrast, discloses in its monthly reports each transaction including the expense/commission of the transactions. The amounts of commissions paid are subject to annual audit as well as internal review and justification.

The Council expects a minimum discount on commissions. Druz said that after the initial transactions in the account he gave the account a discount of about 25 percent on commissions. Arthur Young audit partner Edward Cupoli testified, however, that he never saw any information in records his firm examined that would indicate that DWR gave the Insurance Group a discount. And Reid said he didn't know.

The Insurance Group trustees generally did not recall any discussion of commissions to be paid to Druz and DWR although Trustee Norman Field thought "we understood that as normal procedure" Druz would bill commissions for each transaction. Former Insurance Group Chair Carolyn Smith

thought, however, that because Druz was labelled

*our investment consultant, we were not aware of that distinction.... All of our consultants were paid on a set fee. I don't think it even occurred to us that it would be a commission basis and it's like a Monday morning quarterback. You think how could you be so dumb but it just—it did not occur [to us]. We were hiring an investment consultant.... I don't think we ever thought of [Druz] as a broker because he was the manager of the Dean Witter Princeton branch.*

Druz testified that each time the term "investment consultant" was used he "objected privately" to Reid or Jarvie, telling them "that was not accurate terminology." Reid testified that he considered Druz an "investment advisor," but also assumed "that his compensation would come by way of whatever commissions that he made." He testified, "Investment consultant, investment advisor. They are interchangeable. Investment consultant, that's what I believed I was hiring when I engaged him."

Director Machold testified about commissions on options:

*The important thing to the broker is the high level of turnover because the commissions are multiplied in direct proportion to the volume of turnover. A "spread" involves two separate transactions, and a commission is charged on each side.*

Druz denied that the volume of trading was done for the purpose of generating commissions. He responded to the staff's observation that the volume appeared to be excessive: "It's essentially to say sitting here looking back on it that it was excessive. To have been there in the volatile markets that we began to experience, might give them more insight, and they might not have that opinion."



Auditor David Williams recalled a conversation with Jarvie in the summer of 1986:

*[S]he showed me that, you know, a stack of transaction slips.... And I noted that there were commissions assessed on each trade and I did, perhaps whimsically, not to her, you know, I wondered aloud whether he was making more on this than the Insurance Group was.*

*Q. What kind of response did you get?*

*A. I don't know anything specific, but I think her response was that it was really nothing she could do about it.*

*Q. Why was that?*

*A. Because she did not have any input into the trades.*

## NEW INVESTMENT POLICY

From the time of the formation of the Insurance Group in 1983 until October, 1985, all its funds were safely invested in certificates of deposit at local banks. Beginning in the fall of 1985, however, and unbeknownst to the Insurance Group trustees or any directors of NJSBA, Reid and Druz took the first steps that were to lead to the financial disaster which occurred in the summer of 1987.

With millions in new premiums to invest because of the expansion of insurance coverage, Reid and Druz went beyond CD's and began to invest Group funds in limited partnerships, mutual funds, equities, government securities, treasury bonds, some common stocks, some interest rate options and a few common stock options. The following June, they began investing in stock index options.

Many of these investments were the kind that Investment Division Director Machold had said were not authorized by his agency for general state investment and were, in fact, highly speculative. And the decision to invest in these instruments was in clear violation of the Insurance Group's written policy and a violation of the trust placed in the Group by its member school boards, who had been promised that their insurance premiums would be invested conservatively.

Before examining the details of the investment picture, it is important to sketch a brief chronological overview of events as they unfolded. In the late summer of 1985, Dan Druz visited Reid, ostensibly to get his sister-in-law a job. A discussion of finances ensued, Druz made a proposal and was retained by Reid to handle the investment of millions of dollars in insurance premiums without so much as any comparison shopping. There was no

contract and Reid had no authorization from any of his superiors.

About the time Druz was retained, Reid had obtained a one-time only exemption from the investment policy of the Association. However, he then opened brokerage accounts at Dean Witter Reynolds for not only the Association but the Insurance Group as well. Despite the fact that the bulk of the money to be invested was assets of the Insurance Group, he never sought approval from the Group's trustees to change their investment policy and told them about it four months after he had already done it. At the same meeting, he got the trustees' approval to retain Druz four months after the broker had already invested more than \$3 million of their funds.

Meanwhile, documents indicating official approval of the opening of the new accounts were fabricated — and De Jarvie, one of the signatories, claimed she did not sign some documents that bore her purported signature.

When the SCI tried to determine the facts and assess responsibility for various actions, Reid, Druz and Jarvie began pointing fingers at each other. And the few people at the NJSBA who had expressed any concern about the new investment policy were either dismissed or ostracized.

**Druz Moves In.** These new investments began shortly after Druz was retained. In discussing his hiring, Reid told the SCI that he had asked Druz:

*Give me a proposal. So, he went and drafted up a proposal and brought it back and I took a look at it. I also gave it to De [Jarvie] and*

*asked her to take a look at it and decided that it might be a good idea and then decided to engage him.*

Reid testified that he did not consider looking at any other brokerage firms at that time. Indeed, no evidence was found in this investigation that bids were sought from other brokerage houses or that a discount on commissions was ever discussed for the Insurance Group account. Jarvie, however, claimed that she had received two other proposals, one from a bank and one from Merrill Lynch, "and then we [Reid and Jarvie] made the decision."

*Q. Why was Dean Witter chosen?*

*A. We had the three and I [looked] at them all and I talked to Ted Reid and I said, you know, I thought that Dean Witter sounded like somebody that would work very well with us. And he said, "Good, I'm glad that you made that recommendation." And he said, "That's what we'll go to the Board with."*

Jarvie recalled, "I think that the proposal that was made was very complete. It sounded like the kind of person that we wanted and certainly the bottom line was Ted Reid. If I had said somebody else, I mean, the decision was basically his."

Druz's proposal, dated September 12, 1985, discussed the proposed investment of Insurance Group and Association monies. Druz characterized that proposal as Dean Witter's basic proposal "for a typical equity portfolio," and said that he tried to keep the language "as generic, as vague and as flexible as possible."

In his proposal, Druz referred to his "personal-relationship with your organization and my position within my firm and the legal community" and said, "I believe I can deliver the best service possible in helping you manage your funds so you can receive a superior return." After discussing several alternatives for "managing your insurance fund," Druz

concluded that the "most cost effective method" (saving management fees of as much as \$40,000 annually) is "where Dolores Jarvie and I can combine our expertise to decide upon the best investments for this fund."

By Counsel Hoekje:

*Q. What information did you have when you wrote this proposal about Dolores Jarvie's expertise in making investments?*

*A. I really knew very little about her background. She was the person, the decision maker for the investments. That's for the most part.*

*Q. What are you basing that statement on, that she was the decision maker for the investments?*

*A. When I had my initial meeting with Ted, he said, "Go see her about investing money for the insurance fund."*

*Q. Were you aware of Mrs. Jarvie's educational background at this time?*

*A. No.*

*Q. Were you aware of any prior experience that Mrs. Jarvie had in making personal investments?*

*A. No.*

*Q. Were you aware of the kinds of investments Mrs. Jarvie had been making for the Insurance Group?*

*A. Yes...I think certificates of deposit, for the most part.*

Dolores Jarvie testified that she began working for the NJSBA in 1973 as a bookkeeper. She did not graduate from high school but obtained a general equivalency diploma and later took some college courses, none in either accounting or bookkeeping. Despite her limited formal education in the field, she eventually became comptroller of the NJSBA

and treasurer of the Insurance Group.

Reid claimed to know little about Jarvie's educational or professional background, yet he referred to her at the SCI as the Association's "financial whiz" and assigned her tasks that he should have known were far above her level of competence. And he took her advice over that of, for instance, Linda Ditmars, the Insurance Group's first director, who also happened to be an attorney.

Druz testified that about two weeks after he wrote up his proposal, "they [Jarvie or Reid] told me that I would be helping them invest their money" for both the Insurance Group and the Association. It was not until four months later that Reid got around to telling the Insurance Group trustees of this decision.

**The Association Brokerage Account.** In September 1985, both the Association's Executive Committee and its Board of Directors were asked to approve a "one-time exclusion" to the Association's investment policy to allow for the investing of \$500,000 realized from the sale of an old Association building. The approvals were granted and the money was deposited on October 2, 1985 into the new account that Reid had authorized Druz to open at DWR for the NJSBA.

Former Association officer Perina Fortoloczki remembered asking "who would be doing the investments and would there be any opportunity for speculation.... I wanted to be sure that [Reid] went on record as indicating to us whether or not that policy would provide for speculative investments, and I was assured that it would not."

**The Insurance Group Account.** Although Reid obtained prior authority for the Association's "one-time" investment change, he did not do the same for the Insurance Group, which had much more money available to invest. At the same time as Druz opened the Association account at DWR, he also opened one for the Insurance Group. Approxi-

mately \$3.3 million was transferred by Jarvie to this new Dean Witter brokerage account between October 1985 and February 1986 for investments that were not authorized by the Insurance Group's existing investment policy, a policy that was not changed until February 5, 1986.

Asked by Counsel Hoekje why the Association's Executive Committee was asked to approve an investment change for the Association, Reid testified:

*Well, before anything could be done in this area it would require their approval...because that is the way our structure is set up. That is the way our organization is. We take things to the Executive Committee first and then, depending upon whether they agree, disagree or modify, it then goes to the Board of Directors. It's operating procedure.*

He said there was no need for the Insurance Group's Board of Trustees to give similar approval because "the investments of the Insurance Group had been handled by basically the treasurer and vice treasurer since its inception." Reid testified that while "any change in the investments for the Association would have required the approval of the Board, any investments with respect to the Insurance Group at that time did not."

*Q. And that was because Mrs. Jarvie had always handled the investments?*

*A. That's right.*

Jarvie's thinking on that issue differed markedly from Reid's. She testified:

*I believe that either we got a verbal agreement, the then-Chairman of the Trustees or something. I know that we wouldn't have gone off and running without having some kind of substantiation.... I just can't see us going into this without having some agreement with either the head of the Trustees or*

*somebody. It just doesn't make sense to me.*

Jarvie was "sure" there must have been a Board of Trustees meeting earlier than February 1986:

*I mean, we wouldn't have gone from October to February without some sort of approval, verbal or whatever. I mean, this is too long a period of time.*

**Who's In Charge?** As stated earlier, Reid testified that he "basically" gave Druz the approval to go ahead and make actual investments after reading his September 12 proposal. He said he was "anticipating" that Druz "was going to make money for us:"

*I told him that I wanted to basically see the monies in the Insurance Group grow and I wanted to make sure that we had good solid investments and I was expecting him to perform like the whiz he told me he was...*

*Q. Did you have an understanding at that time of what kinds of investments would be good solid investments?*

*A. No. I expected him to provide that expertise.*

Reid said he gave Druz no limits on the amount of money he should invest:

*It doesn't make an awful lot of sense to even suggest that. We hired an investment advisor to manage the funds of the Insurance Group.*

The Commission has found that the investments of the Insurance Group proceeded without any specific guidelines or goals. No specific investment vehicles were authorized by the trustees, no detailed reporting procedure was ever established and no parameters for volume of transactions or maximum loss were ever established.

Reid, Jarvie and Druz all had different versions of who made decisions regarding investments and transfers of funds. Jarvie testified, for instance, that she knew she had talked to Reid about transferring money into the Dean Witter account. Reid denied this, saying, "I was not involved in any transfer of funds."

Jarvie also testified that despite direction from Reid and despite assurances from Druz, she was never consulted about the initial investments:

*I was under the impression he [Druz] was to call me and tell me what we were going to buy, okay, in advance. What happened was I started getting confirmations, I started getting confirmations in and then I called him and said, "I thought you were going to call me and discuss different things," and he said, "Oh, well, these are all those things that were in my proposal, so we're not deviating from that...." He assured me he knew what he was doing, he knew the parameters, he knew the kind of things he should be in and not to worry. He'd come in at the end of the month and we'd go over what they were and so on and so forth.*

Reid's testimony was that he had told Druz that "De was our comptroller and financial whiz" and that she "basically made those decisions with respect to money." Reid said he did not give input himself into the investments made in the fall of 1985:

*I'd feel fairly comfortable that they were made at Dan Druz's suggestion...number one, because he was the investment whiz, and, number two, I wouldn't imagine that De Jarvie would sit down and look through all the available investments and come up with this list.*

Druz's version was that the decisions as to the actual initial investments were "jointly decided upon"

by Reid, Jarvie and himself, with some input from Kathleen Donohoe, NJSBA business manager and deputy treasurer of the Group.

Whoever made the decisions, the new investments included limited partnerships, and at least nine different mutual funds or trusts investing in common stock, stock options, commodities and government securities. The investments in stock index options did not begin until June, 1986.

**Fabrications.** Despite the fact that no official body of the NJSBA had approved the opening of the Insurance Group brokerage account, Reid and Jarvie signed a letter to Dean Witter, dated October 4, 1985, making a representation to the contrary. (Exhibit C-80) Reid also signed a DWR new account document attesting to the adoption on October 1, 1985 of a corporate resolution for the Insurance Group account. No evidence was found in this investigation, in documents subpoenaed from DWR or from the Insurance Group, that this false representation was ever amended or corrected.

New account documents for the Insurance Group were signed by Reid, Druz and ostensibly Jarvie on October 1, 1985. However, some of the new account documents were interesting because the "signature" of Dolores Jarvie, Treasurer of the Group, appeared as "Delores Jarvie" on two of the documents—a margin agreement pledging mutual funds shares as collateral and one version of the "corporate resolution" for the Group obtained from the DWR files. Jarvie's reaction to seeing her purported signature on the first document at the SCI was, "Good Lord...whoever signed it did me a favor by...not even spelling it [right]."

In January 1986, an options account was authorized over Jarvie's signature for all types of options transactions. Again, Jarvie testified that she had no knowledge of signing an options account form. Although the stock index option trading did not commence until June 1986, the new investments in the fall of 1985 included \$530,000 in an "Option

Income Trust." No discretionary trading authorization agreement was ever signed. The Association's taxpayer identification number was also apparently used for this account until 1988.

Reid's explanation for attesting the purported "corporate resolution" was essentially to blame Jarvie. "When the things related to finances...the comptroller would put those things together for me and, after having reviewed them, bring them down to me for my signature," he said.

**Ditmars Discovers the Change.** Insurance Director Linda Ditmars testified that she first learned about a change in investments in early January of 1986 when she received a copy of a financial statement from Jarvie indicating that the Insurance Group had made a number of new investments.

Ditmars testified, "I was rather concerned about it...it was a major departure from what we had done." Ditmars described to the SCI three major concerns that she had:

- 1. The Group's Board of Trustees was not aware of this action and had not approved this change in our investment policy....*
- 2. The investments were clearly prohibited by our own investment policy [C-2].*
- 3. The investments appeared to be prohibited by the Insurance Group enabling legislation.*

Ditmars said she also believed that "whether or not the investments were or were not prohibited, they were inherently risky in nature," in contrast to the Group's marketing approach, which had always stressed stability and conservative investments.

Some of her other concerns were the "manner in which a stockbroker was apparently chosen and that was not bid out as we would normally do," as well as "how much control we would maintain...[and]

whether we had a proper mixture of short-term/long-term investments.”

Ditmars wrote a memorandum to Jarvie on January 19, 1986 [Exhibit C-6] indicating that Board approval was needed under the Group's bylaws (and the statute) for a change in investment direction as well as the employment of a stockbroker. Subsequent advance materials prepared for the upcoming Trustees meeting on February 5, 1986 put these items on the agenda. Ditmars also wrote to Reid enclosing copies of the Machold memorandum and the Investment Council regulations (Exhibits C-7; C-7A).

Ditmars also conducted her own informal inquiry at this time. She called Dean Witter Reynolds and “spoke with whoever answered the phone and I read off the list of these funds and just asked him, could you tell me something about these.” She was told that four of the investments were mutual funds, another was covered call writing, which she understood to be speculative in nature. “U.S. Equipment Income Fund, he said no good. He didn't know who I was. He just said no good, don't invest in that.” A commodities fund was evaluated as “very volatile.” Ditmars also learned that for another fund, “half of their holdings are in South Africa in gold futures,” which raised concerns for Ditmars about legislation requiring divestiture of investments in that country to protest its apartheid policy. Three or four others were “real estate partnerships, and he said they were long-term investments, they were not liquid investments,” she said.

Ditmars also called the Division of Investment and spoke to Director Machold, who “told me specifically mutual funds were not allowed by...any type of public entity, because that was deemed to be an impermissible delegation of power because a mutual fund manager was really managing the funds and not the investor.”

*Q. Did you share any of the information you had learned with any of your superiors?*

*A. With Ted or De, no I didn't. I assumed that they knew what they had invested in. This was really for my own interests.*

Ditmars concluded, “I was very, very concerned about this whole matter and I think they knew I was.” As Ditmars told the SCI, the two million dollars that had been transferred into the Dean Witter account as of December 1985 came from premium money paid by school districts. “That was our only source of funds,” she said.

Reid testified that Ditmars expressed no concerns directly to him but conceded that he saw her memo:

*There was a memo that she sent me. I remember her sending me something and I remember shooting it back to either De or somebody in legal or what have you and saying, what is the story here.*

*Q. Do you recall a concern that Ditmars raised about any of the investments being in possible conflict with the state divestiture law?*

*A. I don't remember the specific content of the memo. I remember Linda Ditmars sending a memo, raising some concern, which I then referred to some of my staff to look into and tell me, is there something legitimate here or not, is there something to be concerned about.*

*Q. Did you receive any feedback from that referral?*

*A. Yes, I had some feedback which said that basically she was all wet.*

*Q. Do you recall whether that feedback came from legal or from De Jarvie?*

*A. I don't specifically recall, no.*

Reid was asked whether he had any concerns about any of the issues raised by Ditmars:

A. Well, having addressed those concerns and having had those checked out with the state and having them applied as being okay, no, there was no reason for me to have another concern.

By Commissioner Barry H. Evenchick:

Q. Did you ever convey to Linda Ditmars the results of your [or Jarvie's] checking with the state? In short, did you ever say to Linda Ditmars, "Look, I checked this out and they tell me we are okay," or words to that effect?

A. As I recall, when I gave this to De, she did the checking and then she spoke to Linda about it, because she was the one that was dealing with the investments and she said, "I'll talk to her."

Q. So, the sequence roughly was that after the exchange of memoranda you had De Jarvie check with the state, she did so, reported to you that Linda Ditmars was all wet, to use your expression, and then De Jarvie at some point conveyed to Linda Ditmars the result of De Jarvie's checking with the state?

A. Yes, that's my recollection.

Reid recalled during his testimony having reviewed the Machold memorandum, which was attached to Ditmars's memo to him and said he discussed the Machold memorandum with Jarvie, telling her, "Find out from them what concerns we ought to have, if any." It was at that time that Jarvie "made the phone calls to the state...." Now that I recall this, I remember her saying something to the effect of, their guidance is worth zip, because they give very little."

Jarvie's version differed substantially. She said that her one and only contact with the state was long before Druz was retained and that she never saw the Machold memorandum until almost two years after Druz had been retained.

**Ditmars Speaks to Donoher.** Kathleen Donoher, Insurance Group deputy treasurer, told the SCI how Ditmars had shared her concerns shortly before the Trustees meeting of February 5, 1986:

...[S]he said that she had a lot of concerns about the new investment policy and I said, "Well, I think you ought to go speak to Ted." She said, "I have. I've spoken to Ted and De." And I said, "I don't know what else to tell you...." I remember Ditmars saying, "They're making improper investments. These investments we should not be in for an insurance group."

Donoher reported this conversation to Reid and Jarvie separately before the same meeting:

I told De and Ted that Linda had serious concerns about the investment policy and I wasn't quite sure I knew what was going on. I said, "But she was very upset about it. Perhaps somebody ought to talk to her again."

Q. What was De Jarvie's response to you?  
A. She said, "She doesn't know what she's talking about. Just forget it."

Q. What was Ted Reid's response to you?  
A. I remember he was extremely upset with Linda, very angry at her...I think he said, "Do you know if she talked to anyone else about this," and I said, "I don't know." ..He was extremely agitated...and he just kept saying to me, "What else did she say? What else did she say?"

The trustees meeting originally scheduled for January 15, 1986 was changed to February 5, 1986 because Reid had been in Paris on an Association trip on the earlier date. No special meeting or conference call was held in the interim to seek the trustees' authorization for new investments.



Reid testified:

*When I went to the Board of Trustees, I did it because I wanted to advise them of what I was doing, not because I had to seek their approval to do it.*

By Counsel Hoekje:

*Q. Isn't it true that the only reason you went to the Insurance Group at that time to let them know about the investments was because Linda Ditmars found out about them?*

*A. Absolutely not. Absolutely not.*

Despite Reid's assertion to the contrary, the hiring of Druz and a change in investment policy clearly required prior approval of the Group's trustees. Ditmars knew this and if Reid truly did not, he should have.

#### **NEW POLICY ADOPTED**

On February 5, 1986 the Board of Trustees, as required by both the statute and the Insurance Group's by-laws, voted to approve a new investment policy, which had begun four months earlier. In the advance materials prepared for the meeting, Reid told the trustees that "market conditions" had necessitated a quick change and that major revisions had become necessary in the Group's asset management.

**The Policy.** The new policy submitted to the trustees read:

#### **Investments**

*The Administrator shall authorize the investment of idle Group funds in a manner which will provide for high yield returns while continuing to adhere to the guidelines established by N.J.S.A. 18A:18B-4B ("to invest monies held in trust under any funds in*

*investments which are approved for investment by regulation of the State Investment Council for surplus monies of the state").*

The new policy called for pursuing "high yield returns" while "continuing to adhere" to the guidelines of the State Investment Council Regulation, two seemingly inconsistent goals. The emphasis on security that was in the prior investment policy was omitted. According to testimony before the SCI, there was some discussion during the meeting of the "prudent man rule," but curiously no record of this discussion could be found in any minutes.

Exactly who wrote the new policy is still unclear. Again, all the principals denied responsibility. Dorothea Shinn, Group secretary at the time who typed all the advance materials for the meeting, recalled that she received a draft of the investment policy on note book paper in Jarvie's handwriting. Jarvie could not remember if she wrote the new policy. And she said she did not know how the term "high yield returns" got in the policy. Reid believed the new policy was worked out among Druz, Jarvie and the accounting firm of Arthur Young. Druz testified he had "absolutely no input" into the writing of the new investment policy.

Asked by SCI Counsel Hoekje to evaluate the two policies, State Investment Director Machold called them "radically different." He noted in particular that the first policy clearly cited as its primary objective the security of investment funds, whereas the second made no direct reference to security. The first policy also clearly considered liquidity requirements, the second made no reference at all to liquidity.

**The Meeting.** Four months after he had been retained, Dan Druz was introduced to the trustees for the first time at this February 5 meeting and made a presentation. The advance materials did not disclose that Druz had been retained four months earlier or that Reid had a prior brokerage account with Druz.

Trustee Eugene Burns recalled:

*When the investment person, Dan Druz, came to his first meeting, I remember him saying that he had investigated what investments that we could make, groups such as the Insurance Group could make, and he said they have to be very conservative, and they have to be safe, and he had looked them up. I remember him saying that he had looked up everything at that time.*

*Q. Did you at that time have any concerns about the new investment policy or direction?*

*A. No, I did not. I thought it was very good, because we had hired a person who was in the investment field. We had an expert.*

*Q. What was it about Mr. Druz that to your mind made him an expert?*

*A. He worked for Dean Witter, and he was highly recommended by [Reid].*

Other trustees had similar recollections, especially regarding what was said about the safety and security of the new investments.

Druz described the meeting as "an open-ended discussion" with "no specific focus." He did not recall an explicit discussion at the meeting about who would make the investment decisions. "I believe the general feeling was that it would be Ted, De and me."

*Q. And where did that feeling come from?*

*A. Well, the questions were being asked of Ted, De and me, so we seemed to be the decision makers.*

Auditor Jon McCormac from Arthur Young who was present at the meeting recalled that "Dan specifically said that he would not be responsible for anything on his own, that anything he did would be ultimately approved by the Group," because these

were "the Group's investments, not his."

**Different Minutes, Missing Tapes.** Despite many trustees' recollection of a discussion about the "prudent man" standard, the minutes of this meeting reflect no mention of such a discussion or how this standard — and not the statute — was supposed to apply to the Group's new investment direction. Dorothea Shinn, the Insurance Group secretary who prepared the minutes of the meeting, testified that in reviewing the minutes they seemed "different.... They're not what I put. They're — they're totally different. They're — they're just not the way I did them." Shinn noted in particular that the phrase "prudent man rule" was missing entirely from the official version of the minutes given to the SCI.

Shinn also testified that she had dated and filed away all the tape recordings of the meetings for which she took minutes. However, the tape of the February 5, 1986 meeting was not among those that were located at the Association building and turned over to the SCI — after a lengthy delay — during this investigation.

**Harney Dissents.** Trustee Robert Harney, the only trustee with an insurance background, cast the sole dissenting vote at the meeting on the new investment policy. He testified:

*My concern was that I wanted to make sure that the investment policy and practices were consistent with the practices expected of insurance companies.... I thought Mr. Druz was perhaps oriented more towards a different type of investment portfolio and purpose than that of the Group, and [I] was assured by Mr. Druz that Dean Witter did, indeed, have expertise in managing investment portfolios on behalf of insurance companies. And there was some nominal discussion on that and I saw the arrangement being made not so much with the individual but with the firm.... He did I think refer to his Chicago office's having some expertise or some expe-*

rience in investing on behalf of insurance companies and that he would touch base with them.

By Commissioner Evenchick:

*Q. Was your negative vote cast at the meeting of February 5, 1986, with regard to the new investment procedure because you perceived that new procedure as extending beyond that which was permitted by the State Investment Policy Council?*

*A. No. It was because I perceived it as not heading towards the very conservative approach that I'm more used to with insurance companies.*

*Q. And I take it that that was, in essence, what you expressed at the meeting prior to the time that the vote was taken.*

*A. Yes. That's correct. And, indeed, subsequently Mr. Druz did come back with a letter saying he had checked with the investment practices of some insurance companies and that they were all over the lot. I'm not sure I fully agreed with that, but that's what he came back with.*

After the vote on the investment policy, Harney subsequently moved to approve appointment of the brokerage firm. He explained why:

*Having lost on the investment policy, you try to seek peace, and if you're going to implement a policy, once the vote is taken you sort of fall within ranks as to where to make the best of it. Dean Witter to me looked as good as any other brokerage house and why not.*

Harney also recalled:

*My sense of the trustees was that [they] had quite a bit of confidence in Mr. Reid and the staff. And I don't recall very many — if any — of his recommendations had been turned*

*down. Some were altered, as you would expect, but I had a lot of confidence in him. I don't think I'd describe the trustees as a rubber stamp, no, but certainly greatly influenced.*

Linda Ditmars explained why she did not express her concerns about the new investments at the meeting:

*Because I felt so strongly that it was the wrong thing to do, but that wasn't the forum to express those concerns, in my opinion.*

**The Investment "Regulation" Follows.** Eight months after Druz was retained and the Group had already sunk more than \$3 million into a portfolio which included speculative and other investments, new investment "regulations" were presented to the Board of Trustees "for information only" on June 4, 1986. These regulations stated, in relevant part:

*Long-term investments will be limited to those acceptable under the prudent man rule (as it applies to retirement accounts).... All types of investments acceptable under the prudent man rule must be approved by the Administrator and the Treasurer of the Insurance Group on a case-by-case basis.*

Trustee Norman Field testified that he believed the investment "regulation [filled] the gaps as to the supervision that would be necessary to insure the proper kinds of investments".

*Q. In what way were those gaps filled?*

*A. Primarily the fact that there would be constant day-to-day supervision of the individual investments and approval of the individual investment items.*

Field believed such day-to-day supervision would indeed happen and that "case-by-case" meant every specific transaction.

Despite the wording of the new regulation, both Administrator Reid and Treasurer Jarvie testified that they never gave their approval to any of the Group's investments that followed.

Again, as with the wording of the new investment policy, all the principals denied responsibility for the language in the regulations. Reid did not "specifically know" who wrote the regulation. Jarvie said that Druz wrote the "regulation" because she asked him to write it. Druz testified that an outline of the investment policy regulations was sent to him and he was asked to fill in some "terminology."

### **HARNEY AND DITMARS ARE ELIMINATED**

The only two persons associated with the Insurance Group who had raised any questions or concerns about the new investment direction were Trustee Robert Harney and Director of Insurance Linda Ditmars, the Insurance Group's only full-time staff member. Both were soon no longer associated with the Group.

Harney's term expired in the summer of 1986 and he was not reappointed by President Joseph Zemaitis. Harney recalled, "I got a letter thanking me for my service for the last three years and it ended." Harney, the director of risk management for a large pharmaceutical company who had been appointed as the trustee-at-large, was one of the original trustees of the Insurance Group.

Appointing the Trustees is the prerogative of the NJSBA president. Zemaitis testified that he "was asked not to reappoint him."

*Q. Who asked you not to reappoint him?*

*A. Mrs. Jarvie and Mr. Reid.*

*Q. What reasons did they give you?*

*A. He was a pain.*

*Q. Did they say why they thought he was a*

*pain?*

*A. He was asking a lot of questions about a lot of things, disrupting meetings, causing meetings to go on beyond whatever that time ought to be that meetings should go on to...and that generally his questions were not relevant to the issues before them. He was questioning, questioning, questioning, and being a royal pain, and I was asked not to reappoint him, and I didn't.*

Zemaitis continued, "I accepted their explanations that he was disruptive to the process and was not serving the Insurance Group in its best interests or the Association."

Trustee Eugene Burns recalled another conversation:

*De Jarvie had spoken to me on the phone and said that he [Harney] was not going to be reappointed because he was not a team player.*

Jarvie did not explain what she meant and Burns did not ask.

Kathleen Donohoe recalled:

*I was in De's office and I believe it was right after that meeting [February 5, 1986] and it may have been the next morning after the meeting, and Ted came in and they were saying, you know, about Bob Harney and they were very annoyed and Ted said to De, "Well, when is his term up," and she said, "His term is up this year," and they said, "Well, we'll be sure to appoint someone else."*

Jarvie denied participation in Harney's ouster, saying she "never had part or parcel of those kinds of decisions" and that the phrase "team player" was not "my kind of language.... What I would have said, he's a pain in the -, that's what I would have

said. A team player, I wouldn't have said."

Reid claimed he didn't remember asking Ze-maitis not to reappoint Harney.

*Q. Did you, after the meeting, express dissatisfaction to anyone about Bob Harney's questioning at the meeting?*

*A. About his questioning at the meeting? I don't know. I don't recall. It's possible. There are periodically times where he or anyone else may have gotten under my skin.*

However, Reid recalled Harney as "probably the most active" at the February meeting, and characterized his comments as "typical of Bob Harney. It was always critical, questioning, analytical."

Linda Ditmars told the SCI about the circumstances surrounding her resignation as the full-time Director of Insurance Programs:

*Well, I was called into Ted's office on March 26th [1986], I thought just for a regular meeting. I had a status report for him and a couple of other things and he told me that I wasn't a team player, he couldn't work with me, and that I had impugned the integrity of the Insurance Group management...during that discussion he had said quote that I would be expected to leave the following day and I would get my severance pay, et cetera.... I left the office, Ted's office, rather upset. A few minutes later I received a memo from Ted indicating that if he didn't receive my resignation within an hour or whatever, that I would be terminated and the Association employees would be told that I had been terminated and I wouldn't get any severance pay.*

Ditmars wrote out a one-line resignation and left that day. Ditmars testified that she thought her termination was "unjustified, but maybe not completely unexpected."

*Q. In your opinion was your termination related at all to your questioning of the new investment policy?*

*A. Oh, I believe so, yes.*

Reid testified, "I asked her to resign...because I thought she was incompetent." He said he was also concerned that she was "too cozy with Marsh & McLennan," the Insurance Group's servicing company. Reid said he did not give Ditmars reasons for her termination on advice of counsel.

Reid denied that his asking Ditmars to resign was because of any criticism or concerns she had raised about the Group's new investments:

*It was related to a whole series of things....[it was] something that was building up for an entire year.*

*Q. Did you, in a conversation with Ditmars at the time that you asked her to submit her resignation, tell her that you thought she wasn't a team player?*

*A. I may very well have.*

Reid testified:

*I had planned on replacing her and...[Jarvie] implored me to allow her to try and do it, that she felt that she could do it and things appeared to be going very well and she felt as though she could do the job and asked me if I would allow her to continue, which I did."*

Reid testified there was "very little" increase in his time commitment to the Group after Ditmars left:

*Basically what I was doing was attempting to surround myself with some experts who would provide the data that was needed and my job would basically be just to coordinate it.*

## NEW INVESTMENTS

The new investment policy set for the Insurance Group was vague in its directive to follow the guidelines of the statute, which no one understood in any event. The regulations promulgated pursuant to that new policy used the prudent man standard instead of the statute as its guideline, although the Commission found no documentation in any Insurance Group minutes explaining and authorizing the adoption of the rule. In sending these "regulations" to the trustees in advance of the June 4 meeting, Reid stated that they were for their "information only" and did not require any formal action. Since there was no formal adoption process, the regulations were, in effect, promulgated and imposed by the staff and Reid and not by the trustees.

### PROTECTING CLIENTS

The Dean Witter Branch Manager's Manual obtained by the SCI imposes a substantial obligation on managers to protect investors by adhering to certain procedures. Druz appears to have ignored most of them. For instance, the manual directs branch managers to examine accounts for evidence of unsuitability, excess activity, possible trading beyond the client's resources or objectives, and excessive speculative trading. The manual states that "[t]he simplest method of detecting excessive trading is turnover," and notes that "[t]he fact that the customer is aware of the transactions does not relieve either the firm or the [Account Executive] of their responsibilities."

The DWR manual suggests that brokers send an "activity letter" to active accounts to alert the client that active trading will incur substantial commissions, which will affect the overall profitability of

an account. Druz said he never sent such a letter to the Insurance Group because "There was no reason to.... Well, the activity letter is something that's good, but it's preferable if you have verbal contact with the client and discuss it with him."

Additional cautionary instructions are found in other sections of the Branch Manager's Manual regarding supervision of options trading. One section notes:

*Trading options products provides an investor with a wide range of lucrative opportunities while at the same time exposing him to significant risk of loss and the firm to serious penalties. Therefore, the proper supervision of options accounts is crucial to the efficient operation of a branch.*

The manual continues:

*When an account is approved for option trading, it should be with the understanding that only a specific, limited amount of a client's investment capital is to be risked in options trading.*

In a section regarding the supervision of options, the manual states that a branch manager should always consider whether the client understands the nature of the strategy and the risks involved. Yet Druz himself maintained that the strategy was too complicated for Jarvie to understand.

Also interesting is a list of different types of accounts eligible for options trading on margin and/or in cash only. Margin trading is not listed as suitable for charitable organizations, custodial ac-

counts, scholarship/foundations, trusts, or banks as custodian trustee. Yet Druz placed the Insurance Group into margin trading.

### ***"REPORTS" OF THE INVESTMENT CONSULTANT***

In direct contrast to DWR's stated philosophy of keeping clients fully informed, the trustees received quarterly reports from Druz that consisted of mere one page narrative summaries of the portfolio's overall performance. Those reports spoke generally of the overall return on the portfolio, using phrases such as "weighted averages" and "annualized rate," but did not detail the specific investments. No information was provided as to commissions earned by DWR and Druz or the volume of activity in the account. Druz's oral presentations were similarly short and general.

Once the trading in index options began, Jarvie discontinued her own detailing of the investments in her Treasurer's Reports. Thereafter, her reports merely stated the total amount in "long-term" investments. Significantly, no written report ever referred to the investments in stock index options, which began in June 1986.

Over the 21 months that Druz was the Insurance Group account executive, from October, 1985 to June, 1987, he appeared at five meetings, including the introductory meeting, to give oral reports. He also submitted three written reports, none of which exceeded one page of narrative. Two of the three reports were only two paragraphs long. The minutes of the meetings contain no more detailed information than the written reports.

Both written and oral reports to the trustees in September and November of 1986, and in January 1987, emphasized that the Group was out of the stock market, "sitting on the sidelines" and investing exclusively in "safe" government bonds and/or government securities. In fact, however, this ostensible

retreat from the stock market was contemporaneous with the investment of millions of dollars in stock index options literally betting on the short-term performance of that very market.

To verify Druz's testimony, the SCI sought tapes of trustee meetings. Not all tapes of relevant meetings were found, but those that were contradict Druz's adamant assertions that his oral reports to the trustees were more detailed than his written reports as well as his claim that the Group's minutes summarizing his reports were fabricated. The tapes also demonstrate that Druz lied to the trustees.

For instance, in October 1986, transactions in stock index options amounted to approximately \$1 million in purchases and \$1 million in sales, yet this activity was not disclosed to the trustees in November 1986. Druz told the trustees only that "...the vast majority of our money [is] in treasury bonds..."

The U.S. Treasury Bonds purchased in September and October 1986 had been sold as of December 31, 1986 (approximately \$2.8 million). Yet Druz told the trustees in the January 1987 meeting, "...we've maintained our nearly 100% position in government bonds in avoiding the stock market with some very minor exceptions..."

### ***WHAT INVESTIGATION WAS CONDUCTED BY DRUZ AND THE STAFF?***

This investigation has found no evidence that Reid, as administrator of the Insurance Group, ever sought any legal opinion as to what kinds of investments were appropriate for an organization of the type he led. Instead, he relied on a perfunctory inquiry by an unlearned De Jarvie and an even less serious look by Dan Druz.

Druz, an attorney, testified that he never examined the statute to see what kind of investments the Insurance Group was allowed to make, despite his

promise to the trustees that he would evaluate the suitability of the investments. He said that his "mandate from Ted, I guess to a lesser extent from De, was to treat this, and these are exact words, as a private insurance company. Treat the investments as a private insurance company association."

Druz said that he sought input from several other sources as to what would be permissible investments, such as the branch manager of the DWR office in Vineland, who "handled some insurance company type of accounts," someone at Allstate and, he said, "I made a call to" New Jersey Manufacturers Insurance Company in the fall of 1985.

By Commissioner W. Hunt Dumont:

*Q. Did you have any other private insurance company clients at the time?*

*A. No.*

*Q. Did you have any other customers similar to this, meaning insurance groups for non-profit organizations?*

*A. No.*

*Q. It was not a private insurance company, though, you knew that, did you not?*

*A. Yes.*

*Q. Why did you treat it the same?*

*A. Well, why did I treat it the same? I was told that the investments that were to be made, the guidelines that I should follow, would be as if it were a private insurance company.*

*Q. And who told you that, again, sir?*

*A. Ted Reid...and more than once.*

*Q. And you did not do any independent investigation of your own with respect to whether or not you should rely on his statement?*

*A. Yes, that's correct.*

Reid similarly testified that he did not investigate at that time what was a permissible investment for the Insurance Group, but that he directed Jarvie to undertake such an investigation "somewhere around the time we were considering it," and that Jarvie "indicated that everything was okay, as best I can recall."

*She told me that she talked — as best I can recall — she talked to somebody in the state and some other people that she knew where she was doing investing, I guess at the bank or whatever, but I don't remember specifically who she mentioned at the time.*

*Q. Did you consult any of the trustees around the time of the opening of the account at Dean Witter as to what they considered to be a permissible investment for the insurance group?*

*A. No.... It was my assumption that whatever the state required we would do and it was my understanding and I felt comfortable with the fact that De had checked that out with the state and whatever it was we were doing was not disapproved by the state, so, therefore, there was no reason for me to believe that we were doing anything that was outside of state mandates or dictates.*

*Q. Did you perceive that you had any obligation to do your own independent investigation as to permissible investments?*

*A. Did I feel I had an obligation to do that? No, I did not. If I went back and double-checked everything my staff did, I'd never get anything done.*

*Q. Do you know whether at the time that Jarvie checked with the Division of Investments whether she specifically had asked them about investments in stock index options?*

*A. No. I can't say to you that she specifically did.*



*Q. Do you know if she at any time after the stock index options transactions began went to the Division of Investments and specifically asked them about those kinds of investments?*

*A. I can't precisely say that.*

Jarvie's effort consisted of a single telephone call to the State Investment Council which left her with the understanding that "under the prudent man rule, you can do anything you want." She never did any independent research of her own about the prudent man rule. She testified that she believed Druz made all the contacts she thought were necessary.

**Who Was Minding The Store?** As branch manager, Druz was known as a "producing manager." He had his own clientele, and was responsible as well for supervising some 20 other account executives. Druz estimated his actual clients were about 60% of the 800 to 1000 accounts his office held. He was also a registered options principal.

Druz was the highest ranking person in the Dean Witter Reynolds Princeton office. For most of the time, his direct superior was a regional director in the New York office. The compliance officer for the branch was also located in the New York office.

By Commissioner Dumont:

*Q. And in connection with compliance, I take it your responsibility as the lead person in the office was to make sure that the brokers complied with the rules and regulations as put forth by the exchange and other applicable laws, is that correct?*

*A. Yes, sir.*

In his testimony, Druz said, "I brought ideas to the [Insurance] Group, discussed with them, and they showed us what they wanted or didn't want to do." He admitted, though, that he could "never really recall any trustee giving strong input." But he

said he discussed investments frequently with Reid and Jarvie.

By Commissioner Dumont:

*Q. Did you have any guidelines within Dean Witter as to how often you had to discuss their client's portfolio in terms of a non-discretionary account?*

*A. Not in terms of daily or weekly or anything like that, no. The client had to be kept informed.*

*Q. But the client did not have to approve each and every trade?*

*A. They had to approve the transactions.... All of these transactions were authorized. Every specific individual trade was not specifically authorized before I made the transaction. All transactions were reported to the client, general direction was discussed beforehand, no changes in direction were made without their consent and frequent discussions were held regarding the portfolio.*

*Q. Well, I'm still unclear as to how much contact you had with the client in connection with stock index options in this account.*

*A. Significant, but not daily, except to the extent that they received a confirmation.*

Druz explained, "I talked in general terms about increasing or decreasing positions based on whatever it was that Dean Witter was saying."

By Commissioner Dumont:

*Q. What was your obligation to check with them with respect to authorization in connection with a particular trade?*

*A. I didn't have to check with them for a specific trade.*

*Q. When did you have to check with them?*

*A. Periodically.*

*Q. What were your guidelines with respect to checking with them?*

*A. We didn't establish specific guidelines, but we talked more frequently sometimes, less frequently during other times.*

*Q. Well, in this connection, what was your understanding of a non-discretionary account, as far as your relationship with your client and how often you had to check with them?*

*A. I think to keep them informed about what strategies I would be utilizing, what the reason for these strategies was, and not to enter into a change of direction in strategy without discussing with them first.*

*Q. Well, let me see if I understand this. If you decided mutually with them to get into stock index options, how frequently did you have to check with them on that particular direction?*

*A. That was not established. But, in fact, we talked frequently.*

By Counsel Hoekje:

*Q. With whom did you have the most contact on this account?*

*A. Well, initially Ted and then for sometime De, and then beginning in '87 when the losses began to incur, my talks with De began to decrease and my talks with Ted began to increase. I saw him a few times.*

The new investment regulations required the Insurance Group administrator and treasurer to approve investment transactions. With this in mind, Reid was asked by Counsel Hoekje to respond to the trustees' impression that it would be he, and not Jarvie, who would actually oversee and monitor the investments. He testified:

*If you want to suggest that someone claims they had the impression that I was doing a day-to-day watching and monitoring every single investment, that is simply not true. What would be the purpose of my having a treasurer and deputy treasurer if I was going to do the work for them?*

Reid continued:

*I couldn't tell you from looking at those names [referring to a list of initial investments] what they are or what categories they fall into. But, at that point I never looked at it. There was no reason for me to. There was no issue. There was no question. I mean, the investments were something that were being taken care of between Dan and De and, in my opinion, and based on the information I was being given, those investments are doing well. I had no reason to concern myself with which fell into what category.*

Reid described his role in overseeing the investments:

*Q. Did you see yourself as having any duty to do any independent verification of what was happening with the account?*

*A. I saw the independent verification of what was happening in the account as a responsibility that was being assumed and carried out by our auditors, Arthur Young.*

*Q. And what role did you expect the auditors to play with respect to the investments?*

*A. Well, to me they were the money management experts in the sense of the accounting of such with respect to propriety of such.... I could feel comfortable that if everything satisfied them, that it had met all of the necessary standards for the management of that money.*

*Q. Your expectation as to the auditors' role,*

*did you communicate that expectation to any of the auditors at any time?*

*A. I communicated that to De and she, in turn, communicated that to the auditors.*

Reid could not say, however, whether any of the engagement letters with Arthur Young specifically detailed that firm's role with respect to investments. Arthur Young partner Edward Cupoli disputed Reid's assertion, testifying that he was not aware that the Insurance Group ever asked Arthur Young for its input into the new investment policy.

Reid continued:

*Q. Now, you have spoken about your expectations with respect to the auditors and your expectations with respect to the treasurer and the deputy treasurer. Did you see yourself as administrator having any role with respect to the investments that you couldn't delegate to another party?*

*A. Again, I'm not sure specifically what you're looking for here. I saw my role as basically overseeing the broad-based policy overview and that was to have our money placed somewhere where we were going to get growth.*

Reid testified that he "looked at everything before it went to the trustees."

By Commissioner Dumont:

*Q. And as I further recall you never looked at confirmations or monthly statements. Is that correct?*

*A. That's correct.*

*Q. But as far as you independently looking at any type of financial statement which gave a breakdown of the portfolio, the amount invested and the nature of the return, you didn't have anything like that?*

*A. No, I did not.*

Although the "investment regulation" specifically required the approval of all investments by "the administrator and the treasurer," Reid testified, "I don't recall ever specifically approving investments in stock options. I don't recall specifically approving any specific investments on a case-by-case basis."

*Q. Did you have any practice or procedure for monitoring Dan Druz's activity on the account?*

*A. Yes. I delegated that responsibility to the treasurer and deputy treasurer and that was also in conjunction with the auditors.*

Reid testified:

*...we had a Status of Investment Report which our investment advisor gave to us at each of the meetings, and he was in day-to-day contact with the treasurer and also with the vice-treasurer, and I relied upon the expertise of the two of them to review those and report to me if there were any concerns.... Basically the investments were done by De Jarvie. She took care of making investments.*

Jarvie worked at the Association for almost 15 years, beginning as a bookkeeper and leaving in 1988 as comptroller. She was comptroller for approximately four years and reported to the executive director. Her final salary as comptroller was \$64,000. Jarvie described her background to the SCI: "I have a G.E.D. for high school, I took the equivalency tests, and went through about two years of college on a couple of Saturday mornings." She testified that she never had any courses in accounting or bookkeeping, but knowledge of bookkeeping based on "30 some years of working."

*Q. Is it fair to say that you've essentially learned what you know from working on the job?*

*A. Yes.*

She described her comptroller duties as "heading all of the Association's financial areas, plus overseeing the internal organization." When the Director of Insurance Programs, Linda Ditmars, left, Jarvie testified, she also "took over all of the duties running the Insurance Group."

Jarvie summarized her prior investment experience as handling very few types of investments — zero coupon bonds, certificates of deposit, some stocks through a bank. She and her husband had a brokerage account at Druz's prior firm, Merrill Lynch, and she subsequently opened two accounts with Druz at Dean Witter.

Jarvie testified:

*I wanted to learn what kinds of things we were allowed to get into. I trusted [Druz] completely and I thought he had the kind of mind and the kind of background to be able to do what I needed. I couldn't do it...that's why we were hiring him to do it. And I trusted that he would do it well.... As I said, I didn't know about investments. The few that we have are very safe ones, personally I'm talking now.*

*Q. Did Dan Druz ask you around this time what your investment experience had been?*

*A. Well, Dan Druz was quite aware that I felt that I didn't know anything about the investments through brokerages, and he promised that when he got done teaching me, inside of a year, I would know as much about investments of stocks and the stock market end of it as I did about CD's and those kinds of things.*

Jarvie testified:

*Q. Did Druz teach you about investments?*

*A. Not really.*

DWR installed a computer in Jarvie's office so

she could track the investments.

*It never worked. He sent somebody there twice to reprogram it.... I never could use it.*

*Q. Do you believe that you gave the impression to Dan Druz that you understood what he was talking about?*

*A. No.*

*Q. Why do you say that?*

*A. Why do I say that? Because it's true. I never said I understood him. I never said I understood the market. He was well aware of that. I said it to him and I said it to Ted on several occasions. And I never gave anybody the false impression that I knew what the hell was going on.*

Jarvie testified that she received from Marsh and McLennan at several times in the year a guide as to the amounts of money needed for outstanding claims, long-term, short-term, and that based on these projections, she was able to decide how much money could be invested. The money representing long-term needs went to Dean Witter.

Jarvie testified about her initial understanding of who would make the investment decisions:

*In my mind I thought that I would be making the decisions or Ted would be making the decisions, with input from Dan Druz, and that I was quite surprised that it wasn't happening that way. In my mind, for myself, I located what was going on by the fact that I did not understand stocks and I thought that perhaps it was being done this way because these were very safe.*

She testified that she spoke to Reid about her feelings:

*And I would say that I was feeling shaky about that whole thing because I didn't feel*

*I had control over Mr. Druz.*

*Q. Do you recall what kind of response Mr. Reid made to you?*

*A. Mostly he would say that he knew Dan and he knew Dan was okay and Dan would — Dan knew the business and I was not supposed to kind of really be worried about it. That was the kind of answer I would get.*

### **WHY INVEST IN STOCK INDEX OPTIONS?**

Investment in stock index options began concurrently with the presentation to the trustees of the "investment regulation" on June 4, 1986. These transactions accounted for by far the greatest volume in activity in the account for the next year. In June, the first month of trading, there were more than 150 separate trades on 15 different days. In the next month, index options trades occurred on 18 different days and accounted for more than \$680,000 in purchases and \$580,000 in sales.

Although the "regulation" called for approval by the Group's administrator and treasurer of all types of investments "acceptable under the prudent man rule," both the administrator [Reid] and the treasurer [Jarvie] testified before the SCI that they never gave their approval to these voluminous transactions.

"Mendelson's Song." In explaining to the SCI why he began investing Group funds in stock index options, Druz cited the market predictions of a DWR vice-president and market analyst named John Mendelson, a strategy that Jarvie referred to in her testimony as "Mendelson's Song."

Druz testified:

*Dean Witter had a fellow named John Mendelson who was considered the market analyst of that period on Wall Street, the best known, the most accurate, had a record that*

*went back to calling the beginning of the bull market in '82, he called the different turns, the bonds going down at one point, over-the-counter stocks at another. He was considered Wall Street's chief guru during the early and middle stages of the market rise. In the second quarter of 1986, Mendelson began to get bearish on the stock market. He was saying that the market had reached a peak culminating in a pronouncement in July of '86 where he said the market is going to drop off precipitously. Dean Witter, in conjunction with these predictions by Mendelson, recommended to its brokers that we begin to consider the use of derivative investment vehicles; that is, options futures, in order to provide our portfolios with some downward hedge in the event that Mendelson proved to be correct. So one of the ways they recommended trying to hedge larger portfolios was through the use of stock index options. So in May or June or whatever it was that Mendelson began to clearly show that he was less optimistic about the future market, we began this program with the Insurance Group.*

Druz testified that he suggested to Reid, Jarvie and Donoher that he begin this program for these reasons. He considered such investments in keeping with the objectives of the Insurance Group because "the benefits that we hoped to derive from the use of the various stock index options strategies were additional cash flow and had a hedge against potential precipitous downturn in the stock and bond markets." He noted, however, "We didn't really discuss the options as a separate investment."

Druz also said that Reid "early on" expressed concern to him about the volume of trading. Jarvie and Donoher also "made some comments about it." Druz testified how he answered Reid's concerns:

*The same way I had explained it to him to begin with. Options have a limited life as investment vehicles. And if you're going to*

have a continuing options program of any sort, there's going to be more activity because stock lasts in perpetuity, where an option has a definite end. If you want to put it in a new one, that's another transaction.

**The Reevaluation "Strategy."** Asked whether there were risks associated with the use of the stock index options, Druz responded that "at any time the losses incurred from the option position of the portfolio were more than, well, were in the area of 5 or 15 percent, that we would re-evaluate and discontinue at this time, if we so decided."

*Q. When you use the figure 5 to 15 percent, how was that going to be measured?*

*A. As a percentage of the entire portfolio.*

*Q. For what time period?*

*A. I don't think that was specifically decided. I think it was just if we reached that point, in any time frame, we would reevaluate.*

*Q. Was there any dollar amount placed on your projections?*

*A. No.*

*Q. How would the loss be determined, 5 to 15 percent decline?*

*A. I don't mean to give you a flip answer, but add up the losses and you add up the value of the portfolio.*

*Q. At what time?*

*A. At any particular time.*

*Q. And from whom was the information to come that the portfolio had declined?*

*A. Well, I spent some time with Mrs. Jarvie at the beginning of the option [activity] reviewing her statements with her so that she could understand them. So it could have come from either of us. We both knew, more or less, where the portfolio was most of the*

*time.*

*Q. And how did you know that?*

*A. I had my computer, which gave me an evaluation on a daily basis. She had her statements which gave her evaluations on a monthly basis. And there was some communication over the months.*

Druz testified that he had a "working number I knew had been invested" and that it was the decline in the "working number" that he would look at.

*Q. And this was the approach that you worked out with the Insurance Group staff that would be taken at the time that you began the investments and index options?*

*A. I didn't really work it out as an approach. We just said, if it gets to be a loss in that area, we'll talk about it.*

**"Hedging" the Group's Investments.** Druz testified that he did not consider the investments in stock index options speculative, an opinion not shared by Investment Council Director Machold. Druz said he considered them "hedges against a predicted downturn and a means by which we could improve income to the portfolio if the market stayed more or less in a trading range." He did not mention the losses that could result from an unpredicted upswing in the market. The DWR manual summarizes options strategies and pairs the strategy of "spreading" ("moderate risk/moderate reward") with the investment objective of "speculation." Only three strategies are paired with the investment objective of "investment hedge", and all three involve either purchase or ownership of the underlying security, a practice followed by the State Investment Council. According to DWR's own description, therefore, Druz's "spread" strategy is not a "hedge" at all, but rather a speculation.

**"The Strategies Were Mine".** Druz was asked:

*Q. Who made the actual daily decisions on*

*the transactions in the stock index options?*

*A. The strategies were mine.*

*Q. Whose decisions were the daily trades?*

*A. I made the recommendations, they approved them.*

*Q. Did you, before each trade every day, call up -- anyone at the Insurance Group?*

*A. No, not before each individual trade.*

*Q. Was that true generally with respect to the index options?*

*A. Yes.*

*Q. Did you receive an understanding of any approval that was given about the trades that you did?*

*A. Absolutely.*

*Q. In what way was that approval given?*

*A. Verbally.... We being me, Ted, De and Kathy [Donoher], weekly, monthly, whatever, discussed what was going on with the portfolio, discussed where Dean Witter thought the market might go, discussed the options transactions. It was verbal.*

Druz specifically remembered calls from Reid to ask him about the options strategy:

*There were calls at the beginning of the options strategy, which would put us in summer and fall of 1986. And then again, say, starting February through May and June (1987).*

**The Sophistication Issue.** Druz testified that he considered Reid to be a sophisticated investor and that he believed Reid had sufficient experience to be able to evaluate transactions in the account.

*Q. At the time that you recommended that the Group begin the trading of the index options, did you consider that De Jarvie had*

*sufficient experience to be able to understand what you recommended?*

*A. Yes and no. I explained it to her, she understood what I was talking about. She made some options transactions of a different nature than the ones that the insurance group did.*

*Q. She made one transaction?*

*A. Yes, it may be.*

*Q. Did anyone from Dean Witter ever express any concern to you about this trading?*

*A. Not while it was making money, but when it started to lose money, yes.*

Druz said no one from his home office questioned the propriety or appropriateness of the investments when the index options trading began. But he said his superior "certainly expressed his concern" when the account began to lose money.

#### **REID CLAIMED NINE MONTHS' LACK OF KNOWLEDGE**

Reid testified at the SCI that he did not participate in a decision to invest in stock index options, and that he did not participate in any strategy-planning sessions relating to the investments in stock index options in the summer of 1986 or thereafter until around the late spring of 1987. This testimony directly contradicts that of Druz, who said he, Reid and others discussed strategy when the options trading began in June, 1986. Reid testified that he learned that the Insurance Group was investing in stock index options "primarily through the information provided by De Jarvie and it would have been sometime — I can't nail down the precise time — it would have been in late spring of '87."

*Q. Prior to late spring of '87 you had no knowledge of the Insurance Group investments —*

*A. Not really.*

Q.— in stock index options?

A. Not really.

Q. When you say "not really," are you qualifying your knowledge in some way?

A. I'm only saying that I can't specifically recall having discussed any of the particular investment vehicles or having paid particular attention to one over the other and acknowledging that they may have been in some document that passed before me but that I didn't specifically examine.

Q. Did anyone at any time around the summer of 1986 ever bring to your attention investments in index options?

A. Summer of '86? No, I don't think so.

Q. You first learned about the index options in the late spring of '87?

A. Somewhere around there, yes.

Q. Did Mrs. Jarvie at any time during the summer of 1986 or the fall of 1986 bring to your attention the investments in the stock index options?

A. I don't specifically remember any conversation about it.

Reid did not believe that Druz told anyone, including the trustees, what he was doing with those investments until the "time when De first raised the concerns with me" in March or April 1987. Reid said he remembered a discussion about the hedge strategy "and it seems to me to the best of my memory that that was around the spring or late winter or whatever of '87":

By Commissioner Dumont:

Q. In connection with this hedging strategy, what was your understanding as to where the investments were?

A. Well, at the time when he talked about this hedging strategy I believe is where he talked

about the use of options —

Q. And when was this? Can you put a time on this?

A. I know that there was a discussion like that around March or April [1987]. There may have been one prior to that, but I'd really have to guess at it.

Q. But let me ask you this: At least at the time you learned that there was going to be a hedging strategy employed, at that point you also knew that stock index options would be used. Am I correct?

A. You'd have to leave out the word "index" because as I recall in my discussions, it was stock options...the business about index options and really the distinctions really didn't become clear until July of '87 when the whole discussion about all of this took place and broke out.

Q. Well, when you first learned about this hedging strategy did you ask questions about it to ascertain what it was and where the investments would be?

A. Yes, yes.

Q. And who did you ask these questions of and what did you learn?

A. When I asked those questions, I asked them of Dan and he gave me a very lengthy explanation that involved this gentleman Mendelson who was the Dean Witter guru. He went through an extended discussion about Mendelson...suggesting that this man was the one that Wall Street had followed for years and had been incredibly correct and that he was predicting a major downturn in the market...and that what he was doing was attempting to protect the Insurance Group portfolio against any major turn-around in the market while at the same time trying to get us a good steady growth to build the funds....



*Q. And in connection with laying out what the strategy was did he indicate somewhere along the way that he would be employing stock options as the investment vehicle?*

*A. I believe that's correct, yes, he did. As I said at some limited percentage of something like 5 percent I recall — 3 to 5 percent or something along that line of the portfolio.*

*Q. But loss parameters or such that you were asked earlier was not discussed at least during that conversation?*

*A. No. I mean, I don't remember the loss parameters per se other than that in doing some options that, you know, you may lose a little and gain a little but basically what you're doing — in fact, I think that was one of the words as I recall now — that this was a form of insurance to guarantee that you wouldn't suffer any major losses in the portfolio.*

**Jarvie Got No Help.** Jarvie's testimony at the SCI on this issue, as on others, differed markedly from Reid's. She said that she had concerns about the options investments from the time that they began in June, 1986, and that she communicated those concerns over the time period that the account was in Druz's hands. She said she communicated her concerns to the auditors and to Reid.

Jarvie testified about a conversation with Reid:

*I remember one specific time going in early on with copies of the confirmations for a particular month, and they were — there were, in my estimation, a large amount of confirmations. I was totally amazed at this amount of work, and transactions, and I went in and I remember having a conversation about it, and even bringing copies — the confirmations with me. I remember that early. I can't remember whether it was August or September, but I believe it was*

*around that time.*

Jarvie did not recall ever using the particular phrase "index options" or "stock index options" "because I really didn't know that that's what they were, but they were there, you know, the confirmations were there."

Jarvie testified that she first learned about the trades in stock index options through confirmations and that she did not know about the trades before they commenced:

*I called Dan Druz and said, "what the hell are you doing?" That was my reaction. "What's going on and what are these things." And I said, they don't look anything like the other things I was getting and what's going on.*

Jarvie recalled Druz's response:

*Oh, he had quite a, you know, a long-winded explanation, and this was — I can't verbatim tell you what he said, but it was like by the time you got done you were saying okay, fine, it sounds good.*

Jarvie recalled from that time a "series of meetings" involving Druz, the auditors, and herself "because of these options." She did not recall if Reid was involved in any of these meetings, only that "normally, if I had a meeting of that nature with someone, I would generally let Ted know." She said Donoher "could have been" involved in these meetings.

Jarvie did, however, recall a meeting with Druz in which he explained his strategy for these investments:

*He explained that it was only a small percentage of the portfolio and that it was explained in the proposal that a portion of the moneys would be done in hedging, and this*

*was a hedging strategy, yes.... I was told over and over again by Dan that this was hedging, that this was in the proposal, not to worry, and I didn't understand it. And he would give me this explanation, but I really didn't understand it, and to this day I don't.*

Jarvie testified that she showed confirmation slips to Reid "on several occasions." She wanted someone besides Druz and the auditors to see how many there were:

*I said, you know, "I don't think this is right." There just seems to be too many pieces here. That bothered me, and I know I showed them to him on several occasions for that specific reason.*

Asked whether Druz ever discussed any risks attendant to the index options, Jarvie responded:

*Dan Druz used to talk about the big picture a lot and that's where he was coming from. In other words, he — his explanation was that you had your money in all these different little things and if this one went down and this one went up in the big picture you were still making 20 percent or whatever and you were still doing very well.*

Jarvie testified that she first heard what she called the "Mendelson song" in February of 1987. She contradicted Druz's testimony that he spoke to her about setting a loss limit or parameters on trading from the index options and denied that she ever agreed to a "strategy" to review the options trading if the total portfolio value dropped a certain percentage. She did concede that Druz explained to her "on several occasions" what he meant by a hedge but claimed that she did not understand what he meant:

*We had several conversations and specifically, as I said, it's hard to be specific about a conversation with Dan. He would leave*

*you feeling relieved and comfortable, but you were never exactly sure why.*

Jarvie's position was that she spoke to the auditors, to Druz, and to Ted Reid about the index option trading and her concerns that it did not seem right:

*I was on the phone with the auditors all the time saying, "Are you sure this is okay? I don't think this is right, I don't think we should be doing that." I was on the phone with Dan Druz. I talked to Ted Reid about it. I didn't know who else to talk to about it. Nobody seemed to say (indicating) send them to the lions. I mean, I was expecting somebody that knew a little bit more about these things. I never lied. I always said I didn't understand it, but I had people around me that had the education and the expertise, and I expected them to help me or to help Ted Reid.*

Jarvie's records of the Group's investments were recorded on ledger pages "kept in a manila folder in her desk drawer." She also kept the transaction statements and confirmation slips in this drawer.

Jarvie testified that she tried to keep records on the stock index options and "just couldn't do it" any further. She testified about a conversation with Druz in the summer of 1986:

*Around August, July when all these confirmations were coming in, I was trying to figure them out...and [Druz] said, "there's no way that you could figure that out. You don't even understand how to read those things."*

In November 1986, Druz, Jarvie and Arthur Young auditor David Williams met to discuss "better bookkeeping for the options trades." Jarvie had asked Williams to attend "for further backup" on this. As a result of this meeting, Druz promised to send Jarvie "a prompt delivery of a monthly statement of options trades, which would indicate the

realized gains or losses on each close of trade." These statements stopped arriving in early 1987, just at the time the losses began to mount.

### **DONOHER'S ROLE**

Kathleen Donoher testified that Reid and Jarvie began to include her in discussions about the Insurance Group around January 1987.

*Q. Were you aware during the summer and the fall of 1986 of a general strategy on the part of the Insurance Group to invest in index options?*

*A. No.*

*Q. Did you ever participate in any strategy discussions with Mr. Druz?*

*A. No, never.*

Donoher recalled around February of 1987 seeing in Jarvie's office "this stack of papers, these square little papers...and I said, "what's that," and she just took them and she just put them away." On another occasion in March 1987, Donoher observed several of these papers more closely on Jarvie's desk:

*I said, "What do you mean, these are index options?" I said, "Look at the commission on this amount of money," because it said right on the slip the commission amount, and she just, you know, said, "Oh, these are just the confirmation slips I get from the investments," and she put them away in her desk drawer, but that's the only two times I ever recall seeing that...*

Donoher testified:

*I remember distinctly...the commissions listed on them...and I said, "Jeez, that's a lot of money, you know, to be making," and I*

*started realizing, "Jeez, Dan Druz is making a lot of money on these." It was around this time, according to Donoher, that she first realized anything significant about the Group's investments.*

### **ARTHUR YOUNG**

The auditing firm of Arthur Young believed it had a responsibility to determine whether the Group's investments comported with its own policies but saw no responsibility to evaluate those underlying policies. Nor did the firm believe it was responsible for determining the legality of the Group's policies under the insurance group statute.

Arthur Young partner Edward Cupoli was asked by the SCI:

*Q. Did you examine whether the Insurance Group's policy adhered to the provisions of the statute with respect to the investments?*

*A. I would assume that their legal counsel would have done that.*

*Q. Did Arthur Young undertake any independent investigation?*

*A. No.... The Board of Trustees approved the policy. That's their policy. All we were doing was determining whether they were following their policy or not.*

Cupoli added that he knew of no auditing principle or standard that required his firm to make such a legal determination.

Arthur Young was concerned, however, about the investments in limited partnerships, which it viewed as long term and illiquid, a condition that might limit the availability of funds in the event the Insurance Group had to pay a major claim. The firm also questioned why an organization like the Group, which was tax exempt, felt the need to invest in what was basically a tax shelter.

Druz had explained, however, that since only a small percentage of the Group's portfolio was in such investments, it was simply a way to further diversify.

As for stock index options, Arthur Young felt that since these investments again were a small percentage of the portfolio as of June 30, 1986, and they were hedged, there was no problem. Of course, Druz introduced naked options into the portfolio early in 1987, which were even more speculative than hedged options.

## THE LOSSES SNOWBALL

By late spring of 1987, it was clear that contrary to Dean Witter's expectations the market had taken a strong upturn. Investors in stock index options who had, in effect, gambled on a market downturn were suffering a setback. Druz, Jarvie, Donoher and even the auditors admitted they knew then that the Insurance Group's major speculative investments were in trouble. Only Reid said he didn't know. Jarvie had calculated those losses at more than a million dollars and all because they were in risky investments at the wrong time. How did it happen?

Reid told the SCI he first learned the Insurance Group had invested in stock index options nine months after that trading began — after options worth nearly \$13 million dollars had been traded. And he said he didn't tell the Group's trustees of the losses — more than \$1 million at one time — because he didn't yet have accurate figures. Both propositions defy belief and both were controverted by other testimony.

All the trustees apparently first focused on the term "stock index options" in August, 1987, in connection with the news of the Insurance Group investment losses. But the 1985-86 audit, completed by Arthur Young and presented to the trustees in January of 1987 in retrospect became a red flag.

Several of the trustees described what meaning, if any, these terms had for them in January. Carolyn Smith, for instance, testified:

*Q. Did you have an awareness of the kind of investments that the group was involved in?*  
*A. Prior to June 30, 1987, I personally did not, although in reviewing the audit, I dis-*

*covered that there was mention of stock market option indices. Not knowing until September of 1987 exactly what that was, it was something that was meaningless to me.*

Jarvie testified that in February, 1987, she became concerned because she was not getting the promised transaction reports from Dan Druz:

*I called him and asked him...why he wasn't talking to me, what was going on.... And that's when he gave me the first inclination that there [were] problems in the market and he was staying up nights over it and I wasn't to worry about it.*

...

*And he said, this business...about Mendelson and the guru and the Wall Street and—he's staying up nights and I shouldn't stay up nights. And he was on top of everything and not to worry.*

Jarvie said this was the first time she had ever heard about Mendelson and she reported the conversation and her concerns to Reid, who said he would speak to Druz.

Druz explained his strategy for the SCI. He said DWR followed a recommendation in December, 1986, by Mendelson, who had "stepped up his bearish predictions to a point of near panic" and "that we were doing our clients a great disservice by recommending equities at all or anything other than the most secure." He testified that before the January, 1987, trustees meeting he had gone to Reid "and told him that I wanted to take some steps to ensure against the greater downturn and wanted to change

the strategy a little bit by introducing some naked options, which would have given us more downside protection than the spreads." He said Reid's reaction was, "Do it." Druz acknowledged, however, that the change to naked options would make it more difficult to control any loss.

Druz was asked about the losses that occurred, once the market took an unexpected turn:

*Q. At what point did you notice that [the account] started to lose money?*

*A. Well, in January, our profits were wiped out very quickly. In February, we began to lose money. In March, we lost more.*

*Q. And was it at this time that you began to have greater contact with Mr. Reid?*

*A. Yes. I think I saw him personally once or twice.*

According to Reid, it was in the March telephone conversation — nine months after the trading began — that he first learned of the Group's investments in stock index options. Reid testified that he asked Druz in this phone call about losses and that Druz said:

*...something to the effect of we're only talking about stuff on paper now, that there are no realized losses. He basically said to me, "You have nothing to worry about. The fund's in good shape." ... But at the conclusion of that conversation he assured me that everything was fine and I had absolutely nothing to worry about.*

*The numbers I seem to recall around that time were around 100,000 to 200,000, which he said were of profits that we had made that were substantially greater than that and that these were really paper losses at this point that were not of any concern...the stock market goes up and goes down, and there's a trail*

*that has hills and valleys and that giving back a little bit of the profits was a normal expectation in overall growth, all of which seemed reasonable from anything I had ever seen or heard.*

...

*Q. Did you undertake any investigation of your own in March to determine whether [Druz's] assurances about the account were accurate?*

*A. No, not on my own.*

Reid testified somewhat circularly that he had no question about propriety of the investments at that time:

*[T]he propriety of those was not an issue with me. It was not an issue because I wasn't aware that it was an improper type of investment.*

**Reid and Druz Meet at Lahiere's.** Druz testified that sometime after their phone conversation, he and Reid had lunch at Lahiere's Restaurant in Princeton, specifically to discuss the portfolio's performance and to inform Reid "of specifics, dollar specifics." Druz said the loss figure discussed was "substantial" but he could not remember the exact amount. He said it could have been \$300,000 or \$500,000.

At some point, according to Druz, "We decided to give up on the Mendelson prediction" but he said, "It was very indecisive at that point.... I think we flip-flopped a little bit during that period."

*Q. Did you consider at all just stopping the transactions?*

*A. I don't remember if that was discussed as an option at that point. I just don't remember.*

Reid testified that he first heard dollar figures placed on the losses during the March lunch meeting

with Druz. According to Reid, Druz reiterated the substance of the phone conversation and told him "that he had made some changes in the portfolio." Asked whether he had given Druz any instructions around this time, Reid testified, "My instructions were, I expect a good job from you and I expect that if you're doing something that isn't resulting in our basically securing our principal and getting us some kind of growth, then you better make whatever changes you need to make to see to it that that's the case."

A few days later, on March 20, 1987, Druz wrote to Reid confirming a switch "from a bearish to a bullish strategy":

*Thank you for your continued confidence. As we discussed in accordance with our decision to reverse from a bearish to a bullish strategy, our first move to try and recover our lost profits is the transfer of \$1,000,000 from the Government Securities Trust into the Dividend Growth Fund, as well as to establish several bullish option "spread" positions. I will be in touch in the near future to report on our progress.*

According to Druz, the decision to "reverse from a bearish to bullish strategy" was a "mutual decision." Reid disputed this, saying, "The letter kind of implied it was a joint decision that we had made but it wasn't."

Reid denied threatening to fire Druz but said that "there were a few occasions when I said to him that I expect top-notch performance out of you and no matter what our relationship is or how much I like you, if we don't get top-notch performance, you're out the door." For his part, Druz testified, "I was led to believe by Ted that I wasn't going to be renewed...."

#### **APRIL TRUSTEES MEETING**

Druz was not present and no report from him

was submitted to the trustees at the April 29, 1987, meeting. Druz said he believed he had a conflict with a DWR conference on this date and had asked Reid to handle the presentation about the account. This meeting was the first since Reid had borrowed \$12,000 from Druz, a transaction that was discussed in detail on page 14...., and was the one at which, despite recent developments, Reid recommended that Druz and DWR be reappointed as investment consultants.

In the advance materials for the meeting, Reid supported this recommendation by stating, "Dean Witter's manager, Dan Druz, has been very effective in managing our portfolio which is substantiated by our 1985-86 audit results." Reid later called the reappointments a "perfunctory thing" and testified, "At that time I was under the impression we were doing quite well." This was less than a month after his lunch with Druz at Lahiere's that was held specifically to discuss the increasing investment losses.

In January, February and March, 1987, transactions in stock index options amounted to more than \$3.6 million in purchases and \$3.3 million in sales, yet this activity was not disclosed to the trustees at their April meeting. Nor was any disclosure made of the status of the Group's investments, even though Druz's records at DWR showed increasing losses in the index options trading.

#### **"CLOSE TO ONE MILLION"**

Druz testified that subsequent to his loan to Reid but before the trustees meeting, "Ted [was] calling me a few times, hopeful that things were getting better so he'd be able to present it to the Board in a more positive way." Druz said Reid did not instruct him not to deal with Jarvie, "but he made it clear that he wanted to be kept abreast frequently.... I got the impression that I should be directing my calls and information to him." Druz also recalled:

*Basically Dean Witter at this point in so many words said, this is your baby, do the best you can with it, try to get some direction.... You know, at this point, people [at DWR] were running away from it to some extent.*

When Jarvie finally received options transaction statements from Druz, she posted entries in her ledger pages for the index options. It was then that she first learned that there were losses in the account:

*I know that the April date is [a loss] because I know that's a red figure. And I remember that specifically because I went into Ted Reid with it when I came up with that particular one, and I also called the auditors and voiced, very vociferously, my concerns about the loss. So I know that figure is a loss. Before that, I can't be positive, but I know that particular one.*

Jarvie testified that she then brought the April loss of \$967,150.43 to Reid's attention. She said the May figure was "even worse than before," reaching \$1,133,000 in losses on options.

Auditor David Williams told the SCI about a conversation with Jarvie in mid-May in which she expressed a belief that the Insurance Group had suffered losses of nearly \$1 million. Williams said Jarvie told him that she had called Druz, who said he had gotten incorrect technical advice from Dean Witter and that caused him to invest the wrong way. Williams said he reported the conversation to his manager, Jon McCormac, who testified that his firm in early June confirmed Jarvie's calculations of the losses when it began its work on the 1986-87 audit.

Arthur Young partner Edward Cupoli directed McCormac to get in touch with Reid to make sure he was aware of the losses. "Reid was out of town and could not be reached. I told McCormac to then set up some way so we could talk to him the next

day...." Cupoli recalled McCormac's mentioning to him that Jarvie had indicated that Reid was aware of the loss but Cupoli said he "just wanted to be sure."

*Q. When Jon McCormac first examined the records and came to the determination there was a loss, was a figure mentioned at that time?*

*A. It was just an approximate figure of a million dollars. That's the figure that was thrown out both in May and in June.*

*Q. Was Mr. McCormac at all to instruct Mr. Reid to cease the trading in the options?*

*A. That's not in our purview. All we could do is tell him he had a loss. We can't tell him what to do with his business operation.*

Williams also remembered:

*De Jarvie had prepared a financial statement, which I saw in June, which indicated a loss of over a million dollars.*

*Q. Did you see this financial statement prior to the time that Mr. McCormac's phone conversation with Mr. Reid occurred?*

*A. Yes, but not very long before.*

*Q. When Mrs. Jarvie showed you the financial statement, did she indicate whether Mr. Reid had seen it or whether she intended to show it to Mr. Reid?*

*A. She said she intended to present it to the Board.*

*Q. Did she say when she intended to present it to the Board?*

*A. At the next meeting.*

Reid's testimony was that subsequent to his March meeting with Druz, his next information about the status of the Group's investments came in May when Jarvie expressed to him "some concern about the investments and about the losses." "De



said she wasn't sure of what she thought the losses were and she was getting different numbers from Kathy Donoher." Reid testified:

*The figures at that time varied anywhere from a couple of hundred thousand to a million.*

*Q. What was the source for the figures of a couple of hundred thousand?*

*A. De.*

*Q. And what was the source for the figures of up to a million?*

*A. Kathy Donoher.*

Donoher's testimony on this issue was radically different from Reid's. She said she learned about the losses from Jarvie, who developed the loss numbers from her own calculations. Jarvie's testimony supports Donoher on this issue. Aside from Reid's self-serving testimony, there is no evidence that Donoher had any independent information or did any calculations. Donoher recalled:

*Okay, well, in the very beginning of June De Jarvie had come into my office one day, sat down and she was extremely nervous and agitated. I said, "What's the matter now?" And she said, "We're in a lot of trouble." I said, "What are you talking about?" She said, "The Insurance Group investments."*

That was when Donoher said Jarvie told her that the Insurance Group had lost \$1,133,000:

*She was very, very upset...and I said, "Does Ted know?" And she said, "Sure, he does." I said, "How could you possibly lose that kind of money? You lost it all this month in May?" And she said, "No." She said, "It's been over the last couple of months." And I said, "In what?" And she said, "In index options" and then the bell went off over my head, and I said, "What are index options?"*

*Those [trade confirmations] I saw on your desk?" So I was extremely, extremely upset and I said "Let's go talk to Ted." I said, "The Board of Trustees meeting is coming up. They have to know about it." And she said, "No. I'll talk to Ted about it," and from that time I got the distinct impression that she didn't want...both of them and me in the same room talking about this.*

Donoher continued:

*I said, you know, "These [options trades] have been stopped, haven't they?" She said, "No." And I said, "Why haven't they been stopped?" And she said, "[All] I'm worried about is that nobody finds out about this."*

Jarvie testified that she had several conversations with Donoher around this time about the losses:

*I was very concerned. I didn't know what to do about it. I felt that my hands were tied, since I was telling Ted about it and he wasn't responding, and he seemed to understand what was going on and it was a lot of frustration kind of discussion with her.*

...

*Q. Did you consider speaking to someone other than Mr. Reid about your knowledge of the losses?*

*A. Like whom, for instance?*

*Q. Like, for example, a member of the Board of Trustees.*

*A. That never would have occurred to me. I would never go over the executive director's head, no matter who that person was. That's not the way I do business.*

Jarvie continued, "I just kept saying...something was terribly wrong and something should be done. And I really didn't know what." Believing that she

did not have the power to instruct Druz to cease trading, she raised with Reid whether the trustees should be informed about the losses:

*I know I thought that they should be [informed], because I felt that the audit would be coming up, and I don't like negative surprises and I didn't think that they would.*

Jarvie said she prepared financial statements for the Group for April 30 and May 31, 1987. The statement for April 30 showed a negative figure on the options investments of \$967,150; for May 31, a negative figure of \$1,133,053.

Jarvie believed she showed Reid the May 31 financial statement on June 12, 1987, at the Association's Board of Directors meeting. She said she felt "that it was important for me to make sure he saw it. It was not necessarily a good time, because there were so many important things on the agendas. Now, I don't remember what his response was, but I know I showed it to him." (Reid's annual evaluation and salary increase were on the agenda that evening).

#### **JUNE 16: ARTHUR YOUNG CONFERENCE CALL**

The conference call ordered by Arthur Young partner Edward Cupoli took place on June 16 between Jon McCormac, Reid, Jarvie and Donoher. McCormac related that:

*I basically repeated what I had told De to Ted, that I wanted to make sure he was aware of this loss in the options trading and that was it. And he offered that he was aware of it.*

*Q. Did you give him an amount?*

*A. I would have said approximately a million that we had determined the day before.*

McCormac told the SCI about Reid's response:

*That he knew of the loss and that he believed it to be temporary in terms of the market decline or—I forget if the market was going down at the time and the options he was in wanted to go up or vice versa, but he was in the wrong match.... But he was aware and that he felt that there would be an eventual turnaround to where the market would perform to what the investments predicted they would.*

*Q. Did you instruct Mr. Reid during this phone call or did you advise Mr. Reid during the phone call that the investments in options should cease?*

*A. No. No.*

*Q. Did you give Mr. Reid any advice as to how he should proceed with the investments?*

*A. No, just that he should review and be sure that the levels all made sense. I mean, I can't tell him that he shouldn't be in options. I have no—that's not my expertise.*

*Q. Did you perceive that you had any duty as the auditor to advise Mr. Reid or to advise the client as to any steps to take with regard to the investments?*

*A. No.*

*Q. Knowing or having the information that the loss could amount to eight hundred thousand dollars at that point?*

*A. No, again, as an auditor, I can't tell him what to invest in. If he wants to stay in his options, he can. I can't tell him whether he should or shouldn't.*

McCormac's workpapers suggest that he took a stronger stance with Reid than he admitted in his testimony. The papers state, "On 6/16/87 at 10:30 I spoke to Ted, De and Kathy. I told Ted about the huge losses and expressed concern that Dan was not

performing well at all. I also expressed concern that he should have stopped options trades when he started losing money."

Cupoli said he subsequently wrote directly to the Board of Trustees "when we found out that to the best of our knowledge they were not aware of [the losses]. It was just through conversations myself with [McCormac] that, did he think they were aware of it, did he think that they knew about it? And the best that we could determine, they weren't, and I wasn't going to go on an inquisition and find out, so I just felt the best thing to do was to notify them directly, which we did." That letter was received by then-Chairperson Carolyn Smith in July.

Reid remembered the conference call but thought it "...took place within a matter of an hour or so after De Jarvie advised me of the concerns about losses."

*Q. Did McCormac during this conference call give you a number relating to the losses?*

*A. The thing that I recall as a result of that conference call was a frustration level about not getting any precise numbers from anyone. That's the thing that I most remember about it; that there was some alarm being expressed but nobody could tell me exactly what it was I was supposed to be alarmed about, and there were great variations in the numbers which I found to be rather exasperating.*

*Q. Did the variations come from McCormac?*

*A. Well, I was getting different numbers from De and from Kathy and McCormac, and I'm not quite sure who was relying upon [what] source.*

Reid recalled, "When I asked questions, I wasn't getting real precise answers...the sense that I had was that they didn't have a clear handle."

Jarvie remembered Reid saying something to

McCormac like "you're not telling me anything" during the conference call, saying, "I think Jon was explaining to him the losses, and that something should be done, but he wasn't being specific enough."

Reid explained why he did not at least contact the chairperson of the Insurance Group when he received information about the losses:

*I thought it would be a mistake at that point to discuss it, not knowing what the problem was and because I was getting conflicting information.... I thought it was my responsibility to have a clear-cut picture of what had happened and to have a recommendation for a course of action.... It was such a great disparity between 200,000 and a million, it could have gone from zero to a million in my mind. I needed to know what was going on and I felt a lack of information and an incredible sense of betrayal.*

Jarvie's testimony was at odds with Reid's:

*Q. Do you recall speaking to Mr. Reid specifically about the figure that you had arrived at for the losses in the amount of \$1.13 million dollars?*

*A. Yes, I do.*

*Q. Did you communicate to Mr. Reid around this time any sense that there could be a large discrepancy in the losses? In other words, instead of it being the \$1.13 million that you had arrived at, that it could be as little as \$200,000 or \$300,000 dollars?*

*A. No.*

Reid admitted that he "did at some point" see a financial statement prepared by Jarvie showing a loss of \$1.13 million in options as of May 31, 1987, and to the best of his recollection it was "around the time" of the conference call with Arthur Young.

Reid said that immediately after the Arthur

Young conference call, he phoned Druz and asked for "a complete report, something that I can understand...that tells me exactly where we are, what we've given you, how much it's worth right now." Reid said he told Druz, "All I know, if there's a major loss here, we got a problem and we better damn well do something about it. If you're trading options or whatever and they're causing the losses, stop."

Druz testified that he wrote a short letter that day indicating the overall value of the portfolio and an overall percentage drop. He said he believed the losses at that time to be about \$800,000. The last options activity in the account was on June 17, the day after the Arthur Young conference call. Druz said, however, that Reid had instructed him in early June to close out all options positions.

Reid testified that when he received the letter and called to discuss it, he learned that Druz was no longer employed at DWR. Druz said he resigned voluntarily on June 17 to accept a position as branch manager of the Shearson Lehman Hutton office in Melville, New York.

#### **JUNE 17: AN EVENING AT CENTRE BRIDGE**

On June 17, just 24 hours after the Arthur Young conference call, the Insurance Group trustees held a meeting at the Centre Bridge Inn in Pennsylvania, across the river from Stockton. And Reid had new priorities. There, he told a trustee that the state of the investments was "never better" and deliberately withheld information from the Group about the matter. But he tried to obtain a more lucrative salary package for himself, Jarvie and Donohar while he, six trustees and four other staffers dined on escargot and pate, salmon, duck, lobster and rack of lamb. The dinner cost \$772.90, of which \$231.25 was for spirits and included two \$40 bottles of wine. After the dinner, Reid, Donohar and two trustees stayed overnight, at a cost of more than \$300.

According to the advance materials, this meeting was to be a "special thank-you" to the trustees. No outside consultants were invited. Joan Schwartz, Association Executive Secretary who attended to take minutes, testified that she arranged the affair at the direction of Reid, who told the SCI, "We picked a place that we thought would be nice." Former Insurance Group secretary Barbara Deveney recalled:

*Everybody was in a good mood and things just went along smooth.*

Trustees James Murphy and Norman Field recalled an understanding that this meeting was intended to be a more "relaxed" affair as an end-of-the-year meeting, a change of pace, without the large group of people normally in attendance.

Former Chairperson Carolyn Smith recalled the evening:

*What Mr. Reid told me and then subsequently told the trustees was that we were, in effect, celebrating our wonderful growth...that evening was going to be kind of celebration of how well we were doing.*

*Q. And was it a celebration?*

*A. Was it a celebration? Friday nights are pizza nights for us.... I believe it was considered to be a very extravagant evening.*

*Q. Was there any mention made during this meeting about any investment losses?*

*A. No.*

"Never Better". Trustee Eugene Burns recalled one conversation that evening with Administrator Reid:

*I had gotten to the Centre Bridge Inn a little bit early, because I was coming from some distance, and I left early, and I got there*

early, not knowing where I was going, and Ted Reid was just coming in from jogging. He was in his sweat suit, and we passed some pleasantries and things like that, you know, and I remarked what a beautiful place this was, and et cetera, and I had just had a — some problems with some investments I had, and I said to him, "How are our investments going?" And he said, "Gene, never better," and that was it. I took it at face value and I said, "You must be doing something I'm not doing."

*Q. Did you believe Mr. Reid when he told you that?*

*A. Oh yes, absolutely. Absolutely.*

*Q. Would you have expected Mr. Reid to tell the entire Board of Trustees about any information he had received relating to losses sustained in the Insurance Group?*

*A. Yes.*

*Q. Why is that?*

*A. He was the director and we were the trustees.*

Reid did not recall this conversation.

The new salary provisions. The only item on the agenda that night was the 1987-88 budget, which contained new provisions for staff salaries and universal life policies for the staff. That these proposals would result in additional costs was not made clear to the trustees at that time by the staff, except to the extent that Administrator Reid raised the issue in a private conversation with Chairperson Smith before the meeting. Testimony at the SCI confirmed that assuring acceptance of these new provisions seemed to be the staff's singular priority at this meeting, rather than informing the trustees of investment losses.

Kathy Donoher met Jarvie at the open bar prior to the meeting:

*When I had walked up, I was just standing there talking for a minute and De had turned around and said to me — she says, "We're going to go for it tonight."*

Donoher explained:

*Well, basically what she was talking and referring to was in the budget was [new provisions for] salaries for the administrator, the treasurer and the deputy treasurer.*

Donoher recalled that discussions about this proposal "had been going on for months" at the Association with Jarvie and Reid:

*De had spent considerable time on this and she would call me on the phone and say, "You must be able to come up with some way that we can do this so that it won't be questioned."*

The proposed salary increases were to be equal to 10 percent of the salaries Reid, Jarvie and Donoher received from the Association.

By Chairman Henry S. Patterson, II:

*Q. Just to make sure that I understand. If one of these people was being paid \$50,000 a year by the School Boards Association and this 10 percent had gone through, they would have gotten another check for \$5,000 from the Insurance Group?*

*A. That's correct.*

*Q. And the item of \$22,000 in the Insurance Group budget for fringe benefits —*

*A. Yes.*

*Q. What was the purpose of that item?*

*A. The purpose of that item was...to pay for withholding taxes and other appropriate taxes so that the net of the checks could be 10 percent of the salary.*

*Q. So the actual salary increase would have been the increase — not salary but the increase in payments to the person would have been more than 10 percent?*

*A. Absolutely.*

Jarvie testified that the separate salary provision and the annuities provision were Reid's idea. Reid said it was Jarvie's idea.

Prior Insurance Group budgets had estimated the percentage of Association staff's time spent administering the Insurance Group and provided that the value of those percentages would be reimbursed to the Association. The 1986-87 budget stated that Reid spent 50 per cent of his time on Insurance Group business, up from 10 per cent for the prior year. Jarvie's allocation was 75 per cent, up from 15 per cent the prior year, and Donoher's figure was 50 per cent, up from 10 per cent. Jarvie said the figures were prepared at Reid's direction and that he "absolutely" knew of the amounts.

The 1987-88 budget eliminated those breakdowns, merely listing a figure as "salary costs to the Group," noting "certain staff have full-time Association responsibility and have adjusted their time to accommodate the added duties which Group administration imposes."

Former Chairperson Carolyn Smith recalled her private discussion with Reid before the meeting regarding the proposed new salaries:

*Reid had suggested that he wanted to talk with me prior to the meeting...he proceeded to tell me that in the budget...he was recommending that the Insurance Group no longer pay a percentage of his salary as a reimbursement to the Association, but rather pay a stipend to him, Mrs. Jarvie and Ms. Donoher that would be in addition to their salary that they received from the Association.... I felt that if a stipend were to be considered, it was something that the [Association's] Board of*

*Directors should also be made aware of because it would amount to an increase in salary...and that I still believed we needed a full time director of insurance and that I would not present his recommendation to the trustees.*

Smith recalled Reid's reaction:

*He was — he appeared to be annoyed. I don't know how to say this. I don't remember his exact words, but it was kind of suggesting that I was being reactionary in that I was not looking at the concept from a business standpoint...that after all, he and De and Kathy — but he and De, in particular, put in a tremendous number of hours without any real recognition.*

Reid's testimony was that he told Carolyn Smith in the conversation before the meeting that he did not want to discuss it with the trustees that night because he "wasn't really sure" that he wanted to recommend it and he wanted more time to think about it. Even though Reid never "discussed" the salary proposal at the meeting that night, he certainly did not call the trustees' attention to the fact that the budget they were approving contained an appropriation to fund that very proposal.

Reid also did not advise the trustees of his conference call with Arthur Young the previous day or of the financial statement prepared by Jarvie showing a \$1.13 million loss on index options trading.

Reid was asked:

*Q. Did you during the meeting tell the trustees about the status of the investments?*

*A. No.*

*Q. Why not?*

*A. Because I didn't know the status at that point.*

*Q. Did you consider whether or not you should tell the trustees the amounts that had been reported to you as the suspected losses?*

*A. Yes...I decided that I wanted to get some more data and as soon as I got it, then I would call for a special meeting and I would make contact with the president, report what I had. I felt I wanted to come with some facts rather than just to alarm them and not know what I was talking about.*

What the trustees did receive before the meeting was the one-page "Report of the Investment Consultant" from Druz, which stated in typical vague and unintelligible fashion:

*If one analyzes the performance using weighted averages, then the portfolio has declined by several percent. On the other hand, since Dean Witter began to help manage the account, its unweighted return, including all investments, is approximately +5%.*

*An organization such as the Insurance Group should have five year time horizons.*

Reid testified that he did not question the accuracy of the report at the time. He did not "specifically recall" any of the trustees at the meeting asking about the status of the investments.

Druz told the SCI why he did not disclose the losses in his report to the trustees:

*I was talking to Ted a lot at this time and I don't recall specifically why, but certainly I was trying to put the perspective in the overall portfolio. Rather than to emphasize losses, I wanted to show that overall the portfolio had not done disastrously during the time I was involved with it.*

Jarvie testified that the trustees were informed "casually" of the problem with the losses during this meeting:

*I mean that they did not have chapter and verse in front of them. And Ted gave an overview and in the overview I remember him alluding to losses and several of the trustees saying they understood because they understood the stock market and they knew it was bad or whatever. So it was casually. There were no numbers mentioned.*

## THE BUBBLE BURSTS

The trustees meeting on June 17, 1987, came and went without a word from the staff of the investment problems. Kathleen Donohar testified that she did not consider raising the issue of the investment losses with the trustees that evening:

*I think it would have created such chaos for me to have brought it up in the middle of a meeting to say, "Hey — hey, guys, guess what?"*

But the day after the meeting she told Deputy Director Boose about the losses:

*...so on Thursday, the day after the meeting when I went into work, Bob Boose had come into my office and [said], "Tell me about the Insurance Group." And I expressed to [him] my concerns. I told him that De had told me that there was \$1,133,000 lost in investments. I said, "My concern is, you know, they haven't stopped the index trading and it's in index options. They're giving me these indications that they don't plan on telling anyone either. I'm really upset about it and I didn't have anybody else to talk to."*

Boose generally confirmed Donohar's testimony. Describing a discussion in her office, he said Donohar was upset about investment losses as well as what she perceived to be an attempt to cover up the problem:

*Then she said that "they know about it." And "they are not saying anything about it." That's not a direct quote. I'm trying to give you the essence of what I remember. I said, "What do you mean they?" She pointed*

*to one end of the building and that was where the comptroller's office is, directly across, and then she said, finally said, De and Ted, that they knew about it and they weren't sharing that information.*

Boose continued:

*I was out the next day. The following day [June 19] I went to the general counsel [Russell Weiss] and related the discussion that I had to him...he directed me to go back to Kathy and tell her that he and I talked and that he would be contacting her, which I did that afternoon, I believe.... When I went back, when Russ told me to go back to talk to her...she said that what upset her was that there was a conference call...in Ted's office...and that disturbed her. And I said, "Well, you know, I really don't have a feel for what it is you are talking about. You should talk to Russ about it."*

*Q. Can you tell us why you, after speaking to Kathy Donohar, went to speak to Russell Weiss, the general counsel?*

*A. Well, essentially, it wasn't an area that I had control over.... There were allegations made. Any time in the school district when there are allegations made, the board attorney, the attorney is the one who handles it. The other issue was in terms of the allegation, in terms of the whistle blower. I just naturally went to the attorney.*

*Q. What was the reason that you did not go to Mr. Reid?*

*A. Well, the allegations were made against*



*my superior and one of my colleagues. In fairness to them, and everybody concerned, I assumed the lawyer was better suited to handle it.*

Donoher was asked:

*Q. Do you know whether anyone from the Association has ever referred to you as the "whistle blower?"*

*A. Oh, sure. That's one of the nicer things.*

In late June, Reid and Jarvie met with Richard Simkus, the DWR account executive who had taken over the Insurance Group account from Druz. At the time of this meeting, the Insurance Group trustees had still not been informed of the losses in the account. As a follow-up to the meeting, Simkus wrote Reid on June 26, 1987, "I am confident we can do what is necessary together to increase our returns and reduce potential volatility to everyone's satisfaction." On July 10, Reid wrote back, "Under no circumstances will any option trading be done through our accounts."

### **EXECUTIVE COMMITTEE ACTIONS**

Association Deputy Director Boose told the SCI that in preparing the agenda for the Association's Executive Committee annual retreat, scheduled to begin on July 8, 1987, he had intended to follow the prior year's model, which had included materials about the Insurance Group. But he said that during a discussion with Reid and Jarvie, he was instructed to omit any reference to the Insurance Group. Nevertheless, because Donoher and Boose already had confided in NJSBA General Counsel Weiss, who in turn had informed President Joseph Zemaitis, the Executive Committee learned of the losses during its retreat — before the Insurance Group Trustees did.

Zemaitis testified that, armed with the information from Weiss, he intended to tell the Committee

of the losses during the retreat:

*My intention was a bit preempted...it was my intention that the Executive Committee would spend Saturday or Friday, depending on when we completed the business of the retreat, to address this issue of the losses...and Mr. Reid had gotten some information from some source that indicated this had occurred...and we then suspended the business of the retreat and had a meeting at which time I provided to the Executive Committee all of the information that Mr. Weiss had given to me earlier. We then allowed for Mr. Reid to respond and then the Executive Committee met to suspend him.*

*Q. Why was Mr. Reid suspended?*

*A. Because initial impressions or understandings were that, one, there were very significant losses. Mr. Reid was the administrator of the Group, and therefore, had the overall day-to-day responsibility for the Insurance Group. We did not know how much further this went and in what direction this may have gone and there was already at that point in time a suggestion that the types of investments were not permitted under that statute and that we would at least suspend him in order for us to get a handle on what was going on.*

*Q. Were there certain conditions or limitations put on the suspension?*

*A. Yes. Recognizing the sensitivity of all of this and the ...bad press that could come as a result of the knowledge of a suspension as well as ourselves not really knowing where it was going, we suspended Mr. Reid from essentially the day-to-day operations of the Association. However, he was to continue to attend those state meetings or out-of-state meetings that he was already scheduled to attend, to keep the appearance of a functioning, full-time executive director.... I was*

also given direction by the Executive Committee at that time to retain counsel to conduct an investigation.

That counsel was former U.S. Attorney Thomas Greelish, who was hired the following week.

The current Association President, Jeremiah Regan, remembered Reid's explanation to the Executive Committee of the losses:

*Of course, it was a shock so therefore a lot of it doesn't -- didn't quite register. They had been advised that there were in fact some losses. He was looking to really pin down the number and the extent of the losses. He did not believe that the losses were that extensive and therefore that the number we were being given was way out of order.*

*Q. Did he speak at all about why the Insurance Group was investing in index options?*

*A. He said only that that was on advice of the expert he hired, Dan Druz.*

*Q. Did he speak about any strategy, investment strategy, that the group was pursuing?*

*A. Yes. He talked about the strategy essentially was to cut the losses.*

Regan also recalled that Reid spoke to the Executive Committee that day about Mendelson:

*Mendelson apparently was the guru on investing for the firm that Dan Druz represented and this was Mendelson's theory as to how best to play the market, this hedging strategy.*

*Q. Did he speak at all about what his participation had been in the investments?*

*A. Only to the extent that this was all under De Jarvie and he was trying to pull everything together.*

*Q. You spoke of it being a shock, the—what you learned about the investment losses—*

*A. Yes.*

*Q. Why was it a shock?*

*A. Well, \$800,000 or a million dollars, and both numbers were thrown around, is a significant amount of money and for anybody to be in index options seemed to be the wildest of all investments.*

Reid's version of developments at the retreat had a different emphasis. He testified that he:

*...got hit across the head with a sledge hammer.... When we were at the retreat, I received a phone call from De Jarvie telling me that there was a plot going on and that there was an attempt to discredit her and me and that my two deputies [Boose and Weiss] and the president were in on it.*

He said he confronted President Zemaitis who told him "that we have all these phenomenal losses in the Insurance Group." Reid said he had told Zemaitis, "If there's anything you want to know, I'll gladly tell you," but that "what I got was a lot of double talk and very little in the way of any precise information." Reid testified that after waiting "out in the hall for about two hours" at Zemaitis' request, he was called "...into what appeared to me at that point to be the Spanish Inquisition." Reid claimed to have been "in total shock" when informed of his suspension by the Executive Committee. "I said, 'What are you suspending me for? What is it that I'm being accused of?'" He recalled that he said to the Committee, "If I've done something wrong, let's put it out on the table and let's talk about it..." Informed that his suspension was "necessary to conduct an investigation," Reid responded, "What in the world do you think I'm going to do when I come into the office...what is there to steal?"

Recalling an officer's reference to possibly sealing the office and "confiscating" documents, Reid

remarked, "I had the strange feeling I was in Nazi Germany or something."

*I didn't get the impression at that point that they really cared to hear anything that I had to say. They had a whole series of statements which were more accusations than they were questions and there was little, if any, opportunity for me to be able to respond intelligently to anything. It was a classic kangaroo court.*

Reid told the SCI that he had been waiting for a "complete and detailed report" from the broker who took Druz's place when the retreat occurred, and that he told the Executive Committee:

*I was trying to get the information together and I was waiting for that information so that I could go to them with a comprehensive picture...and it was right in the middle of that process when the retreat occurred.*

Reid testified that he was given the impression that "it would all be settled" in no more than a few weeks. He recalled the terms of his suspension:

*I was basically expected to carry out all of my responsibilities except I was expected to do it long distance, and I was to clear with my deputy [Boose] at any time I was to come into the office and I guess I was to be watched like some sort of criminal when I came in there. It was a rather demeaning experience.*

Whether demeaning or not, Association records show that from the time Reid was "suspended" on July 10, 1987 until he was reinstated by the Board of Directors on September 2, 1987 he attended out-of-state conferences in Baton Rouge, Indianapolis, Alabama, Delaware and New York City, incurring expenses of more than \$8,000. These included claims for two meetings between Reid and a representative of the brokerage firm of Shearson Lehman

Hutton, including a \$176.76 dinner at Tavern on the Green in New York City. (As will be discussed further in this report, Reid made duplicate claims for some of the expenses incurred during this period, including the one for the Tavern on the Green dinner.)

Treasurer Jarvie also addressed the officers about the Group's investments. She too was suspended with pay.

Association Officer Mario Gangi recalled:

*I probably remember the things that were surprising. She said that she was not schooled to be a comptroller. She was not per se an accountant/comptroller person, and I was surprised to hear that. I had very little to do with her in all the years I've been with the Association, and in the last year that I was an officer at the time, her reputation as told to me by the executive director, was that she was a high-powered comptroller/accountant person and...that Sunday I realized not only wasn't she but she herself admitted that she wasn't. That was a key. The fact that she said that she was aware that something was amiss as early as February of 1987 and I wondered why a person in that position wouldn't make it available to the officers who should have been told immediately that something was amiss.... A true comptroller would. A lesser person wouldn't see their role and would not know that was expected of them.... And I think that's one of the things that I felt very strongly that should have been done by anyone and everyone who was involved. It should have been reported to the officers but for no other reason than something has got to be looked into because we don't know where we're at by everyone, especially the executive director.*

## THE INTERNAL INVESTIGATION

Carolyn Smith, Chairperson of the Insurance Group Board of Trustees in the winter and spring of 1987, testified that she first learned of losses on Sunday, July 12, the day after the Executive Committee retreat, in a telephone call from Association President Zemaitis. According to Smith, Zemaitis told her:

*[that] he had received information that indicated that [the Insurance Group] had lost a considerable sum of money, somewhere in the neighborhood of a million dollars, and that there was a whistle blower who had brought this to the — to his attention and that he and I needed to meet and discuss what needed to be done in regard to this.*

...

*Q. What was your reaction at that time to the information about the investment losses?*

*A. I was — is that appropriate? I was aghast.... I was shocked.*

*Q. Why did you have this reaction?*

*A. Well, here this was less than a month after we had had a meeting and there was no indication that we had any kind of investment problems.*

Smith met that Sunday with Zemaitis. She testified:

*[A]ll we knew is that we had lost money.... Until we had a better idea of what really had happened, we would not relay the information to the Trustees either, nor to the Board of Directors.... I had a very strong sense that*

*until this was clarified and we knew exactly what had happened, it was not the sort of thing that you just let the whole world know about.*

Smith was asked why the Executive Committee of the NJSBA ordered an investigation when it was the Insurance Group's money that had been lost. She said:

*[I]f there was indeed a problem with an employee, we had no power over that employee. Whatever the outcome of the investigation, the trustees' responsibility was to look at what happened and move forward from that point, basically to see that it never happened again and, if possible, to recoup whatever losses there were so that our focus, in essence, could be on the future, and the Executive Committee would deal with what had transpired.*

*Q. Prior to that time, had the Executive Committee become involved at all in the Insurance Group?*

*A. No.*

Association Officer Didimamoff was asked:

*Q. Was there any consideration of giving the entire investigation over to the Insurance Group, from the outset?*

*A. I don't think so. First of all, the individuals involved were on our [the Association] payroll and we didn't know what we had stumbled into, whether we had deliberate malfeasance in the office or something less.... We just did not know. You now have 20/20*

*hindsight. We were staring into space. We had a problem that was not yet defined for us. All we knew is we were down — the Insurance Group was down some amount of money and the reasons for it were anybody's guess. In that context, there was concern on our part that if it was the best of all possible situations, we wanted Mr. Reid out of there so that nothing could be construed as a whitewash, which is also why we wanted a prominent attorney. If it was the worst of all situations, we didn't want anybody to compound the problem or create a cover-up.*

Although the Executive Committee suspended Reid and Jarvie and initiated the Greelish investigation, its members knew very little about the Insurance Group in July, 1987. Curiously, the Committee, which performs an annual evaluation of the executive director, had never evaluated him in his performance as administrator of the Insurance Group. As late as the spring of 1987, for example, Reid did not discuss the Insurance Group or its investments during his evaluation process and the Executive Committee did not ask.

If the Executive Committee had little specific information about the Insurance Group, the Association's Board of Directors had even less. After the suspension of Reid and Jarvie, several members of the Board of Directors, in interviews by the SCI, said it should not have been the Executive Committee but the entire Board of Directors which decided whether to suspend the two and to hire special counsel. This view was expressed strongly to the Executive Committee in Board meetings later that summer and led to tension which continues to this day. Some members felt strongly that the Executive Committee had treated Reid and Jarvie unfairly and accused them of wrongdoing without an opportunity for a hearing. For these and other Board members, the issue of the Insurance Group investments became secondary to issues relating to perceived confidence in the Association staff. Some witnesses during this investigation noted that the

Association's Board of Directors still divides into pro- and anti-Reid factions on any issue in which the executive director takes a strong personal interest.

#### **EMERGENCY MEETINGS ON AUGUST 20, 1987**

Neither the Insurance Group Trustees nor the Association Board of Directors learned officially of the investment losses, the special counsel investigation and the "suspension" of the two employees until emergency special meetings held on August 20, 1987. In these meetings, special counsel Thomas Greelish informed the two governing bodies of the preliminary findings of his investigation. Reid recalled being "thrown out" of both meetings.

Former president Zemaitis recalled the atmosphere at the Board of Directors meeting:

*This whole issue was emotionally charged. The meeting of August 20 was a very strained meeting. After all, I guess there were those of us who were saying a very popular, respected Executive Director may have not been watching all that should have been watched.*

...

*What's the best way to characterize it? There were clearly supporters of Mr. Reid versus supporters of Joe Zemaitis.... It was a meeting I would not like to live through again.... There was an awful lot of emotion. How can I better characterize it? I was perceived as attempting to remove from the Association a very popular, respected executive director by some. They were angry about that...it was emotional from those of us who felt that there were certain facts that were being ignored by members of the Board of Directors...acting on emotional issues as opposed to the issue of loss, who permitted the losses, were they the kinds of investments we should have been in. Those are the kinds*

of issues we should have been discussing.

*Q. Was that emotional tenor carried over into [a later] meeting?*

*A. Absolutely.*

### **THE EXECUTIVE COMMITTEE SEEKS UNITY**

The Association's Executive Committee, which nearly two months earlier had voted unanimously to suspend Reid and Jarvie and to authorize an investigation, found itself less united by the end of August. The Committee had already agreed to recommend the reinstatement of Jarvie with conditions. Several days before the September 2 meeting, it met to try to reach some agreement regarding Reid. Then-president Zemaitis recalled some kind of consensus on the Executive Committee "for a little while" for Reid to take a pay cut and for moving up the expiration date on his contract from 1989 to 1988.

*When it was presented to Mr. Reid, he rejected it and that's when [the consensus] all fell apart. We never had then an opportunity to present to the Board of Directors what our recommendation was and I don't know that the Board of Directors was interested in hearing what our recommendation was, quite honestly.*

Reid recalled that prior to his reinstatement by the Board of Directors there were "several attempts by Mr. Zemaitis to get me to effectively resign, suggesting fining me, changing the terms of my contract, renegotiating the contract, eliminating the notice provision, providing for a new evaluation." He testified that his

*response was 'no' ...[b]ecause I didn't feel as though I was guilty of anything that merited that. Furthermore, I didn't feel that they had objectively looked at the facts. It was very clear and apparent to me that was*

*a rather hostile and emotional vendetta, and I was not going to just simply yield to that.*

*Q. You used the term "vendetta." I wonder if you could explain why you thought it was a vendetta?*

*A. If you lived through what I lived through, you would know it. You wouldn't need to have it spelled out for you. It is very clear that there is an intense jealousy there. It is very clear that there is an intense dislike. The envy even has been expressed to me personally as well as to many other people and the constant demeaning behaviors are more than sufficient to get a message across.*

He thought the vendetta was "primarily from one source, but somebody...who is particularly bright and at the same time somewhat Machiavellian and usually able to incorporate a few other people in their plans."

**The September 2 Special Meeting.** In a special meeting on September 2, 1987, the Board of Directors voted to reinstate Reid and Jarvie. The minutes of this meeting, which was closed to the public, were not prepared until almost two years later. Association Officer Didimamoff recalled the background of the meeting:

*Q. Had the Executive Committee made any recommendation to the Board at that time regarding Mr. Reid's status?*

*A. I don't think the Board of Directors wanted to hear it. I don't think they gave us an opportunity to make a recommendation.... The Board of Directors put some pressure on the Executive Committee coming into August, to bring Mr. Reid back to office, to bring Mrs. Jarvie back to office and to restore everything to status quo. The Executive Committee was awaiting the results of Mr. Greelish's investigation and I think the Board of Directors saw Mr. Greelish as a force that was blocking the restoral of the status quo*

*and became very hostile to Mr. Greelish and anything that was in his report.*

Reid testified about his statements to the Board of Directors at the September 2 meeting:

*I spoke about my role. I spoke about what had happened, I spoke about the investigation that Mr. Greelish was conducting for Mr. Zemaitis and I gave my reactions to it and my feelings about what had transpired and also about the negotiations that went on with the Executive Committee over the course of the summer.*

...

*I described it [the Greelish investigation] as an inquisition and told the [Board of Directors]...that it was my very clear sense and perception that Mr. Greelish had the outcome already determined before the investigation began and that he had been thoroughly and completely instructed by Mr. Zemaitis and that he was therefore already prejudiced with respect to what he might find and that he was simply looking for, at Mr. Zemaitis's direction, the facts to corroborate the conclusions that he had already been told to find.*

After Reid and Jarvie spoke, some Board members called for their reinstatement "with all rights and privileges." When another Board member noted that the Greelish investigation had not been completed, the motion to reinstate the staff was amended to include a direction to Greelish to complete and submit his report forthwith. Some board members told the SCI that although they would have liked to have reviewed the report of the Greelish investigation first, they voted to reinstate Reid and Jarvie as a show of confidence. Some felt that the issue had been structured so as to demand such a show of confidence. Another witness told the SCI that he did not vote because he was "disgusted" at

what he perceived as polarization among the Board members.

Insurance Group Trustee and Board member Eugene Burns was asked by SCI Counsel Hoekje:

*Q. As a member of the Board of Directors, would you have liked to have received the results of Mr. Greelish's investigation before reinstating Mr. Reid?*

*A. Yes.*

*Q. Why was that?*

*A. Because I wanted to get all the information possible before voting on such an issue, and I don't believe that we did have the information.*

*Q. Was there any concern voiced during this Board of Directors meeting about the status of the Insurance Group?*

*A. No, not to my knowledge.*

**Jarvie's Reinstatement, Resignation.** According to Zemaitis, the Executive Committee lifted Jarvie's suspension in early August and she had "agreed to certain conditions of reinstatement," including a reduction in salary and "an acceptance of the point of view that something of this magnitude having occurred should have required the reporting to at least the President of the Association, if not the Executive Committee, rather than to her immediate superior, Mr. Reid."

Jarvie told the SCI that she found the conditions that were proposed:

*to be extremely limiting...making me guilty of something before I was even accused of anything.... And I didn't and could not agree to these terms and Mr. Zemaitis said it was all right for me to go back anyway, that he would change that agreement to what we had discussed and I should go back to work, which I did.*

These conditions were never finalized.

The Executive Committee's August decision to reinstate Jarvie was ratified on September 2 by the Association's Board of Directors and she was reinstated with "full powers and responsibilities." Jarvie testified:

*So at a subsequent meeting I refuted a lot of what [Zemaitis] said, because it was really the first time I had ever heard what some of the allegations might have been. And it was the first time I had a chance to refute anything, to be honest with you.*

Jarvie testified that she felt she had not been given an opportunity to be heard by the Association earlier that summer and that she felt "the whole thing" had been handled "in a very inhumane and inexcusable manner, as far as I was concerned. I was a 15-year employee and I don't feel that I should have been treated in the manner that I was treated."

Jarvie resigned from the Association in May 1988 and subsequently filed for unemployment compensation. The Association staff did not contest her claim for unemployment benefits but also did not inform either the Executive Committee or the Board of Directors about it. The Association's current president, Jeremiah Regan, chastised Reid when he learned of it several months later.

**The Press Release.** In a press release issued following the September 2 meeting, the Association announced the reinstatement of Reid and explained that the Board of Directors had concluded that there was "no dishonesty" on Reid's part.

Reid was quoted in the release as telling the Board, "The Insurance Group enjoys an excellent financial status...the financial security of the Insurance Group can be attributed to following sound practices in all of its areas of operation, including investments." The options trading was described as "part of an overall hedging strategy for the Group's entire investment portfolio, designed to protect against

an adverse down-turn in the market." Reid was quoted as telling the Directors, "losses occurred as a result of bad calls in predicting what the market would do... however, gains in other areas of the Insurance Group's investment portfolio offset the losses." Finally, the release cited an opinion given to the Board by Reid's attorney "that there are no statutes prohibiting investments of this type by an insurance group or designating them as illegal."

### **THE GREELISH REPORT**

As directed by the Association's Board of Directors, special counsel Greelish presented his report to the Board nine days later in a meeting on September 11. Some directors wanted to "burn the report," others wanted an opportunity to review and discuss it. Gangi recalled that "some [directors] thought that they should just destroy it because it was useless." Although the Association failed to produce the minutes of this meeting, past-president Margaret Mueller testified that she "may have" made a motion to conclude the discussion:

*I had very strong feelings about the entire issue and I felt it was demoralizing for the Association to continually pit the members and — against one another and divisive. I thought it was unfair to the employees, and I did not believe in excluding them from every meeting. They either did something or they didn't. If they did, we had just cause to fire the individuals. I did not believe at that time we had just cause, so I wanted it completed.*

At its next meeting, on September 18, the Board of Directors voted to grant the request of the Insurance Group Trustees to review the report, which they did in a meeting on September 23, 1987. However, that report was never made public, nor was it turned over to the SCI, which had subpoenaed it. The Association resisted the subpoena, invoking its lawyer-client privilege. This claim was upheld by the Appellate Division of Superior Court, and the



New Jersey Supreme Court declined to review that decision. The Association's Board of Directors refused to waive the privilege, even though the Insurance Group, whose interests were at the center of the inquiry, advised the Board that it had no objection to release of the report to the Commission.

The Association agreed only to provide the SCI with the appendix to the Greelish report, which contained documents already in the possession of the Commission or information available from other sources.

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## THE TRUSTEES TAKE CONTROL

Following disclosure of the losses, Reid's suspension and reinstatement, and other developments at the NJSBA, the Insurance Group trustees began to assert control of their own organization.

Former Chairperson Carolyn Smith wrote to Reid in the fall of 1987, directing him to list all his duties and activities with respect to the Insurance Group, asking for a detailed accounting of the time he spent on Group business and severely limiting his authority to act on his own. Although the letter was marked "confidential," Reid sent copies to the Association Directors. Reid said he did not "specifically recall" such an action.

Slowly, under Smith's direction, the Insurance Group began to assert its independence from the Association. The Group changed its management structure, hired a new full-time director of insurance, and moved to separate offices in Pennington. No staff from the Association now has any duties with the Insurance Group. Each trustee has a specific area of responsibility. Trustee James Murphy testified, "We began to meet on a very regular basis as opposed to the previous schedule that we had."

Alan Thornton, current Director of the Insurance Group, described the books and records he came into possession of as "sparse at best." He testified that one of his first actions as Director was to hire a part-time accountant "and I think it's one of the better things we've done." Thornton also said the new auditors "had to reconstruct the records of the Insurance Group so that they could then audit them."

Carolyn Smith testified about what she saw as a "changing role" for the Trustees:

*Before, I think we were more or less a review body and we would see what was being done, take the advice of the experts, whether those were consultants or the administrator, question some of those things but then take action based on those recommendations. The role now of the Trustees is a far more active one.*

Smith explained why the Group made these changes:

*Our growth was phenomenal and it was time that we have our own full-time insurance staff to meet the needs of our members. It was simply time and that was really our intention — to establish that. In hindsight, perhaps, it could have been done sooner but it certainly was time to do that now.*

Trustee Murphy praised the current director, Alan Thornton, and testified:

*I think we're in very good shape. I think that that's been our major strength. We've spent a tremendous amount of time reorganizing, and we've gone independent fully, you might say, and the full time staff, we've worked very hard at marketing.... We're there as a service. We're not looking to corner the market or anything like that. I think we're in a strong position....*

In 1988, Zemaitis reappointed Robert Harney to the Board of Trustees. Zemaitis explained his reasons:

*Probably by way of apology. I guess it was a recognition on my part that it was something that I did in terms of not reappointing him, coming to a belief that that was perhaps a mistake on my part; that this group as any other — any group, an organization needs somebody to be asking questions and prodding and pushing and turning, and if that was his function, then he probably served a good purpose for the group and it was by way of apology, really. You know, I made a mistake. I listened to someone I ought not to have, made a decision on something that I ought not to have.*

Harney is no longer a Trustee because he did not seek re-election to his local school board.

The Group currently has about 186 member boards. Some of the Group's portfolio involving Druz's investments, mostly in long-term limited partnerships, remains at DWR. All new investments have been in short-term certificates of deposit.

**The Audits.** Arthur Young withdrew as auditors for both the Insurance Group and the NJSBA in September, 1987, because the Group refused to promise not to sue the firm, and was replaced by Ernst & Whinney. Ironically, Ernst & Whinney subsequently merged with Arthur Young to form the accounting firm of Ernst & Young.

Ernst & Whinney completed its audit of the Insurance Group's 1986-87 financial statements in May, 1988. This audit showed a total realized loss on investments of \$803,733, including a realized loss of \$952,314 from investments in stock index options. The audit also shows a total fund deficit of \$864,821. The audit for fiscal year 1987-88, dated February 2, 1989, showed a fund deficit of \$634,691.

After disclosure of the losses in 1987, several persons made public statements that the fund had

suffered no loss of "principal." Neither representatives of Arthur Young nor of Ernst & Whinney agreed with that conclusion. George Duva, of Ernst & Whinney, in fact, testified that the Group's financial statements indicate that "there was loss of principal" under a definition that "the cost of the investment was somehow lost." Arthur Young partner Edward Cupoli did not believe the concept of "principal," such as in the corpus of an endowment fund, was applicable to this case.

### **INSURANCE DEPARTMENT OVERSIGHT**

The statute authorizing formation of the Insurance Group requires the Department of Insurance to approve the bylaws and risk management regulations of the insurance pools and gives to the Department oversight responsibility to establish reporting requirements. The Department is also given the authority to advise pools if it feels that they are becoming financially unstable and to impose remedial measures.

Richard Lofberg, insurance consultant to three of the other seven joint school board insurance pools in New Jersey, explained the reasons for these oversight responsibilities:

*We felt that it was necessary that someone approve the operations of the pools. There had to be regulatory authority. These were public entities, public funds being used, and someone had to have the right of control and review...*

Despite these oversight powers and directions, the Insurance Department's activity, until recently, was limited to initial review of the groups' bylaws. Then-Special Deputy Commissioner David Grubb, in an SCI interview, acknowledged the inaction of the Department and attributed it to several factors, including a lack of staff, absence of authority to promulgate regulations, and absence of a co-monitoring function by the Department of Community

Affairs, which Grubb noted was very active in establishing oversight of municipal insurance pools. Since the Group's investment losses, however, the Department has taken active steps to enforce reporting requirements and perform its oversight function.

Lofberg testified about the oversight actually provided by the Insurance Department:

*The Insurance Department is now performing an active role in oversight. They did not do so for several years.... That situation is no longer true, I'm thankful to say. Mr. Grubb...was specifically charged with this area. He has promulgated guidelines, he has promulgated the reporting requirements. He now has an assistant...who is actively involved in obtaining information and monitoring all of the pools.*

## **OTHER POOLS**

Lofberg described the kind of meetings held by the pools with which he is associated:

*South Bergen is held in the school [b]oard offices, Rutherford Board of Education. PIP [Pooled Insurance Program of New Jersey] is normally held in the school board service offices of the Butler Board of Education, with an exception that about once a year we meet in the diner down the street. MOC-ESCOM [Morris County Educational Services Commission] meets either in [its] office, or once a year they meet at the Italian Chalet, where we have 100% turnout.*

*Q. Are there ever any overnight stays involved?*

*A. No.*

*Q. With the exception of the meetings that you've already referred to, are meals pro-*

*vided at the meetings?*

*A. No. Rutherford, they spring for danish. The PIP, the diner, I think the administrators pay for those. MOCESCOM, somebody springs for danish at MOCESCOM.*

*Q. What about liquor?*

*A. No.*

*Q. With the exception probably at the Italian Chalet?*

*A. Right, and I believe by custom that's limited to one drink.*

Lofberg discussed how the three pools handle their investments:

*All of them are limited strictly to the purchase of government obligations as authorized by the Office of Investment Council.... There can be essentially no stock investment, there can be no corporate bond investment, there can be nothing except investment in obligations of the United States Government.*

Lofberg also described how, at the time the first pool — South Bergen — was being formed, the directors, after selecting a bank to act as investment manager, went to the investment officers and said, "Gentlemen, we want to make certain the investments are proper,...you contact the Office of Investment Council and get in writing their criteria."

This pool received a response dated February 29, 1984 from Director Machold of the Division of Investment enclosing the same memorandum interpreting the statute (Exhibit C-3) that was sent to the Association. While the NJSBA and its Insurance Group apparently had some difficulty understanding the point of this memorandum, the South Bergen pool did not.

*Q. So the memorandum that Mr. Machold enclosed with this letter was a source of*

*guidance to your pools in making their investments?*

*A. Oh, yes, definitely.*

*Q. Just to be clear, have any of these investments included investments in mutual funds?*

*A. No.*

*Q. What about limited partnerships?*

*A. No.*

*Q. What about index options?*

*A. No.*

*Q. And what about stocks?*

*A. No.*

Lofberg testified that all three pools use investment managers through banks and pay a fee based upon a percentage of assets, rather than commissions on portfolio transactions.

**Reid Minimizes Problem.** On September 1, 1987, Reid wrote to the presidents, superintendents and business administrators of the Group's member boards:

*What losses did occur were the result of a hedging strategy in which some poor judgement [sic] calls were made in an attempt to secure losses and to protect against a precipitous down turn in the market. Those losses were of profits that were made from some of the good judgement [sic] calls on the market. It is probably not necessary to explain that any fund of monies invested may go up and down within any given course of time, as do all investments, including U.S. Government backed securities.*

In October 1987, in a speech about the Insurance Group at the NJSBA's annual convention and workshop in Atlantic City, Reid, who at that time was still Administrator of the Insurance Group, told the audience that the Group had realized a gain in the investment account for the year of about \$553,000, a statement that was not supported by the audits.

Trustee Burns recalled statements made during the Atlantic City convention in October 1987:

*A. I remember [Reid] telling us that if things had turned the other way, that he would have been a hero.*

*Q. Did he ever admit having made a mistake?*

*A. Never.*

## CLOSING OBSERVATIONS

The first section of this report has focused extensively on Octavius T. Reid and his role in the investment activities of the NJSBA Insurance Group. It has been amply demonstrated that at best, Reid was simply not "minding the store" when it came to monitoring the Insurance Group's business. Yet the Commission believes that the conduct of Dan Druz also merits serious criticism.

Druz was a branch manager for a major investment firm, DWR, with all of its technical expertise and virtually any investment instruments at his disposal. Although he had never handled investments for an insurance company or any body like the Insurance Group, he failed to take advantage of his firm's expertise in selecting appropriate investments for the Group, choosing instead investment instruments guaranteed to produce maximum commissions for his branch — and thus for himself as well.

As was his wont, Reid refused to accept responsibility for any of Druz's conduct, telling the Commission that Druz lied to him. For his part, Druz claimed that Dean Witter and its guru, John Mendelson, had been "100 per cent wrong."

Both assertions may be at least partially accurate. Nevertheless, the fact remains that even if only as the result of inattention, Reid gave Druz carte blanche to gamble with the Insurance Group's money. And Reid certainly should have been candid with the Insurance Group trustees about the types of investments that were being made and about the losses that were being suffered.

Druz, on the other hand, was the professional. And no matter how sophisticated he claims to have believed Reid was in the world of finance, he and his firm had an obligation to make sure that the Insurance Group's investments were suitable and that its trustees knew what was going on. Instead, Druz ignored the written directives of DWR about keeping his clients fully informed and Dean Witter itself, like Reid, simply let Druz proceed virtually unchecked and unmonitored.

## PART II

# THE ASSOCIATION

## BACKGROUND

The New Jersey School Boards Association (NJSBA) is created by statute, is funded largely by mandatory dues from all school district boards of education in the state, and is charged by the statute with investigation of educational issues. Although similar to other special-interest, not-for-profit organizations from the educational community, the School Boards Association is the only such organization in New Jersey created by statute that has what amounts to taxing authority.

Under the statute, each school district pays annual dues to the Association based on a formula linked to each board's current expense budget. The dues are "for the purpose of defraying the necessary expenses of the Association."

The dues in 1989-90 range from \$1,226 to \$20,003 for operating school districts. Non-operating districts pay \$250.

Although dues are the source of some 80 percent of the Association's income, additional funds are derived from the annual workshop convention in Atlantic City and sale of publications and mailing lists as well as consultant referral lists. Staff negotiators' salaries are supported by fees for their services.

**Budget.** For the fiscal year ending June 30, 1989, the Association's budget was \$6.95 million. Dues accounted for \$5.6 million or 81% of total anticipated budgeted revenue. The current budget ('89-90) is \$7.6 million, the largest of any school boards association in the nation.

All 50 states (plus the District of Columbia and the Virgin Islands) have school boards associations

but only New Jersey and Washington have mandatory membership. A survey compiled by the National School Boards Association revealed that the New Jersey Association spent the most per pupil although it ranked only ninth in number of school children within each state.

**Governance.** Each dues paying district is a member of the Association and is represented in the Association by one delegate. These delegates meet twice yearly in the Delegate Assembly, whose June meeting is considered the annual meeting of the Association. According to Association by-laws, the Delegate Assembly is its major policy making body. Every two years the Delegate Assembly elects a president and five officers.

The Board of Directors consists of one member from each of the 21 counties (selected through the county associations), three members from urban boards, one vocational board member, three members-at-large, and one ex-officio member (non-voting), plus the eight members of the executive committee, (including the executive director as a non-voting member). In total, the Board has 37 members, two of whom are non-voting, who serve staggered terms of three years. The Board meets approximately 10 times a year.

The officers and directors receive no compensation for their services, but are reimbursed for expenses, a subject that will be discussed in detail in the next chapter. The Executive Committee consists of the president, the immediate past president, five other elected officers and the Association's Executive Director (non-voting member).



The Association's executive director heads a paid staff of more than 90 employees. In FY 1988-89, the Association spent \$3.9 million on salaries and employee benefits. The Association has its main office in Trenton and three field offices.

**Purpose of the Association.** The SCI heard much testimony from NJSBA members about their view of the purpose of the Association.

Board of Directors member Charles Robinson probably summarized it best:

*I view it as an effective organization. Probably it is the only organization that really looks after the interest of local school districts...it also trains school board members and keeps them abreast of current law. It helps them to conduct their meetings more appropriately. It provides them with the opportunity to gain skill in many areas, such as negotiations. It helps them in conducting meetings, by giving skill and being able to work with groups of people. It helps them by giving them information about public relations. In short, its continuing in-service [training], I think, is indispensable. Without it, no one else is going to do it.*

Current Association President Jeremiah Regan added:

*The...Association plays a vital role in the growth and development of public education in New Jersey by serving as the only statewide representative of and voice for local school boards. There is no other representative for these boards, particularly for the small boards.... Even the smallest districts are circumscribed by state rules, regulations, laws, requirements that are very difficult to apply.... We are acknowledged as having the best board member education program among the 50 states.... Almost all boards use our services at some point and it's an advantage to them to know that we are there when they need us.*

A "mission statement" submitted to the SCI by the Association stated, "NJSBA's mission is to meet the need for a centralized, unifying body which organizes, informs, trains, services, represents and leads at the state level the otherwise disparate and untrained voices of local school board members."

## PUBLIC OR PRIVATE?

The results of this investigation showed that despite its public funding, the NJSBA acts as a public agency only when that would be to its benefit. At other times, its officials conduct themselves according to what they believe to be accepted practices in the business world. Yet even here, the SCI found a serious lack of recordkeeping and fiscal accountability that no successful business could afford to tolerate. In this regard, the Association acts like a "deep pocket" for which no expense is unjustifiable and no claim too much. The same Association that continually pled for more funding for education in New Jersey used taxpayers' money to pay liquor bills at all committee and board meetings, allowed its officers to take their spouses to out-of-state conventions at Association expense and to dine lavishly at the best restaurants, never consolidated or examined its own expenses, and exhibited a decidedly casual approach towards the accountability of its own personnel — both staff and officers.

The difference between these policies and those of the State will be examined in detail in the pages to come.

Claiming status as a "governmental entity," for example, the NJSBA enjoys an exemption from the lobbying disclosure requirements of the State Election Law Enforcement Commission. It similarly claims exemption from the statutory filing fee in connection with disclosure of its legislative agents and activities to the Attorney General's office. It is exempt from income and sales taxes. It does not pay property taxes in the City of Trenton based on the exemption in its enabling statute. Its employees are members of the state pension system, the Association is considered a "public employer" for purposes of unemployment compensation and it is within the

state's social security "umbrella."

On the other hand, the Association until recently did not seek competitive bids on large projects; awards to consultants and large purchases were generally made without any demonstrated bid-seeking. It is not subject to any audit or examination of books and records by the state. Its annual private audit is based on standards for a private organization. In its expenditures and accounting for meals, travel and entertainment, Association practices differ markedly from those of state government and from those of responsible non-profit organizations as well.

Allowable expenses under state regulations are "confined to those which are essential to transacting the official business of the state." "Employees traveling on official state business are expected to exercise the same care in incurring expenses that they would if traveling on personal business at their own expense." No such general philosophy is advocated at the NJSBA, despite its own statutory directive to incur only "necessary" expenses. In fact, the new auditors, Ernst & Whinney, in a 1988 management letter to the Association, raised for the very first time questions about accounting practices at the Association and expenditures of public funds on such items as travel and entertainment.

### CONFERENCE COSTS

The SCI staff reviewed all direct billings to the NJSBA from vendors providing services for conferences and conventions, both in-state and out-of-state. The review showed that in 1987-88, the Association paid over \$404,700 for costs directly

associated with conventions and meetings, including hotels, meals, liquor, travel and registration fees. However, due to the manner in which the Association maintains its records, these costs do not appear together in any identifiable category on any budget records kept by the Association. This amount does not include claims presented on individual expense vouchers, including Executive Director Reid's individual expenses, which are set forth separately on the chart in Schedule A in the Appendix and which will be discussed later.

**Travel.** State guidelines require approval for travel to conferences, training and other business meetings. This approval must be obtained from the agency's authorized agent under certain specific circumstances (where the total expenses and attendees are limited and the travel is within the U.S.) and otherwise by the Director of the Division of Budget and Accounting. Some prior estimate of and justification for the travel is required.

The NJSBA does not require independent approval of the number of persons attending any function such as the national convention, and no expense estimate is required. No independent control exists for approval of multiple trips to other out-of-state conferences. There are no guidelines covering travel by executive staff or officers. Indeed, these high-level representatives appeared generally to approve their own travel.

**Transportation.** State guidelines require prior authorization of all air travel through the state's Travel Services Section. Billing and payment are centralized.

The NJSBA does not require prior authorization, centralized billing or payment. Air travel costs in particular arrive at the business office from a number of sources at different times. Expense vouchers reviewed by the SCI staff revealed that while the Association paid many air costs directly to a travel agency, Reid submitted his own airfare expenses individually, often months late and on at

least one occasion where the Association had already paid his airfare directly. For a trip to Paris in January 1986, Reid in December, 1985, instructed the business office to pay the travel agency directly for the ticket of Association President Margaret Mueller; he submitted an expense voucher for his own ticket separately, for direct reimbursement to him, in January, 1986.

**Advances.** State guidelines allow travel advances with the approval of the Director of the Division of Budget and Accounting. These advances may be requested for amounts up to 90% of anticipated expenditures of more than \$300, "over and above costs of accommodation and regularly scheduled transportation for which state credit arrangements may be provided." These guidelines require submission of travel expense vouchers accounting for "actual expenses" within 30 days. Further advances may be denied if these procedures are not followed.

The NJSBA permitted Reid to accumulate advances of as much as \$16,000 with no prior authorization or approval, no breakdown or detailed request as to anticipated expenditures, no requirement limiting advances to those expenditures for which no alternative credit arrangements were possible, no time period for submission of accounting for travel advances, and no possible foreclosure of additional advances. In fact, any officer or employee wishing an advance simply submitted a request to the business office, which merely issued a check and recorded the amount advanced. Although Association policy required an accounting within 10 days, this directive was rarely followed.

**Lodging.** State regulations require the use of hotels offering government discount rates unless extenuating circumstances require other arrangements.

The SCI found no evidence that NJSBA staff and officers sought government rates except on one of Reid's early vouchers, before he became execu-

tive director. In fact, Association policy for reimbursement of hotel rooms "at rates considered mid-fare" can apparently be waived by the executive director for himself and officers. At the 1988 national convention in New Orleans, for example, President Zemaitis and Reid each stayed in a suite at the New Orleans Hilton costing \$290 daily; other officers stayed in rooms at \$95 to \$115 daily.

**Subsistence.** State guidelines allow per diem reimbursement for meals involving travel and overnight lodging. Actual reasonable costs are reimbursed, but receipts are required when the per diem cost for meals exceeds \$25. For conventions, conferences, training, and seminars, the per diem cannot exceed \$25 per day.

The NJSBA has no spending limits on meals for its officers for travel involving conferences and conventions. The Association does have per diem limits for its staff but, in practice, these do not apply to the executive director or officers. They also do not apply to meals charged to a "lobbying function." (Lobbying will be discussed in a separate chapter.) Association staff limits currently are \$25 for dinner except \$35 for the annual Atlantic City workshop and for out-of-state travel. However, when staff is in a group that includes officers, members of the Board of Directors or the executive director, no limits or guidelines apply.

**Meal Allowances.** State guidelines authorize meal allowances for those situations not involving travel or overnight lodging.

The NJSBA also gives meal allowances, but in larger amounts than those authorized for state employees. Again, the limits can be waived and in any event do not apply to "lobbying" activities.

**Spouse Travel.** State regulations do not permit reimbursement of air fare and meals for spouses or guests.

NJSBA officers are permitted to take their spouses (or a "guest") to out-of-state national and regional conferences at Association expense. The policy adopted by the Board of Directors in September, 1985, reads: "Travel, food or other expenses for the officer's spouse or guest shall be reimbursable by the Association for national or regional meetings." Pursuant to contractual provisions, the Association also pays expenses of the executive director's spouse for travel to various out-of-state conventions.

The Association has paid airfare to conventions in San Francisco, New Orleans, Las Vegas, Anaheim and the Virgin Islands for spouses or guests of Association officers. In 1988, the Association paid \$2,120 for airfare to the national convention in New Orleans for spouses.

Association Officer Gangi's opinion was that it is appropriate for the Association to pay for spouses' expenses: "I think it's a common practice...not only in the Association, but even in the commercial field." He testified, "I find after work hours, it brings me as close to what I am in my living conditions at home."

Former officer Perina Fortoloczki testified, however:

*I had never found it necessary to have someone with me to carry out the business of the Association when I went on a trip.... And I did not see that we should be spending taxpayer dollars for that. That, to me, seemed like a fringe benefit, and if the chief executive officer had negotiated that in his contract, so be it. Perhaps that was coming to him, but in terms of the membership, I was not in favor of that kind of a benefit.*

**Entertainment.** The state considers "entertainment" a personal charge and not an allowable travel expense for state employees.

At the NJSBA, "entertainment" expenses during travel are routinely reimbursed for staff, officers and directors entertaining each other or representatives of other state associations, and "entertainment" of prospective and current vendors and service contractors. Entertainment at the Association almost always includes liquor. (The Association's Board of Directors recently acted to substitute the euphemism "entertainment" for the words "liquor" or "alcoholic beverage" in reimbursement guidelines.) One staff person is usually designated to pick up checks on such occasions and to seek reimbursement on an expense voucher.

Executive Director Reid testified to his understanding — an erroneous one — that state agencies permit reimbursement for alcoholic beverages. He said:

*I've been to functions of state agencies where they've been served and I know the individuals aren't paying for them personally.*

*Q. What state agencies are you talking about?*

*A. Virtually all of them. I mean, if you ask me to pinpoint a particular reception right now, I couldn't give you one. I'd have to think about it.*

*Q. Do you know whether school districts pay for — reimburse for alcoholic beverages?*

*A. I know that school districts do, yes.*

*Q. Are there any guidelines at the Association as to setting a limit on the amount of reimbursement for alcoholic beverages?*

*A. I can't say for certain. I mean, I can't picture in my mind right now a reference to the policy that say exactly that.*

*Q. Do you think it is appropriate that the Association uses its funds to reimburse for liquor expenses?*

*A. Yes.*

**Travel Vouchers.** State regulations require monthly submission of travel vouchers (with some exceptions) and certification of the travel expense invoice by the employee that the invoice is correct in all respects and that the amount charged was actually paid. Each expense item must be listed chronologically; failure to properly complete the form may result in delay of payment. Full completion of the voucher is required. Certification by the agency's approval officer that the expense items were checked and verified, are in conformity with the travel regulations, and are approved for payment is also required.

The NJSBA requires the submission of travel vouchers within 60 days, but this investigation showed that the Association's executive director did not submit vouchers for his expenses until months or even years later. Furthermore, late vouchers submitted after the 60 day period often did not show whether they had received Executive Committee approval as required by Association policy.

#### **IN-STATE MEETINGS**

State guidelines authorize payment for meals and refreshments (except alcoholic beverages) at officially scheduled receptions, meetings or conferences for groups consisting primarily of persons who are not employees of the sponsoring agency. Contrary to Reid's assertion, liquor expenses at these meetings are not reimbursed by the state. Where the anticipated cost of the function is over \$300, prior authorization is required. This approval form must list the purpose and justification or benefit to the state of the function, the make-up of the group attending, and the names and titles of any agency employees included in the group.

The NJSBA pays the costs of all meals and refreshments, including liquor, for meetings, conferences and receptions. No prior approval or authorization is needed, projected costs are not required and there is no prior scrutiny by an inde-

pendent control person.

Former President Bernard Kirshtein recalled that when he first became an officer of the NJSBA, most officers' meetings were held at Association headquarters in Trenton. He chose this location because it was "cheaper, pure and simple, less expensive." Business Manager Kathleen Donohoe also recalled how about five years ago meetings were held at the Association offices and the food was catered "and for whatever reasons, it was stopped." She said she did not know why.

Executive Committee meetings also always include dinner and alcoholic beverages. Other expenses reimbursed for officers include overnight stays in connection with evening or next-morning meetings. The Board of Directors usually meets monthly from September through June; the Executive Committee meets at least monthly, including during the summer. Various committees of the Association hold their own dinner meetings at which liquor is always reimbursable. Liquor or "lounge" charges are often submitted individually and thus do not show up on the direct bill for the meal. These charges are also sometimes found on a room bill for an officer who stays overnight.

The NJSBA has a policy reimbursing expenses of "all official attendees" at board meetings, including members, alternates and guests. The justification for this policy was to eliminate the Association's administrative costs for billing these expenses to the persons incurring them.

Not only does the Association buy drinks for all attendees before meetings, but it also pays for liquor and other refreshments at the traditional "president's suite" after the meeting. Former President Zemaitis described the purpose of the president's hospitality suite after Board of Directors meetings as an opportunity to "kind of wind down a little bit" after "dynamic discussions.... I liken it somewhat to local boards of education — a few members afterwards getting a cup of coffee, a drink or something,

and, you know, the issue is done with, now let's go on to the next issue."

Board member Mark Finklestein spoke about drink tickets that are distributed "seemingly at random" to local board of education members in attendance at various committee meetings. He also described the annual president's reception in Atlantic City:

*Oh, it was — it was beautiful. It was very lavish and I think the Board of Directors meeting as well as the president's gathering is something to behold in terms of hors d'oeuvres and liquor, very similar to the gatherings after the Board of Directors meetings that we have, you know, at our regular Board of Directors meetings. Just about anything that you wish to drink or eat and unlimited quantities are available.*

The following is a representative sample of charges reviewed during this investigation. Similar amounts appear consistently in connection with almost any event hosted by the Association in recent years. The expenditures demonstrate a consistent lack of frugality in the use of public funds.

- One Association officer recently submitted a claim of \$88 for a round trip flight from Newark to Atlantic City to attend a meeting in May, 1989. He submitted an additional claim of \$53.33 for rental of a car once he arrived in Atlantic City.
- Another NJSBA officer billed the Association \$125 for a helicopter ride from Atlantic City to New York City to attend a meeting in May, 1989.
- A Board of Directors meeting in December, 1988 cost the Association \$6,056.62, including 55 dinners (\$1,870), 38 overnight rooms at the Hyatt Regency in Princeton, liquor expenses before the meeting (\$228) for board members and Association staff, and liquor and food (\$448.25) for the "President's reception" after the meeting.

- The New Jersey Association hosted a reception at the national school boards convention in New Orleans in 1988 that cost \$16,403.10. This reception included cocktails and other liquor, iced shrimp and oysters on the half shell, and roast beef. The tab (Exhibit 11) for this reception included the services of bartenders, "shuckers" and carvers. The reception at the 1989 national convention in Anaheim, California was less extravagant, featuring roast beef, iced shrimp and oysters on the half shell at a cost of \$9,085.93. Almost \$2,000 of this was related to liquor expenses.

- For an Executive Committee meeting on February 26, 1987, at the Hyatt Regency in New Brunswick the Association paid for 10 dinners (average cost \$20), plus shrimp cocktail, oysters, Caesar salads, bisque, desserts, wine with dinner (three bottles at \$33 each), and cocktails for a total of \$558.18, including an \$84 tip. The Association also paid \$112.17 for overnight accommodations for Reid.

- At a Legislative Committee meeting on February 10, 1987, the Association not only paid for 43 dinners (\$28.50 each) but also four bottles of Korbel Brut champagne (\$23 each) at dinner, and cocktails before dinner (\$97). Reid submitted a claim for \$100.50 for drinks, bringing the total cost of the event to \$1,738.

- At a meeting of the Business Support Committee on February 4, 1987, the Association paid for 20 dinners (\$22.50 each) wine at dinner (5 bottles at \$14 each), other drinks at dinner (\$17.50), and cocktails before dinner (\$97.90). The total bill was \$850.16.

- At an Urban Boards Committee annual spring dinner and reception on May 27, 1988, to which 18 high school students were invited, the Association paid for a bartender, 40 drink tickets (\$4 each) in advance, roast sirloin and poached salmon dinners (the students were fed fried chicken and fried shrimp), and 16 bottles of wine (\$14 each) placed on the

tables. The total cost was \$3,407.04.

- A guest check from an Executive Committee meeting on August 28, 1987, shows that the Association paid \$320 for seven persons (nearly \$46 per person) including five bottles of wine at \$25 each; with clams casino and oysters on the halfshell as appetizers before dinner.

- At one Executive Committee meeting (for which no minutes could be found) on April 20, 1987, the Association paid for six dinners (\$31 each), drinks (\$55.75) and cigars. Two officers, Mueller and Zemaitis, also stayed overnight. The total bill was \$476.03.

- Ten days later, another Executive Committee meeting resulted in a bill for nine dinners (\$28.95 each) of "shrimp cocktail/filet mignon/lobster" plus liquor (\$19), for a total \$389.97. Two officers submitted separate "entertainment" claims totalling \$38.

- For the 1987 national convention in San Francisco, the Association paid \$10,735.76 in hotel expenses; at least \$9,000 in airfare; and an additional \$7,639.58 to Reid in claimed expenses. None of these expenses were subject to any prior estimate or justification, or any subsequent consolidation or review.

## **MISCELLANY**

**Personal Telephone Calls.** The state does not pay for any personal telephone calls. Personal use of a state telephone or telephone credit card must be reimbursed.

The NJSBA pays for personal telephone calls relating to non-Association business of its officers. When the Association's business office billed an Association officer for \$42 in personal phone call charges from his room bill at the New Orleans Hilton during the national convention in March,

1988, Executive Director Reid sent the bill back to the business office with the following note dated April 25, 1989:

*"The phone calls were for the necessary conduct of [this officer's] business from which he was separated as a result of attending to his obligations as an officer by attending the national conference. Therefore, those charges should be absorbed by the NJSBA."*

Reid testified that the officers put a lot of time in and "they are the only public officials that don't get compensated." He called the officers public officials ("they are elected by the public") because they are originally local school board members.

**Retreats.** State guidelines for retreats encourage the use of state facilities and otherwise require obtaining at least three telephone quotes from vendors.

Evidence reviewed in this investigation indicated no attempt by the NJSBA to minimize costs associated with its annual retreat for officers which in 1987 was held at the Meadowlands Hilton and in 1988 at the East Rutherford Sheraton. At the Executive Committee retreat at the Meadowlands in 1988, the Association paid \$652 for 20 theatre tickets for officers and their spouses to attend a Broadway show.

**"Working Lunches."** State guidelines specifically prohibit expenditures for meals and other functions held primarily for the benefit of agency officials and/or employees, including "working lunches" and staff meetings (except in connection with legitimate overtime work).

This investigation produced evidence of frequent "working lunches" involving NJSBA staff and officers.

• Reid, his secretary Denise Fitzgerald and Jarvie charged the Insurance Group \$63.87 for

lunch at the Bond Street Club on October 20, 1987, that included escargot as an appetizer.

• Jarvie and two officers charged the Association \$84 for a lunch at the Bond Street Club on July 2, 1987 that included crab cocktail, shrimp cocktail and clams on the half shell as appetizers.

Reid testified that if a meal attended by officers and staff is "for a business purpose," then reimbursement is appropriate.

*Q. Is there a policy at the Association as to when it's appropriate for the Association to pay for staff meals?*

*A. I can't refer to a specific policy.*

Reid testified that there are no guidelines as to what constitutes a business purpose. "Our practice has been to use common sense in that regard, and I guess we are not incredibly bureaucratic, but there hasn't been, that I am aware of, any question about abuse in that regard." He testified, "We are accomplishing a legitimate purpose of the Association and it's an exercise in judgment and discretion."

**Staff Largesse.** State guidelines prohibit reimbursement for social functions held primarily for staff, but in December, 1988, the NJSBA reimbursed Reid over \$2,000 for costs associated with the staff Christmas party. Association records indicate that in prior years the Association paid costs associated with the staff Christmas party, including an open bar, disc jockey and door prizes.

The Association also paid \$800 in June, 1988, for 20 memberships to the Total Woman Fitness Center in Morrisville, Pa., for what the NJSBA called its "Fit & Well Program."

**Receipts and Recordkeeping.** State guidelines require the keeping of a "memorandum of expenditures properly chargeable to the state, noting each item at the time the expense is incurred, together with the date." As these guidelines note, "in-



formation thus accumulated will be available for the proper preparation of travel expense vouchers."

The NJSBA has no such requirement.

State guidelines require original receipts. The NJSBA does not and, in fact, any kind of "receipt" is accepted. Thus Reid was able over the years to submit his cardmember copy as receipts for American Express expenses and submit the American Express billing copy again as a receipt when he claimed the expense a second time. On other vouchers, he submitted as "receipts" for air travel various pieces of paper connected with the airline ticket purchasing process. Sometimes these "receipts" show nothing more than a price, and do not show destination, method of payment, date purchased, or other detail. By submitting various versions of a "receipt" for the same expense, he thus was able to receive duplicate payments for a single expense on several occasions. Although Association policy requires receipts for all items over \$25, Association staff members were able to claim the maximum meal allowance of (\$35) for dinners at conferences without submitting any receipts.

**Accountability.** It is implicit in the state regulations that each state employee submits and accounts for his or her own expenses. The NJSBA has no such requirement. This investigation revealed many instances in which Association representatives submitted claims mixing their own expenses with those of other Association representatives. Margaret Mueller, the Association's president from 1984 to 1986, took frequent trips out-of-state to conferences while she was president and also during the two-year period she was past president. Her expenses for these conferences are frequently found on Reid's vouchers.

Executive Secretary Fitzgerald submitted a voucher claiming \$124.60 for a transaction at Diamond's Kent Cafe in Trenton. A credit card receipt was attached, but there was no justification on the voucher to explain the claim. Fitzgerald told the

SCI that she and another Association staff member had taken one officer and one board member out to dinner after the latter two had come to Trenton to testify before the State Board of Education. Fitzgerald testified that she charged the meal on her card "because that's what is customarily done if we take an officer or a board member out."

**Bids.** Unlike the state government, until a recent change in policy the Association had no requirement for bidding purchases or services. The purchase of the Association's cars, for example, was once directly made by the executive director for list price with no discount to the Association.

In 1986, Reid entered into an agreement to co-produce a television show, but no written contract was ever formalized. Records show the Association paid over \$73,000 in production costs for 17 programs between July 25, 1986, and October 17, 1988. Minutes of the Executive Committee first indicate discussion of this show in October 1987, more than a year after Reid received a proposal for the series from a vocational-technical school district board member. This proposal contains an estimate of costs, which were eventually overspent by about \$15,000. No bids were ever solicited, no contract was ever signed, and apparently no limit on extra costs was ever formalized.

The producer of this show was also listed as a guest on Reid's expense vouchers at various meals, including meals in other states. In SCI testimony, Reid said he could not "remember specifically" the purpose of one such lunch in San Francisco in October, 1986, with the producer of this show. "It could have been any one of a million different topics," he said.

## **OVERSIGHT**

None of the NJSBA officers ever appeared to have much concern with expenses or doing any but the most cursory examination of vouchers. For

instance, Finance Officer Didimamoff testified that he generally sees a summary bill of expenses of Executive Committee meetings. "The total doesn't have the full detail breakdown," he said. He also noted that certain meeting expenses "could be on somebody's American Express card and I didn't see the details." And the Executive Committee as a whole does not review officers' expenses either.

Association President Regan testified that he gets a computer printout of the total of all bills paid and checks issued during the month, but he does not get any of the back-up detail. "The only officer that sees the vouchers or would see any of this would be VP for Finance. The rest of us don't."

Didimamoff, who testified that in most cases he reviews Association payments before the checks go out, also testified, "Vouchers are reviewed after the fact for a number of reasons, because we want to reimburse these especially voluminous vouchers as expeditiously as possible." "Review" of vouchers means that he sees only the first page of the voucher but no back-up. He testified, "My review is basically perfunctory, to make sure that staff is doing its job and fulfilling its responsibilities."

By Chairman Patterson:

*Q. Most of the items, other than the routine ones, you don't know whether the person had dinner, went to the hotel, really, unless you happened to be there?*

*A. That kind of thing I wouldn't stop, no. I assume up front that everybody is honest...*

Former President Zemaitis testified that expenses associated with out-of-state travel came to his attention "perhaps in a global way in terms of the budget presentation...but not in a specific way." Former President Mueller testified, "I actually would not have seen the expenses, however. I depended on the staff to do that."

Executive Director Reid compared Association

spending to what he assumed "the rest of the state government is doing." He testified:

*I look at functions that state agencies put on, I look at what other Associations do, I look at what non-profit groups do. I look at what federal departments have done and the monies they spend. I don't think in any time I've ever looked at that that we stand out in the sense of being drastically different from any of those other agencies or groups or departments.*

*Q. With respect to your expenses, do you consider that you are—that the Association is spending public funds when it pays for a certain expense?*

*A. I most certainly do. I look at that in a variety of ways and I said to you earlier that I compared that with how other public agencies spend public funds and what I see them doing and I assume that if we are somewhere in the middle of that, we are okay.*

*Q. Are there any studies that you've ever undertaken in this area, where you've written something down?*

*A. No.*

*Q. Have you looked at practices of state agencies?*

*A. Well, I think I said earlier I haven't done a formal study. We are talking about an informal kind of comparison, an awareness of what other people are doing.*

*Q. Wearing your hat as a taxpayer, is there any point at which or do you believe that any of the expenses have been excessive that you have incurred?*

*A. I would be very happy with what we've done. I would be extremely happy, because as a taxpayer, I would be saying to me, as executive director, that we've done a phenomenal job in the kinds of things that we*

*have pushed to save school boards money, effect economies, to institute systems that have a difference, to secure additional state aid that they wouldn't have gotten, to fight for federal appropriations that wouldn't have been there.*

*Q. In other words, you look at the total picture?*

*A. I absolutely look at the total picture. I think the biggest mistake I could make would be to be pennywise and pound foolish and to look solely at the dollar amount we are expending and not think in terms of the relationship of what we are getting in return for it. That litany would take me hours.*

Asked if the kind of spending would be tolerated in local school districts, Reid responded:

*The difficulty in answering that question is we are comparing apples and bananas...because a local school district doesn't have the same purpose. Local school districts don't lobby [as] we do.*

## LOBBYING

Lobbying with state legislatures and with Congress is an important function of any interest group and, indeed, is one of the principal means by which legislators can be educated on various complex issues they confront daily. There is nothing inherently evil about the practice so long as both lobbyists and lawmakers understand and accept the true purpose of the activity.

In New Jersey, lobbyists in the private sector are restricted in their activities only by those statutes requiring registration and reporting of certain activities. However, lobbyists in the public sector, such as legislative liaison officers for individual departments of state government, need not register or report on their activities but they are prohibited absolutely from spending public funds to wine and dine legislators. And they certainly cannot spend public money entertaining colleagues in their own agencies under the guise of lobbying, even if a legislator or legislative aide happens to be along.

Since the formation of the New Jersey School Boards Association, it has been understood that one of its main functions is to represent the interests of local boards in the continuing dialogue that is the legislative process. In recent years, however, as the SCI's investigation has uncovered, the NJSBA has permitted its officers and staff to incur expenses under the guise of lobbying that are clearly inappropriate for an organization funded by the taxpayers. On the one hand, the Association enjoys several statutory exemptions because of its non-profit or "governmental" status, yet it spends lavishly entertaining those whose views it seeks to influence. And in the process, some staff members — especially Executive Director Reid — and some officers used the convenient umbrella of lobbying to cover any

conceivable expense with little regard for the propriety or amount of the expenditure. No one — neither Jarvie nor the Executive Committee — questioned any of those expenses. The Executive Committee never even saw detailed expense vouchers.

No written guidelines exist at the Association to cover expenses charged to lobbying, which is specifically exempt from the meal limits otherwise applicable to the NJSBA staff. Expense vouchers of both the executive director and officers, past and present, rarely identified any specific topics of discussion at a lunch or dinner.

Former Executive Director Newbaker recalled:

*There were always some people on the Executive Committee who were concerned about expenditures in general. They felt that the School Boards Association should not be spending beyond the means of the way school boards, for example, would spend, and entertainment expenses rank way down [at] the bottom of most school boards' expenditures.... And there were others who condoned and supported that kind of expenditure...they would justify it as being necessary and...just a price one had to pay, that you certainly couldn't take a state senator to McDonald's for lunch.*

Newbaker continued:

*...[W]e, on one hand, wanted to be effective. On the other hand, there was a problem of legitimate expenditures, and often, when bills would come in where our lobbying staff*

*had entertained assembly people or senators, the bills, compared to other controlled costs in the Association, were way off the mark.*

**The FRN Conference.** The annual Federal Relations Network ("FRN") conference usually held each January in Washington, D.C., at the start of the congressional session is considered a major lobbying affair with the state's representatives in Washington. It is attended by local representatives from each congressional district, Association officers and some Association staff including the executive director. For instance, for the January 1986, FRN conference, the NJSBA paid \$2,085 in room deposits and \$4,683.35 in room bills directly to the hotel. In June, 1987, more than a year later, Reid claimed an additional \$3,892.78 in expenses for this conference.

President Jeremiah Regan was concerned about the appropriateness of five Association representatives and their spouses attending the inauguration of George Bush in January, 1989:

*Well, I was called by Ted who said that they had invitations from the Republican State Committee to — or whoever was chairing this thing in the State of New Jersey—for he and I to go to Washington for the inauguration. Well, since the last one occurred four years ago, obviously I had no experience in it so I said, "Well, the two of us, I guess. If it's appropriate, why not?" Subsequent to that, I found out that there were more than just Ted and myself going. By the time I found out, I thought the number was too high and there was — I called it — brought it to the attention of the entire Executive Committee because...I was not comfortable with the number of people going and my projection of costs for the whole project...the Executive Committee thought it was appropriate and since all of the leading lights of the Republican Party of New Jersey would be*

*down there that it would be appropriate in connection with lobbying activities and that kind of thing so we went.*

Regan testified, "I think it would have probably been worthwhile for Ted and myself. Beyond that I don't see...I would not do it again." He did not know the exact source of the tickets. The Association did not pay the expenses of staff spouses except for Reid's.

**Reid's Claims.** Reid testified that the members of the Assembly and Senate Education Committees are the legislators with whom he has the most contact, yet his expenses claimed numerous contacts with other legislators and their staffs. In addition to paying many claims for such meals, both in New Jersey and at out-of-state conventions, the Association has also paid claims submitted by Reid for meals with other lobbyists and with employees of state government.

Reid explained these claims:

*If, for example, we are working together on a project, I might very well offer to do it as a matter of goodwill.*

*Q. Do you think it's appropriate to pay for lunch for a staff person from the attorney general's office?*

*A. Yes, I do. Yes, sure. Can't think of a reason why it wouldn't be.*

Reid explained one claim for a meal at a Burlington County restaurant as being in connection with "another one of my volunteer activities." As for his meals with other lobbyists, Reid responded, "suppose you have a lobbyist from a non-profit organization...they have a very limited budget. The Association could afford it."

**No Recordkeeping.** Reid told the SCI that he did not keep a record of the meetings he had with legislators and others as the Association's chief

lobbyist, noting that many such meetings were "spontaneous."

*Q. When you say that possibly 99 percent of the time you pick up the tab when it's a meeting associated with a legislative contact, why do you pick up the tab or the Association picks up the tab?*

*A. Well, you can look at it as I'm David coming to Goliath. I'm effectively courting their favor. I'm trying to get them to see our point of view and if, in providing an environment in which I have an opportunity for them to listen while I make the pitch as the advocate for the Association, it requires me to effectively buy them some lunch so that I can get that time isolated with them to push that cause, then I find that is something worthwhile doing. I do that very deliberately.*

The following dialogue is illustrative of the kind of contact claimed, the lack of recordkeeping for that contact, and Reid's explanation of the expense.

*Q. There is a notation on your expense voucher for the date of 2/27/86 for a meal at Lorenzo's (a Trenton Restaurant) in the amount of \$206 with two senators and an aide. I was interested if you could tell us who the senators were and whether there was specific legislation discussed at that meal?*

*A. No, I can't tell you.*

*Q. Would you be able to consult any records that would tell you that?*

*A. I might be. I can't give you a definitive answer to that. It's two years ago, two-and-a-half years ago.*

*Q. As a taxpayer, would you consider it appropriate for a lobbyist to spend this amount of money on a contact?*

*A. Yes. I think I answered that question before. As a taxpayer, I wouldn't ask that simple question. What I would ask as an informed taxpayer is, if you are spending that kind of money, what am I getting in return for it? What are you doing for the public?*

The NJSBA does not segregate expenses especially identifiable to the lobbying function. And since there is no centralized billing function, there is no accountability for those expenses.

## TRAVEL ADVANCES

During the time period covered by this investigation, the following policies were in effect at the Association:

• *Advance expense checks may be issued for official Association business. These monies shall be properly accounted for in writing and any excess monies returned to the Association within 10 days upon return.*

• *Advances will be based on per diem food allowances currently in effect and other allowable out-of-pocket expenses, which must be noted in the request.*

The review of records produced and available in this investigation showed that for the three fiscal years reviewed, the Executive Director:

1. Requested and received a total of \$34,975 in advances:

\$12,535 in FY 1986

\$10,940 in FY 1987

\$11,500 in FY 1988

2. Never returned excess advance monies to the Association.

3. Continuously carried a balance of advances outstanding and unaccounted for. This balance reached a high in 1987 of \$16,000, was never lower than \$2,900, and averaged \$8,000 for the three years.

4. On numerous occasions, requested and received an advance without having submitted an accounting for prior advances.

5. On three occasions (totalling \$4,700), requested and received advances not for a specific conference but "towards expenses".

6. Received \$840 of an advance of \$1,000 requested on the account of another Association staff member.

7. Was never required to account for a particular advance or to reconcile his expenses against the purpose for which the advance had been requested. Expense claims (including meals unrelated to conferences), when they were submitted, were applied arbitrarily by the Association's Comptroller (Jarvie) to reduce outstanding advance balances. For example, at the end of the 1986-87 fiscal year (June 30, 1987), an amount of \$7,373.31 was applied to reduce Reid's outstanding advances (which then had a balance of \$10,493.17). This amount (\$7,373.31) was the total of three expense vouchers with claims for transactions that had occurred in January, 1986, 18 months earlier. Advances requested and received for those events had totalled only \$4,000.

8. Received credit towards reduction of outstanding advances from other unrelated forms of compensation. According to Association records, Reid's outstanding travel advance balance of \$14,300 was reduced to \$10,300 in June, 1987 by two \$2,000 credits for IRA compensation.

9. Had an outstanding advance balance of \$5,268 at the time he became the Association's executive director in 1985. The Ex-

Executive Committee did not raise this issue during the interview before Reid was promoted.

Although others at the NJSBA requested and received advances, it was Reid's account which showed the most activity. However, the Association also permitted its past president, Joseph Zemaitis, to request and receive a total of \$4,050 in advances without ever accounting for them in the two-year period (1986-1988) he was Association president. In fact, Zemaitis never submitted expense vouchers except for mileage while he was NJSBA president. Not until June, 1989, during this investigation, did he submit any accounting for these funds. When expense vouchers were finally submitted by Zemaitis, he too claimed reimbursement for expenses unrelated to the purposes for which the advances had been requested, and many claims lacked back-up documentation.

Zemaitis testified about his reasons for not accounting for advances:

*Laziness, you know, believing that some other things took priority, not sitting down and doing them; given a whole variety of reasons, none of which are probably good, decent reasons but just failure to do so.*

**Jarvie Remembers Advances.** Former Comptroller Jarvie testified that she kept track of advances on handwritten records on loose sheets of paper she kept in her desk drawer. Those records mysteriously disappeared in the summer of 1987. She testified that she sent letters to Reid "from time to time delineating what he owed." At least one such letter was also sent to Zemaitis. She also made personal calls monthly to all persons who had outstanding advances.

Jarvie testified that, contrary to Association policy, it was "very, very seldom" that an advance was "cleared out" (or accounted for) within 10 days. She did not consider implementing any changes in

either this practice or the policy, and as to possible restrictions on future advances:

*I thought about it, but generally, the people that were the worst offenders were the higher ups, and including officers, and if you couldn't get the officers to respond positively, then it wasn't fair to expect staff to respond positively.*

*Q. Did you ever consider that you, as the comptroller, had the power to change the system?*

*A. No, I never considered that I had the power.*

*Q. Was there ever any discussion that you're aware of that a requirement be implemented that a new advance could not be obtained until the prior advance had been cleaned up?*

*A. It would have been nice. I never considered it, no.*

*Q. Did you ever discuss with Mr. Reid changing or implementing a new requirement?*

*A. No.*

*Q. Why are you smiling?*

*A. Well, that's sort of like — you don't ask the person who's the problem, how do we deal with the problem, because the person who has a problem doesn't know he has a problem, so consequently, he would be the last person I would ask.*

*Q. I guess what I'm trying to get at is if you had any perception that as the Comptroller, that you might have the power to implement such a change?*

*A. You have to understand that advances in clearing were the bane of my existence since 1973. Executive Directors do not believe that anybody has any power but they do, but they, themselves, and they're certainly not about to listen to me or anybody else hop up*



*and down and say, "You will do this and you will do that." They do not take kindly to that. Neither do officers of the Association who were the second in procrastination.... I never had any problem keeping anybody else in line. I don't know how else to put that.*

Jarvie testified that she usually received "a bunch" of vouchers at one time from Reid, that she would apply claimed expenses against advances as directed by Reid, "and generally I either did it by the bunch or if it wasn't enough to clear out the cleaning, I would just journal entry them...and then send them on to the business department, and there would be no money changing hands, in other words, they would just go against the advances." She testified that she "tried" to match expenses to advances but that sometimes at Reid's direction "it wasn't necessarily for the same thing that he actually took the advance for.... He'd say, 'Don't worry, I'll be getting that to you,' so I would put it against his advances."

*Q. And this is because the direction came from him to do so?*

*A. Yes, oh, yes.*

She testified about how she directed the business office on December 20, 1985, to prepare a check for Reid in the amount of \$700 "as an advance against expenses:" (Exhibit C-51)

*Ted had quite a bit of outstanding [expenses] and he asked for an advance of \$700 against his money due him, and he said he was in dire straits and needed the money, and he would submit his vouchers immediately after the holidays to substantiate this.*

Jarvie testified, "I was not exactly happy about [this form of request] because Ted was a procrastinator and because I knew that we owed him money, I still felt that it would have been more proper to put the expenses in."

She testified, "I mean the man spent money on a daily basis...he certainly had a lot of money due him."

*Q. Is that a practice that you would have tolerated from any staff person below your level?*

*A. That's a good question...it never occurred with anyone else.*

Reid on two later occasions submitted similar requests to the business office: On April 13, 1987 requesting \$3,000 as an advance "towards my expenses" and on May 4, 1987, requesting \$1,000 as an advance with no stated purpose. (Exhibit C-55)

**Reid Explains his Advances.** Reid testified that the purpose of advances is "to provide employees with money for expenses which they may incur, so that they don't have to take it on as a personal obligation."

In his testimony, Reid acknowledged that certain expenses when he travels are already paid for, such as hotel and travel:

*Q. And when you go out for meals, are there not many instances where you use your credit card?*

*A. Yes.*

*Q. Could you tell us what you need the cash for?*

*A. In many cases I use the cash to make a payment on the credit card. Keep the credit card current, because if I was running up charges incurring association expenses, then that bill comes due at the end of that month. If I hadn't put the expense voucher in and I was going to take a trip, I would take an advance and take that advance to pay it to the credit card company.*

*Q. Don't you have a credit card that the association pays for?*

A. Yes, I do.

Q. Don't you believe it would be a better business practice to account for the expenses from the trip immediately after returning from the trip?

A. Yes. It would be a better practice.

Reid testified that he kept no records of his own outstanding advances, but rather "basically depended on the business office to do that for me."

Q. Was there any other staff person who had this kind of amount outstanding?

A. Certainly not. No other staff person has the responsibility I do.

Reid testified that "in reality probably the only concern" he had was not whether he should account for a prior advance but "always that the amount that they owed me would be increasing over what I owed them." He also said:

*I can state to you categorically that at any point in time the amount of expenses that I had paid for out-of-pocket was always in excess of the amount of money that had been advanced to me by the Association.*

Q. Do you know that, at least on several occasions, to reduce large outstanding amounts of your advances, that expenses were used that did not relate to those advances?

A. I did not really concern myself with that kind of detail when I submit my expenses and submit them to the business office. I expected them to review them and I periodically would ask them if there are — how much I owe out in advances or whatever, and leave the rest to them to take care of.

Q. Well, as the Executive Director do you find any problem with an accounting method whereby there is no matching of expenses to advances?

A. I'm not really qualified to make that comment, because you are asking me to speak to accounting practices and principles and I'm not really versed in that.

He reiterated, "The one thing that I'm aware of is that the total number of business expenses which incurred on behalf of the Association were always in excess of the dollar amount of advances that I received from the Association." He said he had "no idea" whether other organizations permit a practice of accumulating advances.

Q. Isn't taking the advances a way of receiving an interest-free loan for you?

A. It would only be an interest-free loan if I were getting the money and hadn't already incurred the expense.

To the contrary, according to Reid, "the interest-free loan was made from yours truly to NJSBA," because "the expenses far outweighed the advances, so the advances were here, if you are working on a continuum, and expenses were always out there. Advances were trying to catch up. Never did. So, no."

Reid recalled periodic reminders from Jarvie about accounting for his advances.

Q. And it was easier for you to get another advance as opposed to just taking the time to fill out the expense voucher?

A. If you are doing 60 and 70 hours a week like I am typically doing, like I've been doing over the last several years, you tend to want to put your time toward the stuff that is most critical to the Association, rather than your own personal expenses.... I tended to be bogged down with a lot of work.

Chairman Patterson:

Q. But, the answer really is yes. It was easier to ask for another advance than it was to—

*[submit a voucher]*

A. *Oh, yes, the answer was yes, sir, that's correct.*

Under proper business accounting procedures and under state procedures as well, it is the employee who owes his or her organization money until he makes a proper accounting for advances. An organization has no liability for employee business expenses until vouchers are submitted by that employee and approved for payment by the organization. Regardless of whether Reid made or lost money or whether the Association lost money, the practice is unacceptable in either the public or private sector and even violated the Association's own rules — rules that were exceedingly liberal in so many respects.

Finance Officer Didimamoff told the SCI he was not aware of the amount of advances outstanding to the executive director at the end of the year, was not aware of the manner in which advances were cleared out at the end of the year and did not know "which specific individual had that responsibility." He saw the amount of advance checks going out and called them "reasonable" in relation to where Reid was going and with whom.

## REID'S EXPENSES

One of the principal findings of this investigation and that which best typifies the problems at the New Jersey School Boards Association is the lack of accountability for the public funds that support the Association. Nowhere is that issue more focused than on the profligate spending practices of the executive director, Octavius T. Reid, Jr., and the virtual absence of controls on that spending.

The Executive Committee, which is comprised of all the Association officers and the immediate past president, has failed utterly to demand any accountability from Reid. The Committee has itself been the recipient of much extravagant spending and attention lavished on them by Reid. While the Executive Committee cannot be blamed directly for Reid's creative expense vouchers and other instances of falsification, it must bear responsibility for its failure to call Reid to task for his misdeeds, especially when it should have been clear to even a casual observer that Association written policies, such as they were, were violated regularly. This chapter will examine some of those expenses in detail and will also explore the oversight procedures that permitted many of the abuses to occur.

### **EXPENSE VOUCHERS**

During the time period covered by this investigation, the following policy was in effect at the NJSBA:

*Approved representatives will be reimbursed for travel and other necessary expenses incurred while on Association business as authorized by Association policy. Expenses shall be submitted and accounted for in writ-*

*ing to the Business Office. Staff and Officer expense forms not submitted within 60 days require Executive Committee approval for payments.*

In addition to this written policy, two different expense forms clearly state that expense claims submitted beyond 60 days will not be honored. Despite these written admonitions, the SCI investigation showed that the policy regarding timely submission of expense vouchers was meaningless to the executive director and was not enforced either by Dolores Jarvie, the comptroller, or by the Executive Committee.

It is difficult to challenge directly the value to the NJSBA of particular expense claims since only Reid and his guest (or guests) know precisely the nature of the discussions at various functions. A list of persons allegedly entertained by Reid includes numerous legislators, state officials in the executive branch of government, a judge, stockbrokers, other lobbyists and assorted functionaries. And there are many expense vouchers claiming entertainment of officers and fellow staff members of the NJSBA. What the SCI does question, aside from the irregularities, are the amounts of taxpayer dollars Reid spent on wining and dining. In addition to disallowances by independent auditors engaged by the Association, the SCI has questions about the legitimacy of an additional \$20,000 in claims.

The SCI staff examined 91 expense vouchers (129 pages) submitted by Reid totalling \$133,383. These expense claims were submitted from July 1, 1985, through July 18, 1988, but included expenses claimed for December, 1984, and early 1985. Of this amount, Reid received \$128,556.20 in reim-

bursements after Ernst & Whinney had disallowed approximately \$5,000 from the batch of claims submitted on July 18, 1988. The majority of these vouchers were submitted later than 60 days after the event.

These vouchers consisted of the following total in expenses:

Voucher Submitted During FY	Total Expenses Reimbursed	Portion Of Late Expenses	% of Dollar Amount
85-86	\$33,261.45	\$14,725.76	44%
86-87	\$33,843.88	\$13,917.58	41%
87-88	\$20,937.91	\$14,418.12	68%
July 1988	\$40,512.96	\$39,661.71	97%
	\$128,556.20	\$82,723.17	64%

The chart in the Appendix sets forth a summary of the dollar amount of Reid's expense claims for the three-year period covered by this investigation. These figures include amounts paid directly to American Express on Reid's behalf for expenses charged on a card provided by the Association. In 1986-87, the Association paid around \$11,000 directly to American Express on Reid's behalf. In 1987-88, this figure was around \$6,300.

**\$53,602.62 in Old Expenses.** NJSBA President Jeremiah Regan testified that shortly after he took office in 1988, he learned of "significant advances" that were outstanding on Reid's account, and he "told [Reid] to get them in or he wouldn't get a nickel and I gave him until July, I think, some time to have him submit it." On July 18, 1988, Reid submitted claims for \$53,602.62 in expenses covering a 37-month period.

At Regan's request, the NJSBA's new auditing firm of Ernst & Whinney reviewed those claims. Ernst & Whinney found \$3,409.40 in claims that had previously been paid to Reid's corporate American Express account. (Many of these expenses had been submitted less than a year previously). This

amount was disallowed, as was an additional \$1,267.85 for lack of receipts. After further deduction of \$11,500 in outstanding advances previously paid to him by the Association, Reid received from the Association a check for \$37,425.37 on his claim of \$53,602.62. Incidentally the \$11,500 deduction for advances marked the first time in at least four years that Reid's advance balance was current and up-to-date.

Regan testified that, before the auditors' review, he brought the vouchers to the Executive Committee at the July, 1988, retreat:

*The Executive Committee did not finger through all of those back-up papers...I gave them the totals and they were there available on the table for anyone. I also assured the Executive Committee that I would refer the total package to the auditors for their audit.*

*Q. Did Mr. Reid give any explanation to the Executive Committee regarding the total amount, how that got to be so high for the expenses?*

*A. He was very busy, didn't have time, would prefer not to have to submit expense accounts, would rather pay it out of his own pocket if he could afford it, but he couldn't afford it so he just kept putting it off. In essence, that was the discussion.*

Regan recalled his initial reaction to these claims:

*I couldn't—don't remember at the moment the whole thing; just the totality of the thing is what blew my mind. You know, when you work for the government for 30-some-odd years and you see vouchers in the \$30,000-\$35,000 range, you see advances that run up \$16,000-\$17,000 unsatisfied, it's a cultural shock, I guess. That's why I got this [new] policy. My reaction was to immediately*

*prevent anything like that from ever happening again for anybody.*

**Duplicates and Questionable Receipts.** During the SCI staff's examination of Reid's expense vouchers, questions arose about some of the documentation submitted for the claims. The initial and most obvious questions related to the absence of receipts and any detailed description supporting many of the claims. The SCI staff discovered duplicate receipts which had been submitted by Reid in several different ways as described below to support duplicate claims. Additional duplicates were found to exist where a claim (such as hotel or airfare) submitted by Reid had been directly billed to and paid by the Association. Because voucher details regarding the event and/or participants usually differed, the recognition and identification of duplicates was made even more difficult.

In addition to clear duplicates that could be identified, numerous questionable transactions were identified. These were expenses which could not be verified as occurring at the claimed location or with the claimed individuals. Included in this category were claims for meals during conferences where a registration fee paid by the Association included the cost of a particular meal.

Reid failed to submit to the SCI any business calendars (except for 1988) which made it difficult to ascertain the validity of the questioned receipts. The sheer number of transactions also raised questions that largely remain unanswered: Were the persons claimed on the voucher actually entertained? Was official business discussed? Why were there so many receipts from restaurants located near Reid's home?

To try to answer some of these questions, the SCI staff conducted a limited survey to ascertain the validity of some of the expenses at restaurants near Reid's home. Of 48 claims examined, only five could be positively substantiated as having occurred by the person or persons claimed on Reid's vouchers

to have been in attendance.

The SCI staff also reviewed registration material received from various organizations that hosted conventions and other such affairs. This review revealed a pattern of "extended stays" (prior to the beginning of a convention or after the last scheduled day of the conference) that were paid by the Association. For example, the SCI staff identified over \$600 in apparently personal charges accumulated by Reid after the end of a conference in St. Croix, Virgin Islands and over \$1,500 accumulated by Reid and then-Association President Margaret Mueller after the scheduled end of a conference in Paris.

In some instances, it was unclear what costs were covered by the registration fees for certain events. The fees for certain conventions were so high that they could have included meal or lodging costs, but the Association accounting system does not provide any breakdown.

The review of these vouchers covered the three years between July 1, 1985, and July 1, 1988. The SCI identified 154 claims in Reid's vouchers totalling \$20,224.94 which it believes to be either clearly disallowable or highly questionable, in addition to the \$4,677 disallowed by Ernst & Whinney. The amounts of these individual claims are listed in Schedule B attached to the report and are summarized here:

1. **No Receipts:** \$3,049.24 (19 instances plus 3 groupings of amounts under \$40.00). The expenses were claimed on Reid's vouchers but lacked supporting documentation.
2. **Duplicates:** \$4,382.31 (33 instances). These claims were submitted twice and either paid to Reid twice or paid once to Reid and once to another entity such as American Express, a hotel or travel agency.
3. **Questionable Receipts:** \$3,673.99 (47

instances). These were claims for meetings which could not specifically be verified as occurring at claimed locations, or with a claimed individual; where meals were included in registration fees; or where cash receipts were suspicious.

**4. Bogus Claims: \$1,664.28 (32 instances).** 28 claims were specifically disavowed by the individual(s) claimed in Reid's voucher to have been present; and four claims were for highly improbable "meeting" places, including one newsletter office and an electronics outlet.

**5. Extended Stays: \$7,543.61 (26 instances).** These claims included expenses prior or subsequent to official events.

The following are some examples of duplicates found in Reid's expense vouchers. The Appendix contains copies of the exhibits referred to in these and other examples.

### **1. Direct Billing Examples.**

**Exhibit 1** is a copy of Reid's voucher claiming travel expenses for conferences in Washington, D.C., in January, 1986. This voucher is undated but was approved by Comptroller Jarvie 17 months after the expense was incurred. This voucher claims room charges (\$840.14) which had been billed directly to and paid by the Association in 1986. The meal claims on this voucher (\$555.86, \$349.90, and \$1,227) are supported by American Express receipts without detail as to number or names of persons present. **Exhibit 1a** is an example of how Reid in 1988 claimed airfare for another Association staff member on his voucher; the Association had paid that airfare directly in 1987.

### **2. Receipts Used Twice For Duplicate Claims.**

**Exhibit 1** also contains a claim for \$160 in airfare (under "miscellaneous") using a travel agency invoice and copy of the ticket as receipt. The same invoice was submitted as back-up for a \$160 airfare claim on the voucher found as **Exhibit 2**. In actuality, the airfare for the particular event noted on the **Exhibit 2** voucher had been directly billed to and paid by the Association (\$148).

**Exhibit 3** shows how airfare (\$305) was claimed twice and reimbursed in 1985 on two different vouchers submitted only one month apart. The same travel agency invoice was used as a receipt in each case, although for the second voucher the invoice had been folded in such a way as to conceal the bottom section that showed that the amount had been billed to Reid's credit card. Reid dated neither voucher, and the vouchers were submitted to different persons for approval.

### **3. Duplicate Receipts**

a) **Same amount claimed twice with different copies of same credit card receipt.**

**Exhibit 4** illustrates how different versions of the same credit card receipt were used to substantiate a \$577.77 claim twice submitted, claiming transactions on two different dates.

**Exhibit 5** illustrates the use of duplicate American Express receipts (Amexco copy and cardmember copy) to substantiate claims for the same amount but for totally different transactions and, in this case, totally different years. In the first case, the four highlighted claims (\$62.70; \$108.32; \$76.50; and \$213.82) were submitted by Reid in 1987 as back-up for claimed transactions in March 1987; the Association paid these expenses directly to American Express because they were charged on Reid's corporate

card. The receipts submitted at this time were the "Amexco copy". One year later Reid submitted the "cardmember copy" of the same four receipts as back-up for claimed transactions in March, 1988.

**b) Different or changed amounts claimed with different versions of a receipt.**

**Exhibit 6** illustrates how a credit card receipt and a restaurant tab for the same meal were used to substantiate two different claims submitted in the same set of vouchers for reimbursement.

**Exhibit 7** illustrates a similar duplication on the same voucher.

**Exhibit 8** illustrates another duplication in a more finessed variation. The credit card receipt for \$180.77 total appears as back-up to a claim for a meal at the Teahouse Restaurant in Vancouver, B.C., in July, 1986. The restaurant tab slip appears as back-up for a \$150.00 claim for dinner in New Orleans in August, 1986. (The reverse side of this tab shows an address and a phone number which the SCI staff ascertained to be in Vancouver, B.C. The SCI staff was unable to locate a Teahouse Restaurant in New Orleans).

The following are some of the questionable claims identified in Reid's vouchers:

1. \$98.65 claim for meeting at Beau Rivage in Medford with a state legislator and Association Deputy Executive Director Boose. Boose confirmed a meeting had occurred on the date indicated but stated that, according to his records, it was a breakfast meeting at Cledes' Luncheonette in Trenton.

2. \$82 meal claim at the Rancocas Inn in Mt. Laurel in connection with the Burlington County School Boards Association

("BCSBA"). BCSBA representatives contacted by the SCI stated that BCSBA had hosted its annual legislative breakfast meeting on the claimed date at the Special Services School in Mt. Holly, and that the meeting terminated around 11 a.m. They had no knowledge of any official county activity at the Rancocas Inn on that date.

3. \$438 dinner claim (supported by restaurant tab only) submitted for a conference in Philadelphia where dinner was specifically included in the registration fee for the date claimed.

4. \$408.96 dinner claim during a convention in Washington, D.C., with no notation as to others entertained and on a date for which a second dinner claim (\$49.97) was separately submitted.

5. \$22.47 lunch claim at TGI Fridays in Marlton supported by credit card receipt on which the date was apparently changed from a Sunday to a Friday. A \$19.90 claim for lunch at Lieggi's in Trenton on the same Friday was separately submitted.

The following are examples of bogus claims identified in Reid's vouchers.

1. \$232.30 claim for a meal at the Beau Rivage restaurant in Medford with two individuals who stated to the SCI that they could not confirm that they were present with Reid at that place and on that date.

2. \$25.00 claim for a meal at the Peking Mandarin restaurant in Cherry Hill with an individual who stated to the SCI that his records indicated he was in Canada on that date.

3. \$29.95 claim for "cocktails" with Insurance Group stockbroker Dan Druz and oth-



ers supported by a credit card receipt from "Privileged Information" at an address in New York City. "Privileged Information" is a newsletter, not a restaurant.

4. \$55.58 claim for "Bergen County School Boards Association" brunch, supported by a claim from Braddocks Tavern, a restaurant in Burlington County.

5. \$34.50 claim for "Legislative Meeting - Hudson County" supported by a restaurant tab from Philadelphia.

**Questionable Transactions.** In addition to the questionable receipts, duplicates and bogus claims identified on Schedule B, the review of Reid's expense vouchers indicated questionable claimed transactions. These questionable transactions were mainly associated with expenses claimed for meals and fall into the following categories:

1. Multiple meal claims for one day (submitted at different times). Examples: Meals claimed for January 9, 1986, for Lieggi's (\$37.78); Peacock Inn in Princeton (\$105.30); and Lorenzo's (\$178.62); Meals claimed for March 5, 1987, at the Bond Street Club (\$50.38); Bobby V's (\$59.66); and Lorenzo's (\$145). (The last amount was claimed twice by Reid, the first time without a receipt).

2. Claims submitted at different times for the same meal/restaurant expense for different persons in attendance. Many of these claims (substantiated by a duplicate copy of an American Express receipt) were disallowed by Ernst & Whinney in auditing the July, 1988, vouchers they had previously been submitted by Reid and directly paid by the Association to American Express.

Among the claims disallowed by the auditors in July, 1988, because they had previously been sub-

mitted by Reid and paid by the Association were four claims (\$986.77 total) for hotel accommodations in July, September and December, 1987; a \$176.76 dinner at Tavern on the Green in New York City in August, 1987, with a representative of a brokerage firm; and a \$129.87 dinner at the New York Hilton in August, 1987, with the Executive Director of the New York School Boards Association.

**Exhibits 9 and 10** in the Appendix set forth examples of Reid's claims that the auditors disallowed. **Exhibit 9** contains a claim for auto tires twice submitted; and **Exhibit 10** contains one meal and one lodging claim twice submitted only seven months apart.

What was most astonishing about the disallowed duplicate expenses was how many of the claims and receipts had been submitted by Reid within the same year and also how the details of a transaction changed the second time around. The Association's failure to require accounting in a timely manner for all expenses incurred in connection with a particular event resulted in the payment by the Association in several different fiscal years of various claims for the same event, at least some of which were clear duplicates. In particular, when Reid submitted claims in July, 1988, to the Association, at least some were associated with conferences for which vouchers and claims had been submitted and claims paid in prior years.

In September, 1986, the Association paid an amount of \$1,389.04 directly to American Express in connection with Reid's attendance at the NSBA Executive Directors Summer Institute in Vancouver, British Columbia. In July, 1988, Reid submitted additional claims of \$1,197.37 for meals and airfare for that event.

The Association in September, 1986, paid claims directly to American Express for Reid's attendance at the National Conference of State Legislators in New Orleans in August, 1986, for rooms (\$711.23)

for Reid and another staff person (\$493.68). In July, 1988, the Association received claims from Reid for meals, entertainment and travel, photo processing and tapes for that event (\$1,371.87 total).

In December, 1986, Reid submitted claims for trainfare (\$110), overnight accommodations and meals (\$572.60) at a conference in Washington, D.C., in October, 1986; the Association paid these amounts directly to American Express. In July 1988 Reid submitted additional claims for meals (\$146.09 and \$110.29) in connection with that conference.

Reid submitted claims in July, 1988, from the Association's annual workshop in October, 1987. These claims included two receipts (\$614.10 and \$687.68) for one dinner with the Association officers. The Association, however, pays vendors directly for many bills associated with this workshop.

When the SCI tried to question Reid about duplicate vouchers disallowed by the auditors, he balked, saying, "I don't honestly see the value of going through a recitation of those now since I haven't received any payment of them." Although he was given the opportunity to produce receipts for the disallowed claims, he told the SCI he "didn't go back and look. I decided it wasn't really worth the effort."

After he was given the ultimatum by President Regan regarding his outstanding advances, Reid testified that he and his secretary, Denise Fitzgerald, spent hours working at night trying to reconstruct his expenses from receipts, calendars and any other documents they could find. Reid said he kept his receipts at home in shoeboxes, envelopes and various other receptacles.

Both he and Fitzgerald blamed the pressure of the process for any errors or duplications in the submissions. Comptroller Jarvie testified that she too sometimes filled out some of Reid's late expense vouchers. She was also the one who approved them at least 75 per cent of the time.

Association policy requires late vouchers to be approved by the Executive Committee and some of its members said they vaguely recalled voting for some approvals. But the SCI investigation could find no record in the minutes for any such approvals. Sometimes notations were made on the vouchers themselves that they had been approved, again with nothing in the minutes to reflect this. In at least two instances, vouchers were noted as being approved on specific dates when no Executive Committee meetings had been held within weeks of those dates.

Secretary Joan Mancina testified that she was the one who would make such a notation before sending a voucher to the business office for payment. Shown some vouchers with such notations on them, Mancina told the SCI that the writing was not hers.

#### **CALENDARS DESTROYED**

Reid and his secretary, Denise Fitzgerald, were asked separately by the SCI to produce the calendars they used in preparing Reid's expense vouchers and were given subpoenas for the documents. Both said they would willingly comply. But in subsequent appearances before the Commission, Reid said he had discarded his old calendars after his expense vouchers had been prepared, while Fitzgerald said hers had disappeared.

Fitzgerald, asked by Chairman Patterson about the calendars, testified:

*Q. The calendars don't exist, so we have no way of checking or you have no way of checking, is that right?*

*A. Not at this point, no.*

*Q. Never occurred to you to keep the calendars because going back two years somebody might question the expenses?*

*A. Well, they were submitted to the Executive Committee, as well as the auditors, and there was no question raised at the time. So*

*no, it wouldn't occur for me to keep them.*

## **WHERE WAS ARTHUR YOUNG?**

One question that was raised both by the SCI staff and later by several NJSBA representatives was whether the Arthur Young firm, which performed the annual audits for the Association from 1978 until 1987, had noticed any irregularities.

Regan testified that when he became president, he found that the Association had what he called "a Mickey Mouse accounting system and I didn't know that existed before. I didn't realize we had a single entry system with back-up papers in somebody's drawer for six million dollars. That was a shocker." He recalled always receiving a "clean bill of health" on the Arthur Young audits and never receiving a management letter addressing any concerns about failure to adhere to financial policies.

Arthur Young partner Edward Cupoli testified that he never heard any concerns about recordkeeping, expenses, or competence of the Association bookkeeping staff during any of the audits. Jon McCormac of Arthur Young testified that he discussed the internal control system and the audit findings with the Association's management including Jarvie each year. He testified, "there were always small matters that we would find...but nothing was ever major enough that we would consider it a material weakness or consider the issuance of a management letter." In fact, according to records, management letters were issued to the Association in 1978, 1979, 1980 and 1981 following audits.

**Ernst and Whinney's Management Letter.** The Ernst and Whinney audit of the Association for 1986-87 was accompanied by a management letter to the Association's Board of Directors. In this letter, the auditors set forth several suggestions for management including:

1. Maintenance of the accounting system on

an accrual basis with the conversion from a manual to an automated system.

2. Creation of a position of deputy director for finance "and filling that position with an individual having the appropriate accounting and financial background to provide the Association with the financial expertise essential to the efficient operation of the organization."

3. Officers' Expense Forms. "During our review of officers' expense reports, we noted a number of instances where expense reports had been submitted significantly late with no clear approval noted in the Executive Committee Meeting minutes as required under Association policy. We recommend increased follow-up on outstanding advances to assure that expense reports are submitted on a timely basis. We also recommend that the reimbursement policy be amended to require approval by the Executive Committee of all Officers' expense forms. Also, Association policy imposes no reimbursement limits for meals purchased in the context of its activities. Due to the inherent sensitivity that accompanies the use of public funds, we suggest periodic review of such reimbursement policies."

4. Requiring periodic time sheets for every employee "for the effective monitoring of payroll cost and vacation and sick leave in accordance with Association policy."

## REID'S OTHER CONDUCT

In addition to Reid's expense vouchers, which account for by far the largest dollar amount of his fiscal irregularities, some of Reid's other activities also bear examination. For example, there was the duplicate IRA payment, the payment of nearly \$9,000 for unused vacation, the taking of an Association car without authorization and the trip to Paris.

### **DUPLICATE IRA PAYMENT**

Although enrolled in the State pension system, the executive director, pursuant to his contract, receives from the Association a \$2,000 IRA payment annually. In practice, the Association has paid Reid not only the \$2,000, but also an extra amount equal to state and federal withholding taxes. Reid also receives a \$92,000 annual salary and a universal life insurance policy costing \$5,400.

The SCI staff's review of NJSBA records revealed what appear to be two IRA payments to Reid for the same year. The records indicate that Reid received a \$2,000 check in January, 1987, as an IRA payment that was identified in the payroll records as \$2,300, the extra \$300 being for taxes. In addition to this check, Jarvie also reduced Reid's outstanding travel advance balance by \$2,000 on June 30, 1987, with a journal entry characterized as an "IRA" payment. The SCI staff does not believe this is a matter of an "overlapping" of calendar, tax, fiscal or contract years, since it has accounted for all other IRA payments to Reid.

On May 21, 1986, Reid sent Business Manager Kathleen Donoher a memo instructing her to prepare a check in the amount of \$2,000 "for an IRA for me." Although his contract is silent on the tax issue,

he directed Donoher "to calculate the tax obligation so that the total sum paid results in the net of \$2,000."

### **UNUSED VACATION PAYMENT**

During the period covered by this investigation, the following policy was in effect at the Association:

*If because of schedule constraints or unusual circumstances a staff member is unable to take vacation time, the Executive Director, with the approval of the Executive Committee, may pay the employee for a portion of the unused vacation days [Emphasis added].*

This investigation revealed that in January, 1987, five staff members received payment for accrued vacation days totalling \$12,123.57. Of this total, \$8,835.58, representing 28 1/2 accrued days, went to Reid. Comptroller Jarvie received \$2,221.15 representing 10 1/2 accrued days. The balance of \$1,516.84 representing 8 1/2 days went to three non-executive staff members. The payments were authorized by Reid without the prior approval of the Executive Committee in clear violation of written policy.

Although Reid had been employed by the Association since 1972 and had been executive director for two years, he testified that he learned of the Association policy requiring approval by the Executive Committee "after I had already done it." He added, "It never even occurred to me that that was something that the Executive Committee had to rule on. I thought that was part of my authority."

By Chairman Patterson:

*Q. The business office didn't know that you had to get the Executive Committee approval?*

*A. No. As a matter of fact, one of my disappointments was the fact that if someone there knew that, they should have checked that and flagged it for me. Normally they do flag things. Since no one said anything, I never thought twice about it.*

By Counsel Hoekje:

*Q. Don't you think as executive director that you should know that such a policy exists?*

*A. You know, we have a policy manual that is this big. The truth of the matter is that if we were to go through and look at every single thing, you could probably find something that you didn't do properly...because, in terms of operating practice, you are doing things that make good sense, you think you are exercising good judgment...now, you can always go back and you can nail somebody somewhere on something they didn't see. We've got hundreds of policies.*

In conducting its audit, Ernst & Whinney discovered that the Association had no records that documented actual leavetaken so that the accuracy of the number of days claimed could not be verified.

### **THE ASSOCIATION CAR**

The executive director is one of five persons at the NJSBA (four executive staff and the president) who receive use of a car. Association policy also permits personal use. The Association's practice has been to replace these cars every two years. Association staff are permitted to bid for and purchase the "old" cars. Bids are expected to start at a car's book value.

This investigation revealed that when the Executive Director received a new Association car in October, 1986, he took his "old" one home. According to then-President Joseph Zemaitis, Reid had asked the Executive Committee at that time for the car as a gift for his services, but his request was denied by the Board of Directors. The Association continued to pay insurance on this car until the summer of 1987.

Zemaitis testified that he first learned around July, 1987, that Reid had kept the car and that he directed Reid at that time to "take care of it." Reid then bought the car for \$4,025 in August and paid the Association retroactively \$1,137 for the insurance in September. Motor vehicle records show title transfer occurred in August, 1987.

In his testimony, Reid first insisted that he had only "garaged" the car for that time period and that he had paid the car insurance. He did not mention that he had paid it retroactively.

Reid testified:

*I know that I had agreed to purchase the car. I think I paid for the car around last June or so. I had the car garaged at my house and I paid the Association for the insurance on the car during the course of the time that it was there...there was a statement made about the personal use of the car, which I think occurred on one or two occasions prior to the time that I paid for the car, but I had already made a commitment to the Association to pay for it and was paying the cost of the insurance involved for it.*

*Q. There was no long time lag between the time you actually started using the car for your personal use and the time you paid the Association for it?*

*A. I can't even tell you what the time lag was...It's not like that was a significant item.*

When the SCI staff in a subsequent session confronted Reid with Association records indicating that he had first paid the insurance in September 1987, Reid explained, "A portion of that time the car was just plain garaged."

Jarvie was another NJSBA executive to whom a car was assigned. In her testimony, she said that she did not drive because she has a handicap and her husband drove the Association car.

In another automotive matter, Reid listed the NJSBA car that was then assigned to him, a 1987 Chevrolet Caprice, as a \$19,000 asset on his application for a VA mortgage to buy property in Willingboro.

### **THE PARIS TRIP**

In January, 1986, Association President Margaret Mueller and Executive Director Reid flew to Paris to attend a three-day education conference sponsored by the Organization for Economic Cooperation and Development. Seventeen months later, Reid submitted expense vouchers for the trip and included his own expenses, those of Mueller and others. The Association paid all the claims, which included expenses for three full days in Paris after the conference ended.

The Paris trip is a good example of the difference between practices at the NJSBA and the state government. State regulations require advance notice and approval for travel, and, where the travel is outside the United States, this approval must be given by the Director, Division of Budget and Accounting. The state approval process also requires some prior estimate of the costs of and justification for travel. No such prior estimate or justification was given for this trip by Mueller or Reid.

On his undated expense voucher, Reid claimed \$3,177.44 in expenses for Mueller, himself and "other guests." Reid testified that at least one

expense claim covered a meal for a female friend of the president who was staying in her room. In other instances, Reid claimed meals involving three or four persons but did not identify them. He attached no receipts for five meal claims. "Entertainment" claims paid by the Association included the cost of a sightseeing tour of Paris. These expenses did not include airfare of \$1,300 for Mueller and Reid, which was paid separately in two different ways by the Association.

On June 30, 1987, Association Comptroller Jarvie applied the total amount of the reimbursement on Reid's expense voucher to reduce some of the his outstanding advances. (The specific advance request for this trip was only \$1,500.)

Reid testified that he sought authorization to go on the trip from Mueller when he received an invitation to the conference. Mueller said that she informed the officers before she went on the trip, and the Board of Directors afterwards and that the officers "were all extremely pleased" about her invitation. She was asked:

*Q. Do you know that your expenses were included on [Reid's] voucher?*

*A. I would have no knowledge of that.*

*Q. Would you have any concern about that?*

*A. No.*

*Q. Do you know whether your expenses claimed on the voucher were used to reduce an outstanding amount of Mr. Reid's advances?*

*A. I would have no knowledge.*

Charles Robinson, an officer and a member of the Executive Committee at the time, testified that he first learned about the trip after it had taken place when "one of the members of the Executive Committee brought it to our attention."

*Q. When you learned about the trip to Paris, did you have any concerns about it?*

*A. All of us did. All of us thought it was a trip, at the very least, that would appear to be unnecessary, perhaps frivolous.*

Mueller testified that a female friend traveled with her to the conference and stayed in her hotel room. She testified that her friend was present for all the dinners that week and that she "assumed" — incorrectly — that her friend reimbursed Reid for her share of the dinner tabs.

*Q. Do you know?*

*A. No.*

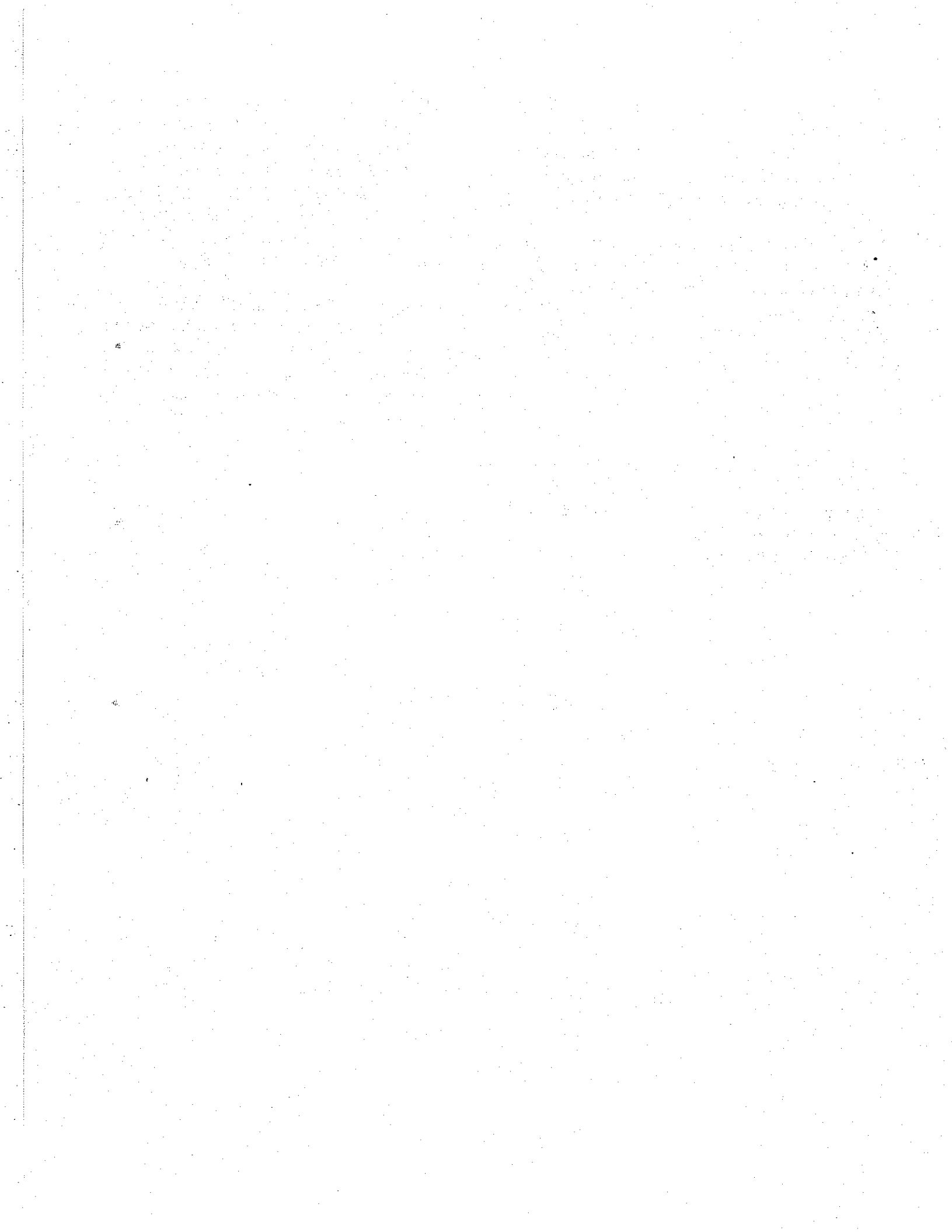
Although the scheduled dates of the conference were from January 13 to 15, 1986, the Association paid expenses for Mueller and Reid through their return on January 19, 1986.

Reid testified:

*Q. Did you ever consider reimbursing the Association for the time that you stayed over in Paris after the conference had ended?*

*A. No. I obviously did not...I seem to recall that we were able to save money in travel fare by virtue of the extra stay that resulted in the savings greater than it would have been if we had come home earlier.*

Although both Reid and Mueller testified that they found this conference worthwhile, neither prepared a written report. Mueller gave an oral report afterwards to the Board of Directors. The Association officers never saw the expenses for this trip.





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100-100000

100-100000



INVESTMENTS

The Administrator shall authorize the investment of idle Group funds in interest bearing money instruments. The primary concern of investments shall be the security of invested funds, followed by the interest yield and the maturity date. For purposes of this policy, idle funds shall be considered all funds in excess of the cash requirements for operating expenses and loss payments or reserves. The term of investments shall be consistent with projected cash flow based upon loss payment demands projected by the Group's insurance service contractor.

Investment instruments may include all investments secured by federal funds; i.e., certificates of deposit, repurchase agreements, treasury notes, treasury bonds and commercial paper (less than one year duration). Investment instruments specifically omitted are corporate bonds, stocks and other speculative securities of long term duration, one year or longer.

Authority: BT 11/83

NEW

INVESTMENTS

The Administrator shall authorize the investment of idle Group funds in a manner which will provide for high yield returns while continuing to adhere to the guidelines established by N.J.S.A. 18A:18B-4B ("to invest monies held in trust under any funds in investments which are approved for investment by regulation of the State Investment Council for surplus monies of the state").

03681



State of New Jersey  
DEPARTMENT OF THE TREASURY

DIVISION OF INVESTMENT  
CN-298  
TRENTON, N. J. 08628

August 25, 1983

MEMORANDUM TO: Elizabeth Felker, Assistant Treasurer

RE: P.L. 1983, c. 108

This law provides that a school board association can create a joint self insurance fund. I have no quarrel with this; however, the law also provides that they can "invest in investments which are approved for investment by regulation of the State Investment Council for surplus moneys of the State".

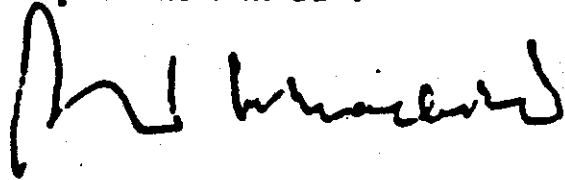
As a matter of principle the Council does not like to blindly set fiduciary standards for third party investment organizations. Investment objectives differ and what may be a good investment for the Division could be a bad investment for someone else. This kind of language should be resisted wherever it appears in prospective legislation.

Second, it will be difficult for the school board association to know what specific investments are legal. A number of the Council regulations have "approved lists", for example, for common stocks, certificates of deposit, commercial paper and bankers acceptances. These lists are changed regularly. Furthermore, even though a security issuer may be on one of our lists, we may internally put a hold on any purchases and our changed view would not be reflected on the list.

Third, the law refers to "investments - of surplus moneys of the State." This is very ambiguous since neither State law relating to the Division or Council regulations refer to "surplus moneys of the State". In fact, Council regulation carefully defines investments for trust, demand, pension and annuity, static or temporary reserve funds. Thus, a close reading of the law and the regulations could indicate that no investments were authorized for the school board association fund. It might be possible to draw an inference that the new fund could invest in whatever was legal for the State General Investment Fund, which holds unexpended state balances. However, in this case the new fund could be specifi-

cally prohibited from purchasing corporate bonds with more than a five year maturity, common stocks and virtually all other bonds and mortgages, since all of these investments are specifically limited by the regulations to the pension and annuity group of funds.

By copy of this memorandum I am expressing my concerns to the school board association. I believe that they would be better off if they were simply subject to the prudent man law.



RMM/kb  
Attachment  
cc Peter Pizzuto  
NJ School Board Association

Roland M. Machold  
Director

## INVESTMENT POLICY REGULATIONS

1. The philosophy of the investments will be for consistent stable return and appreciation of capital.
2. Funds needed for short-term cash needs will be invested in money market investments such as bank certificates of deposit, treasury bills and money market funds.
3. Long-term investments will be limited to those acceptable under the prudent man rule (as it applies to retirement accounts). These investments include, but are not limited to, individual equities recommended for purchase by a reputable investment firm or advisor, bonds rated BBB or better by a major rating service, mutual funds whose stated objectives are consistent with the long-term investment objectives of the Insurance Group, and limited partnerships which have been approved by the appropriate regulatory authorities for inclusion in retirement plan portfolios.
4. All types of investments acceptable under the prudent man rule must be approved by the Administrator and the Treasurer of the Insurance Group on a case-by-case basis.
5. The Treasurer of the Group will report quarterly to the Board of Trustees regarding the Insurance Group portfolio.



# New Jersey School Boards Association

Headquarters: P.O. Box 909, Trenton, New Jersey 08605-0909  
Telephone (609) 695-7600

October 4, 1985

Dan A. Druz  
Dean Witter Reynolds, Inc.  
One Palmer Square  
Princeton, New Jersey 08542

Re: NJSBA Capital Reserve Fund  
NJSBA Insurance Group

Dear Dan:

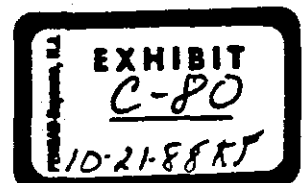
The Board of Directors at their meeting of September 20, 1985 authorized the undersigned to open accounts at your institution. This letter will authorize Dolores Jarvie, Comptroller to buy, sell, invest and reinvest securities on behalf of the New Jersey School Boards Association.

Additionally, please be advised that the NJSBA is a tax-exempt organization. Our taxpayer ID number is 21-66004401.

Very truly yours,

Octavius T. Reid, Jr.  
Executive Director

Dolores Jarvie  
Comptroller





# Active Assets Account

FOR BUSINESSES, NON-PROFIT ORGANIZATIONS AND INSTITUTIONS

## IDENTIFICATION INFORMATION

STANDARD WALLET CHECKS ARE SUPPLIED OR YOU MAY SELECT OPTIONAL CHECKS AT AN ADDITIONAL CHARGE

DESKTOP CHECK STYLE  STUBS  REGISTER

BUSINESS CHECK STYLE

ENTER 1st CHECK NO. DESIRED

101 OR HIGHER

101

PRINT NAME AND ADDRESS EXACTLY AS YOU WANT THEM TO APPEAR ON CHECKS AND VISA CARD. TYPE OR PRESS HARD.

1	NAME OF ORGANIZATION	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20	ORGANIZATION NAME TO APPEAR ON CARD(S)?
		N.T.S.B.A. FIN INSURANCE GROUP	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO
2	NAME OF AUTHORIZED INDIVIDUAL (PRIMARY)	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26	
		OCTAVIUS T. REID, JR. OR	
3	NAME OF AUTHORIZED INDIVIDUAL (SECONDARY)	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26	
		D. LOREIS T. ARVILE	
BUSINESS ADDRESS (STREET)		P.O. BOX 909	
CITY, STATE ZIP CODE		TRENTON, N.J.	08610
OPTIONAL IMPRINT ON CHECKS			

IMPORTANT: PLEASE CIRCLE THE NUMBER DIRECTLY ABOVE THE FIRST LETTER OF YOUR LAST NAME ON EACH NAME LINE ABOVE.

DWR ACCOUNT NUMBER: 688 015609

DUAL SIGNATURE LINE (CHECKS):  YES  NO

TRUST SELECTION (CHECK ONE)	ACTIVE ASSETS MONEY TRUST	310	
	ACTIVE ASSETS TAX FREE TRUST	311	<input checked="" type="checkbox"/>
	ACTIVE ASSETS GOVT. SECURITIES TRUST	303	
	ACTIVE ASSETS INSURED ACCT. AVAILABLE ONLY TO NOT-FOR-PROFIT ORGANIZATIONS	301	

CARD OPTIONS INDICATE NUMBER OF CARDS PER NAME. MAXIMUM OF 2 CARDS PER ACCOUNT.

PRIMARY INDIVIDUAL	1
SECONDARY INDIVIDUAL	1

OF CARDS 0, 1, 2

FISCAL YEAR:  A  B

MY BUSINESS/INSTITUTION IS REGISTERED IN THE U.S.

BUSINESS PHONE: 609 6957600

PRIMARY PURPOSE OF YOUR AAA ACCOUNT:  INVESTMENT  INTEREST-BEARING CHECKING  BORROWING  RECORDKEEPING/ACCOUNTING  OTHER (Please Specify)

ORGANIZATION OF BUSINESS (CHECK ONE):  PROFESSIONAL CORPORATION (Including Professional Association)  SUBCHAPTER S CORPORATION  OTHER CORPORATION  SOLE PROPRIETORSHIP  PARTNERSHIP  GOVERNMENT  NON-PROFIT  UNIFORM GIFT TO MINORS ACT  OTHER (Please Specify)

MAJOR INDUSTRY/LINE OF BUSINESS (CHECK ONE THAT BEST DESCRIBES YOUR BUSINESS):  ACCOUNTING  AGRICULTURAL  COMMUNICATIONS  CONSTRUCTION/ARCHITECTURE ENGINEERING  FINANCIAL  FOOD/BEVERAGE  LEGAL  MANUFACTURING  MEDICAL  RETAIL  WHOLESALE  OTHER *Educational* (Please Specify)

SIGNATURES (SHOULD BE SAME AS THOSE DESIGNATED IN CORPORATE RESOLUTION)

*x* *Deborah S. Reid* DATE 10/1/00 *x* *Deborah Reid* DATE 10/1/00

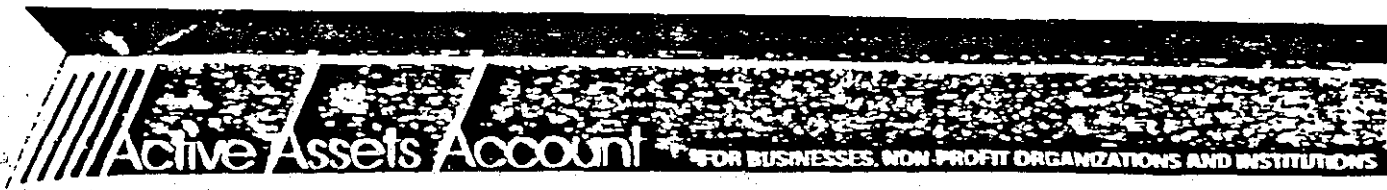
BELOW FOR DEAN WITTER REYNOLDS USE ONLY

ACCOUNT EXECUTIVE SIGNATURE	BRANCH AE'S DATE	BRANCH MANAGER SIGNATURE	DATE
<i>x</i> <i>Deborah Reid</i>		<i>x</i>	

DWR EMPLOYEE  SEARS EMPLOYEE

DOCUMENT CHECKLIST:  AAA AGREEMENT  CORPORATE RESOLUTION (CASH/MARGIN)  ARTICLES OF INCORPORATION/CHARTER BY LAWS/LETTER OF GUARDIANSHIP (PROVIDED BY ORGANIZATION)  BROKER TO BROKER TRANSFER PAPERS

DEAN WITTER REYNOLDS INC. BRANCH COPY DWR-8549 3 (8-87) REV. 3/84



**CORPORATE RESOLUTION**

PLEASE CHECK APPLICABLE BOX FOR TYPE OF ACCOUNT  
 CASH  MARGIN

BRANCH ACCOUNT NUMBER  
6,8,8 | 1,5,6,0,9

To Dean Witter Reynolds Inc.:  
The undersigned Corporation NJSBA (the "Corporation")

by its President \_\_\_\_\_ (NAME)

solely authorizes you to open an Active Assets Account in the name of the Corporation, pursuant to the resolutions below which were duly adopted by the Board of Directors of the Corporation as of 10/11/95 and adopted by the Corporation by written notice sent to you at your branch office at ONE PALMER SQ (ADDRESS)  
PRINCETON NJ 08542

(PRESIDENT) \_\_\_\_\_ (SIGNATURE)  
(VICE PRESIDENT) \_\_\_\_\_ (SIGNATURE)  
(SECRETARY) \_\_\_\_\_ (SIGNATURE)  
(TREASURER) \_\_\_\_\_ (SIGNATURE)

I further certify that the following officers and/or persons have been duly authorized individually to write checks and use Visa® cards of the Corporation pursuant to the FIFTH Resolution below and that the following are their true signatures:

NAME/TITLE	SIGNATURE
	<u>Nov 7 11 12 AM '95</u>

By \_\_\_\_\_ (PRESIDENT)  
being the Secretary of

\_\_\_\_\_, CORPORATION, STATE OF INCORPORATION, \_\_\_\_\_

Corporation, does hereby certify that the following is a true and correct copy of resolutions unanimously adopted by the Board of Directors of the Corporation as of \_\_\_\_\_ (DATE).

In accordance with the Charter and By-Laws of the Corporation, and that said Resolutions appear in the Minute Books of the Corporation, and that the same have not been rescinded or modified, and are in full force and effect.

I further certify that the Corporation is duly organized and existing and has the power to take the action called for by the foregoing resolutions. I further certify that the persons designated below as the officers of this Corporation have been duly elected to and now hold the offices in this Corporation set forth opposite their respective names and that the following are their true signatures.

PLEASE AFFIX CORPORATE SEAL HERE (IF AVAILABLE, PROVIDE NOTARIZED RESOLUTION)

IN WITNESS WHEREOF, I have hereunto affixed my hand and the seal of the Corporation, this \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_

Robert J. Reed (SECRETARY)

**CERTIFIED COPY OF CERTAIN RESOLUTIONS ADOPTED BY THE BOARD OF DIRECTORS**

- FIRST: Resolved that the Corporation is authorized and empowered to open an Active Assets Account with Dean Witter Reynolds, Inc. as described in the Active Assets Account Agreement. The Active Assets Account consists of (1) a cash/margin securities account ("Securities Account"), (2) a Visa® card/check account ("Visa® Account") with a bank, and (3) a selection of one of three no-load money market funds.
- SECOND: Resolved that the Securities Account shall be a Cash Account or Margin Account for the purpose of purchasing, selling (including short sales), transferring, exchanging and pledging any and all forms of securities (if a margin account) including, but not limited to, options, certificates of deposit, or any other type of securities. All orders and instructions, written or oral, relating to the Active Assets Account shall be given either by the President, Vice President, Secretary or Treasurer of this Corporation or by \_\_\_\_\_ and each of them individually is hereby authorized and directed to purchase and/or sell and/or deal in any and all stocks, bonds or other securities, and any one of the aforementioned officers or persons may make payments, borrow monies and sign checks or drafts in connection with such purchases, sales or transactions for this Corporation and any one of the aforementioned officers or persons may deliver or accept delivery of and/or pledge and/or endorse and/or direct the transfer of record title of any and all stocks, bonds and other securities held or owned beneficially by this Corporation.
- THIRD: Resolved that Dean Witter Reynolds Inc. may deal with any and all of the aforementioned officers and/or persons directly empowered herein as though it were dealing with the Corporation directly.
- FOURTH: Resolved that each of the aforesaid officers of this Corporation be, and hereby are, authorized and directed to execute and deliver on behalf of this Corporation any and all agreements, documents, releases and writings that may be required by Dean Witter Reynolds Inc.
- FIFTH: Resolved that \_\_\_\_\_ (NAME/TITLE)

are hereby authorized and empowered individually, without counter-signature or co-signature, to write checks, to use Visa® Cards and to execute sales drafts or cash advance drafts on the Corporation's Visa® Account in accordance with the terms of the Active Assets Account Agreement. Additionally, the Corporation shall exercise due diligence to prevent unauthorized use of the Visa® Account.

SIXTH: Resolved that the Secretary of the Corporation be and hereby is authorized, empowered and directed to certify, under the seal of the Corporation, to Dean Witter Reynolds Inc. (a) a true copy of these resolutions (b) specimen signatures of each and every person by these resolutions empowered, and (c) a certificate (which if required by Dean Witter, shall be supported by an opinion of the general counsel of the Corporation, or other counsel satisfactory to Dean Witter) that the Corporation is duly organized and existing, that its charter empowers it to transact the business by these resolutions defined and that no limitation has been imposed upon such powers by the By-Laws or otherwise.

SEVENTH: Resolved that Dean Witter Reynolds Inc. may rely upon any certification given in accordance with these resolutions as continuing fully effective unless and until it shall receive the written notice of the amendment, modification or rescission of either such resolution or any such certification. Further resolved that Dean Witter Reynolds Inc. shall not be liable for any act taken upon instruction of any authorized person prior to receipt of written notice of the termination of such persons authority. The failure to supply any specimen signature shall not invalidate any transaction if the transaction is in accordance with authority actually granted.

EIGHTH: Resolved that in the event of any change in the offices or powers of persons hereby empowered, the Secretary shall certify such changes to Dean Witter Reynolds Inc., in writing, which certification, when received shall terminate the powers of the persons previously authorized and empower the persons named therein.

**BRANCH COPY**

**DEAN WITTER REYNOLDS INC. OPTION CLIENT INFORMATION**

NEW ACCOUNT      DATE COMPLETED      ACCOUNT NO.  
 DATA UPDATE      1/31/86      1688      15609      1001

FULL ACCOUNT TITLE  
**NISBA INSURANCE GROUP**

OCCUPATION (Indicate former occupation if retired.)      EMPLOYER  
 N/A      N/A

SPOUSE'S OCCUPATION (Indicate former occupation if retired.)      SPOUSE'S EMPLOYER  
 N/A      N/A

AGE      MARITAL STATUS      NO. OF DEPENDENTS  
 Under 25     25-29     30-34     35-39     40-44     45-49     50-54     55-59     60-64     65-69     70-74     75-79     80-84     85-89     90-94     95-99     None  
 Single     Married     Widowed     Divorced     Other

NEW ACCOUNT      TYPE OF ACCOUNT      RELATED TO DWR EMPLOYEE  
 Existing Rep.       MARGIN       (If so, relationship)

APPROX. ANNUAL INCOME (All Sources)      APPROX. NET WORTH (Excluding Residence)      APPROX. LIQUID NET WORTH (Current Acc. Equity (Securities, Cash, etc.))  
 1275      1335      175      267,187

PREVIOUS INVESTMENT EXPERIENCE (Since what year?)      BANK REFERENCE  
 Stocks    Bonds    Options    Commodities     

OPTION ACCOUNTS WITH OTHER FIRMS:  
 Firm Name      SINCE      TYPE  
 N/A            CASH     MARGIN

POWER OF ATTORNEY      NAME OF AUTHORIZED PARTY:  
 DISCRETIONARY AUTHORIZATION FOR DWR EMPLOYEE      RELATIONSHIP:      INVESTMENT EXPERIENCE:  
 THIRD PARTY AGREEMENT ON FILE           STOCKS    OPTIONS    COMMOD.

INVESTMENT OBJECTIVES (Number in order of priority)  
 INCOME (Covered Call writing only)  
 INVESTMENT HEDGE  
 SPECULATIVE INCOME OR DIVIDENDS  
 SPECULATION  
 OTHER:

ANTICIPATED TYPES OF OPTIONS TRANSACTIONS  
 COVERED CALL WRITING ONLY  
 PURCHASING OPTIONS  
 EQUAL QUANTITY SPREADS  
 UNCOVERED WRITING AND WRITING  
 PUT WRITING (If an aspect of some other strategy)  
 ALL TYPES OF OPTION TRADING

I hereby certify that the foregoing information is accurate and agree to advise you in writing of any changes in my/our financial situation and/or investment objectives. FURTHER, I/WE ACKNOWLEDGE RECEIPT OF A CURRENT OPTION CLEARING CORPORATION PROSPECTUS AND UNDERSTAND THE INFORMATION CONTAINED THEREIN. FURTHER, I/WE HAVE READ, UNDERSTAND AND AGREE TO BE BOUND BY THE PROVISIONS OF THE OPTION AGREEMENT ON THE REVERSE SIDE OF THIS FORM.

CLIENT SIGNATURE      DATE      CLIENT SIGNATURE (if joint)      DATE  
 [Signature]      1/15/86      [Signature]     

APPROVALS      Special Use Only  
 I have reviewed the foregoing information, that it is accurate to the best of my knowledge and believe that it is in the best interest of the client. I have signed and returned this form to the client.

BRANCH

BRANCH COPY

INVESTMENT CONSULTANT REPORTS

June 4, 1986

Report

"None"

Minutes

"Dan Druz stated that as of May 31, the investment portfolio has an annualized appreciation rate of 42%...stocks and bonds have an annualized return of 25%, and the limited partnerships portfolio has a return of 20%.

September 24, 1986

Report

The next quarter and year will probably see less significant rates of return as we have moved most of the funds out of the stock market in anticipation of a very significant downturn...our hope is to "sit on the sidelines" until the end of 1986.

Minutes

Over the months of July and August our participation in the stock market was reduced from a portfolio of 45% to one and a half percent, before the drop in the market at the beginning of September. Unfortunately, for the next 3 to 6 months our money is being exclusively invested in government securities which will reduce our annualized rate of return to the 9-10% area.

November 25, 1986

Report

"At the end of the first quarter of the new fiscal year, we were invested 73% in government bond investments and money market funds; 2% in equity mutual funds; and 25% in real estate limited partnerships...During the current quarter we continue to maintain an extremely defensive position...All new deposits have been invested in government bonds..."

Note:

A version produced from the DWR files contained a listing of the portfolio. This version does not exist in the Insurance Group files.

Minutes

Mr. Druz stated the report is the same as given in September. The general stock market has not rebounded. The vast majority of the Group's money is in Treasury Bonds. They do not want to risk large amounts of money until the market situation is improved, probably by March.

Tape

"...We've got the vast majority of our money in ah treasury bonds and again it's not making a great rate, but we're sitting on the sidelines waiting for better opportunities to occur and we don't really feel that we should be risking any large types of money in ah, this type of volatile situation...so I think that we should avoid the stock market and stay in safe, ah not very high yielding government securities and um, just kind of last it out. So maybe by March or so we'll be able to go back in somewhat, start to nibble away at some bargains."

Note:

The U.S. Treasury Bonds purchased in September and October 1986 were all sold as of December 31, 1986 (approximately \$2.8 million).

January 21, 1987

Report

No report in Advance materials (Druz testified he brought it to the meeting and handed it to Reid or Jarvie. They both deny receiving it).

Minutes

"We are in extremely safe, stable investments with guaranteed returns...Mr. Druz stated that he feels comfortable avoiding the stock market and its record highs and taking the safe, stable route at this time."

Tape:

...last three reports have been (inaudible) we've avoided the stock market...Nevertheless we've maintained our nearly 100% position in government bonds in the avoiding the stock market with some very minor exceptions...

The investments that we are in which are very safe non-volatile government bonds during the same period have gained approximately 5 to 6 percent. So, while we did not do as well as we might have done in the stock market, we were into stable investments getting guaranteed returns...I feel comfortable avoiding the stock

market at these record highs and I think we should continue to stay in safe stable group for the time and I'm satisfied we made around 10% or so this year.

Note: The Group at this time had investments in a government securities mutual fund (plus the index options and the limited partnership).

August 29, 1987

Report None

Minutes (Druz not present; no statement by Reid noted)

June 17, 1987

Report "If one analyzes the performance using weighted averages, then the portfolio has declined by several percent...The capital markets have improved considerably since the end of May which should improve the actual fiscal year end performance. At that time a more detailed report reporting the overall performance will be presented...

An organization such as the Insurance Group should have five year time horizons. To this end we have made certain less liquid investments, primarily in real estate, which appear to be faring very well so far. Overall we are optimistic that the portfolio will return to superior performance over the next year...

Minutes (Druz not present)

EXCERPT FROM NJSBAIG BOARD OF TRUSTEE MEETING 11/25/86

Approx. 2 1/2 minutes

Smith and Dan

Druz: Based on recent events on Wall Street I should asked Dottie to turn off the tape recorder before I report - um, no you could take my report in September and just substitute the dates on it. We have avoided all the - low positions that occurred because of the Boeski scandal we weren't in there they way down and we weren't in there on the way back up, ah if you followed whats occurred in the equities market recently, when the Boeski scandal broke people sold a lot of stocks and then they said, gee what are we going to do with the money, and they put it all into Blue Chips so the Blue Chips have led the Dow Jones Industrial Average back up to today just a few points below its all time high but, the general stock market has not rebounded, its still I'd say a few percent lower than where it was 5 or 6 months ago, so we've got the vast majority of our money in ah Treasury Bonds and again its not making a great rate but we're sitting on the side lines waiting for better opportunities to occur and we don't really feel that we should be risking any large amounts of money in ah, this type of volatile situation.

Field: How long do you see that going on?

Druz: Well, you know ah, I think that

Reid: How do you answer that?

Smith: Very quickly

Trustee: (Laughter)

Reid: Right

Druz: Um, I think that there is ah more scandal to ah be unveiled and that ah will have some negative impact on the overall market. I think that the hundred million dollar fine that Boeski paid which seems so ah so large by any standards historically is going to by the end of next year ah, not rank number 1, may not even rank in the top 5 in terms of the amount of scandal they uncover from his ah wire tapping escapades er or whatever you want to, wiring escapades over the last 6 weeks before they broke the scandal, so I think that we should avoid the stock market and stay in safe, ah not very high yielding government securities and um, just kind of last it out. So maybe by March or so we'll be able to go back in some what, start to nibble away at some bargains.

EXCERPT FROM NJSEAIG BOARD OF TRUSTEES MEETING 1/21/87

Smith: Were going to skip ahead to Dan's report because he has to leave at 7:45, 8:45? Time flies when you are having fun.

Druz: Ok ah, last three reports have been (inaudible) we've avoided the stock market and I think in the (inaudible) pie in the sky. Nevertheless, we've maintained our nearly 100% position in government bonds in the avoiding the stock market with some very minor exceptions. If I could just put the most recent stock market rally into some perspective from July of 1986 to today the, Dow Jones Industrial Average has increase approximately 10%, the broader market averages have gone up 6 to 7 percent. The investments that we are in which are very safe non-volatile government bonds during the same period have gained approximately 5 to 6 percent.

So, while we did not do as well as we might have done in the stock market, we were into stable investments getting guarantee returns and had this meeting taken place on December 31st when the stock market was some probable 10% lower than were it is today...

I would have reported to you during that period of time the ah our investments which were fairly stable would increase about 5 to 6 percent rate over that 6 month period while the stock market had actually declined somewhat (inaudible) so, I feel comfortable avoiding the stock market at these record highs I think we should continue to stay in safe stable group for the time and I'm satisfied we made around 10% or so this year. If the stock market were to crash? I would change that suggestion, recommend that we increase our (holdings) to 25 or 40% of the portfolio (inaudible).



EXCERPT FROM NJSBAIG BOARD OF TRUSTEES MEETING 6/17/87

Field: I gather our investment income we're assuming is going to be significantly lower (this year)

Reid: Well we've given you a conservative estimate which is the way we prefer to go. If we do better than that, fine, but, you know one can't assume that the path up or continuous path down - and my sense is better to look for the worse case scenario and to build upon that.

Unidentified

Male: Look for steady money (inaudible)

Reid: Fairly stable, yeah we're not setting the world on fire.

Unidentified

Male: Inaudible

Smith: As long as we're not drowning.

Reid: Nah, I don't think we are totally underwater at this point so.

Smith: Any further discussion? Hear ye now, all those in favor?

Trustees: Aye

Smith: Opposed?

Trustees: Silence

C-87



New Jersey School Boards Association Insurance Group

413 West State Street, P.O. Box 909, Trenton, New Jersey 08605  
(609) 695-7600

ADVANCE MATERIAL NO. 13

BOARD OF TRUSTEES MEETING

SEPTEMBER 24, 1986

FOR:         Information  
              Action

FROM:      OCTAVIUS T. REID, JR., ADMINISTRATOR

SUBJECT:    REPORT OF INVESTMENT CONSULTANT

The attached report is a synopsis of our investment performance as of June 30, 1986. An oral update, given by Dan Druz of Dean Witter Reynolds, will be available at our meeting.

A report of our investment consultant will be included as part of our material at each meeting of the Board during the 1986-87 fiscal year.

DEAN WITTER REYNOLDS INC.  
One Palmer Square, Princeton, NJ 08542  
Telephone (609) 924-1000 1 (800) 524-0850



DANA DRUZ  
Senior Vice President, Investments  
Branch Manager, Princeton Office

#### INVESTMENT PERFORMANCE FOR PERIOD ENDING 6/30/86

At the end of the fiscal year, we were invested 45% in equity-type investments, about 30% in fixed income and the remaining 25% in limited partnerships. Excluding the limited partnerships because they have no easily ascertained market value, the portfolio increased in value over the period at an annualized rate of approximately 19%, with the equities moving ahead at about a 35% annual rate and the bonds at about an 11% annual rate.

The next quarter and year will probably see less significant rates of return as we have moved most of the funds out of the stock market in anticipation of a very significant downturn, caused in large part by an unexpected increase in interest rates. The first quarter of the new fiscal year will probably see an annualized yield in the area of 10% on the portfolio. Our hope is to "sit on the sidelines" until the end of 1986 or beginning of 1987 at which time we expect to re-purchase equities at significantly lower levels.



New Jersey School Boards Association Insurance Group

203 West State Street P O Box 909 Trenton New Jersey 08605  
(609) 695-7600

EXHIBIT  
C-36a  
6-16-88 (P)

ADVANCE MATERIAL NO. 9

BOARD OF TRUSTEES MEETING

NOVEMBER 25, 1986

FOR:         Information  
              Action

FROM:      Octavius T. Reid, Jr., Administrator

SUBJECT:   Report of Investment Consultant

The attached report is a synopsis of our investment performance as of October 31, 1986.

DEAN WITTER REYNOLDS INC.  
1 Palmer Square, Princeton, NJ 08542  
Telephone (609) 924-1000

INVESTMENT PERFORMANCE FOR PERIOD ENDING 9/30/86

At the end of the first quarter of the new fiscal year, we were invested 73% in government bond investments and money market funds; 2% in equity mutual funds; and 25% in real estate related partnerships. Because the current return of all these investments is 7% or less, our overall annualized return since Dean Witter began managing the money has dropped to slightly under 17%.

During the current quarter we continue to maintain an extremely defensive position. All new deposits have been invested in government bonds, paying around 7½% which means our overall return will continue to decline until we see the equity market become a more attractive investment. Although we are reducing our projections for the annualized return during the first quarter of the fiscal year from 10% to 8%, we still are shooting for a 15% return during the fiscal year.



**New Jersey School Boards Association Insurance Group**

413 West State Street, P O Box 909, Trenton, New Jersey 08605  
(609) 695-7600

**ADVANCE MATERIAL NO. 7**

**BOARD OF TRUSTEES**

**For Meeting of June 17, 1987**

**FOR:**             INFORMATION  
                   ACTION

**FROM:**        OCTAVIUS T. REID, JR., ADMINISTRATOR

**SUBJECT:**     REPORT OF THE INVESTMENT CONSULTANT

The attached report by Dan Druz will give you an overview of our current investment outlook.

DEAN WITTER REYNOLDS INC.  
1 Palmer Square, Princeton, NJ 08542  
Telephone (609) 924-1000

#### INVESTMENT PERFORMANCE FOR 1987 FISCAL YEAR

The period from July 1, 1986 until now has been particularly difficult for the capital markets. The month of April saw the steepest decline in bond prices since the disastrous bond markets of the early '80's, and in the same month the stock market gave back 50% of the gains it made during the first quarter. It's been a volatile, unpredictable market fraught with peril.

Against this backdrop, the Insurance Group portfolio had a difficult year as well. From the beginning, we have suggested that during certain periods the performance of the portfolio would not always compare favorably with the initial returns. If one analyzes the performance using weighted averages, then the portfolio has declined by several percent. On the other hand, since Dean Witter began to help manage the account, its unweighted return, including all investments, is approximately +5%. Although this performance is disappointing, it's important to remember the long-term outlook. The capital markets have improved considerably since the end of May which should improve the actual fiscal year end performance. At that time a more detailed report reporting overall performance will be presented.

Over the next six to eighteen months, many experts feel we could see considerable stock market appreciation for which the Group is well positioned to take advantage of, and if the dollar continues to stabilize, the principal value of our bond investments should increase back to their previous level. Even so, during the drastic April-May collapse of long-term bond prices which amounted to nearly 12%, the Insurance Group portfolio of government bonds declined only approximately 5%.

An organization such as the Insurance Group should have five year time horizons. To this end we have made certain less liquid investments, primarily in real estate, which appear to be faring very well so far. Overall we are optimistic that the portfolio will return to superior performance over the next year, and will continue to perform favorably for the balance of the first five year period.

June 8, 1987

Promissory Demand Note

I, Octavius T. Reid, Jr. promise to pay the sum of 12,000  
\_\_\_\_\_, receipt of which is hereby acknowledged,  
to Dan A. Druz, at Princeton, N.J.  
\_\_\_\_\_, on demand, together with interest on the said  
principal sum at 8 per cent per annum through the  
date of payment.

I also pledge as security for said loan my interest in real property  
know as 286 Northampton Drive, Willingboro, New Jersey 08046, or  
my interest in real property known as 524 Pfeiffer Street, Camden,  
New Jersey, and I hereby promise to deliver to the above-named  
promisee, a mortgage instrument on either or both of the above-described  
real properties upon demand.

Date: 4/14/87

Octavius T. Reid, Jr.  
Octavius T. Reid, Jr., Promisor





122 108 688 12541

DEAN WITTER REYNOLDS INC.



PRINCETON, NEW JERSEY  
MORGAN GUARANTY TRUST  
COMPANY OF NEW YORK  
33 WALL STREET  
NEW YORK, NY

DATE 4-14-87 ACCOUNT NUMBER 688-99010-0-01 AMOUNT \$12,000.00\*\*

PAY TO THE ORDER OF

\*\*\*DAN DEWEE\*\*\*

DEAN WITTER REYNOLDS INC.

BY *George Reynolds*  
BY *[Signature]*  
V.P. OF TRADING AND INVESTMENT SERVICES

⑆58812541⑆ ⑆021000238⑆ 068 07 21⑆ ⑆0001200000⑆

1987 APR 16

APR 15 1987

pay to the order of  
O'Leary Risk  
O'Leary Risk

DEAN WITTER REYNOLDS INC.  
NEW YORK, NY

15 7 1987

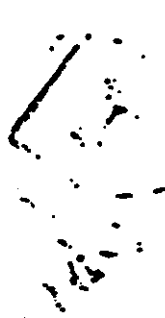
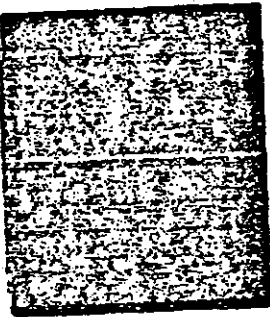


EXHIBIT  
C-104  
1-30-89 pc  
PENNSYLVANIA, N.J.



127

OCTAVIUS T. NEED, JR.  
5057381

1 LANCELOT LN.  
MT. LAUREL, NJ 08054

July 14 19 88 55-231  
312

PAY TO THE  
ORDER OF

Dan DeViz

\$ 13,200.<sup>00</sup>

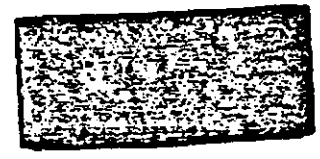
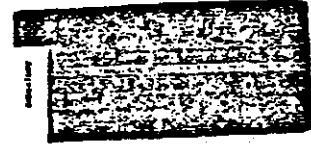
Twelve Thousand Two Hundred and ~~00~~ <sup>00</sup> DOLLARS



CoreStates  
New Jersey  
National Bank

*Octavius T. Need, Jr.*  
SIGNATURE

⑆031200730⑆ 4220385⑈9 0127





New Jersey School Boards Association

Headquarters: 413 West State Street, P.O. Box 909, Trenton, New Jersey 08605

REC'D - Bayonne, N.J.  
C-25  
dc 5-17-88

No. 040270

55-73  
312

DATE	CHECK NO.	PAY TO THE ORDER OF	AMOUNT
6/30/87	40270	CENTRE BRIDGE INN BOX 74 STAR ROUTE NEW HOPE, PA 18938 ATTN: JAN LEVIN	\$107790

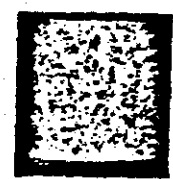
\$107790\*

\$107790

NEW JERSEY NATIONAL BANK  
TRENTON, NEW JERSEY  
Main Office

*Jan Levin*  
*David [unclear]*

⑆0000040270⑆ ⑆031200730⑆ 1105823⑆



N.J. SCHOOL BOARD

Centre Bridge Inn

On the Delaware River New Hope, Pa.  
Spirits, Fine Food, Quaint Lodgings

Spirits			
1	1 J.O.W	3	50
2	1 Skal. nat Kete	3	75
3	1 Dew 6602	3	50
4			
5	1 Chap Fubs	4	00
6	1 Ban Transp # 31 625	7	75
7	1 diet robe	1	25
8	11 HAMBOKAN	31	50
9	1111111111111111	18	00
10	1 ULEN FIDDICHAN	4	00
11	1 Green menthe X	4	00
12			
13			
14			
Wines			
15	1 Polignac 1800	50	00
16	1 Beignac 1500	15	00
17			

Check Number	Guests	Server	Table	Date
34	12	Kim	110	6/17/8
✓	1	Teri Lue		2 00
✓		Doke		1 25
✓	3	ship C		22 50
✓	3	SOP DU JAW		12 00
✓		musseline		7 50
✓	3	Escoff		22 50
✓		Fete		7 00
✓	2	Tomado		45 90
✓	2	Selvon		39 90
✓	2	Veal Chop		41 90
✓	3	Lobster		77 85
✓		Duck		17 95
✓	2	Pair of Lbs.		47 90
✓	4	TOITE/CHAMOISE		19 00
✓	5	CHANTILLY/BOCCEE		32 50
				5 00
	2	ESPRESSO		7 50
		GRAT BARTEND.		128 50
				658 00
		Tax		24 70
		Tips 20%		119 00
		Spirits		231 25
		Total		677 60
				658 10

240 75  
231 25

Signature \_\_\_\_\_

Dinner 402.65  
Spirits 231.25  
GRATUITIES 128.50

BALANCE DUE DINNER \$ 762.40 + \$ 10.50 = \$ 772.90  
BAR CK #39 TOTAL DUE

F. Whit

Family # 34  
**Centre Bridge Inn**

Check Number: 21  
 Date: \_\_\_\_\_

**Spirits**

1	Sperry	2.75
2	Apple Martini	1.00
3	Coke	1.25
4	Vodka	1.25
5	Vodka	1.25
6	Vodka	1.25
7	Vodka	1.25
8	Vodka	1.25
9	Vodka	1.25
10	Vodka	1.25

Signature: \_\_\_\_\_  
 Total: 15.75  
 Room Number: 215

Room # 1  
**Centre Bridge Inn**

Check Number: 29  
 Date: 6-17

**Spirits**

1		
2		
3	Tia Maria	4.25
4	Spirit	4.25
5		
6		
7		
8		
9		
10		

Signature: \_\_\_\_\_  
 Total: 8.50  
 Room Number: 215  
 4 10.50

GUEST REGISTER

Centre  
Bridge  
Inn



Box 74 Star Route, New Hope, Pa. 18938

JUN 22 1987 4356

ROOM NUMBER 5719  
RATE 75/70/60/100-

REG NO

KEY RECEIVED 9 ✓ ✓ ✓ ✓  
KEY RETURNED ✓ (4)

CHECK IN TIME  
CHECK IN DESK CLERK

CHECK OUT TIME  
CHECK OUT DESK CLERK

FORM OF PAYMENT CASH CHECK VISA MS/CHG OTHER ✓

MESSAGE

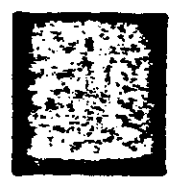
PRINT NAME: Joan Schwartz  
 COMPANY NAME: N.J. School Board Assoc  
 STREET ADDRESS: 413 W. State St.  
 CITY: Trenton STATE: NJ ZIP CODE: 08605  
 WRITTEN SIGNATURE: Charles J. Reid

DATE	DESCRIPTION	CHARGES					BALANCE FORWARD	BALANCE
		LODGING	BREAKFAST	BAR	DINNER	MISC.		
6/17	#1 - K. Donohew	99.50						
6/17	#3 - N. Field	74.20						
6/17	#7 - J. Burns	63.60						
6/17	#9 - J. Reid	106.-						323.30
6/17	Dinner #34				786.60			
6/17	Bar #39 Rm #39			10.50				1120.40

ok to pay  
all items  
add # 155.10

Thank you

139770



Centre  
Bridge  
Inn



JUN 22 1987

Box 74 Star Route, New Hope, Pa. 18938  
215-862-2048  
215-862-9139

June 18, 1987

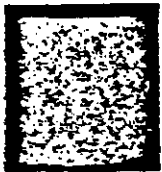
Dear Joan -

Enclosed is the billing for your June 17 meeting. I trust everything was satisfactory and enjoyable.

Thanks again for selecting Centre Bridge Inn. If I can be of assistance in the future, please do not hesitate to call.

Best regards,  
Jan

Stephen R. DuSan, Innkeeper



RECEIVED JUN 26 1987

# Centre Bridge Inn



Box 74 Star Route, Arto Hope, Pa. 18938  
215-862-2048  
215-862-9139

June 24, 1987

Ms. Roberta Levine  
N. J. School Board Assoc.  
413 W. State St.  
Trenton, N. J. 08605

Dear Ms. Levine:

Pursuant to our telephone conversation of this date, the revised billing is as follows:

Room #1, K. Donoher	\$ 75.00	✓
Room #3, N. Field	70.00	✓
Room #7, G. Burns	60.00	✓
Room #9, T. Reid	100.00	✓
<b>TOTAL LODGING</b>	<b>\$305.00</b>	
Dinner check #34 (copy attached)	\$762.40	✓
Bar check #39 (copy attached)	10.50	✓
<b>TOTAL DUE</b>	<b>\$1077.90</b>	

I trust this will meet with your billing requirements, and I wish to apologize for any inconvenience. If I can be of further assistance, now or in the future, please do not hesitate to telephone.

Thanking you again for holding your meeting at Centre Bridge Inn, I remain

Cordially yours,

*Jan*  
Jan Levin,  
Office Manager

DATE PAID	6/30/87
CHECK #	40270
PO #	
BUDGET AMOUNT	1551.10
AMOUNT	1077.90
<b>PAID</b>	

1  
Enc.: 2

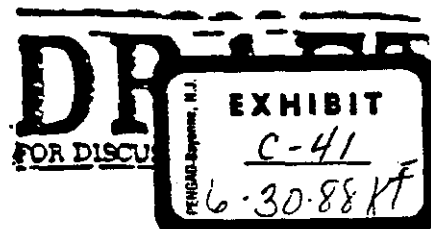
Stephen R. DuSan, Innkeeper



NEW JERSEY SCHOOL BOARDS ASSOCIATION  
INSURANCE GROUP

BALANCE SHEET

June 30, 1987 and 1986



<u>ASSETS</u>	<u>1987</u>	<u>1986</u>
Cash	\$1,079,938	\$ 445,542
Certificates of deposit	700,000	300,000
Marketable securities, at market (Note 4)	6,564,731	3,489,113
Premiums receivable	406,437	563,600
Interest and dividends receivable	52,669	37,298
Prepaid expenses	119,588	46,879
Furniture and fixtures, at cost	5,723	4,780
Less accumulated depreciation	(1,897)	(1,324)
Organization costs, net of accumulated amortization	<u>8,106</u>	<u>16,212</u>
	<u>\$8,935,295</u>	<u>\$4,902,100</u>
 <u>LIABILITIES AND FUND BALANCE (DEFICIT)</u> 		
Liabilities:		
Estimated unpaid claims and settlement expenses (Note 2)	\$ 844,023	\$3,533,017
Unearned premiums	35,149	621,963
Other accrued liabilities		50,677
Accrued dividends to policyholders		149,000
Due to New Jersey School Boards Association (Note 3)	<u>259,847</u>	<u>283,100</u>
Total liabilities		4,637,757
Fund balance (deficit):		
Valuation adjustment for unrealized gains on marketable securities (Note 5)	(108,103)	144,809
Cumulative excess of revenues over (under) expenditures		<u>119,534</u>
Total fund balance (deficit)		<u>264,343</u>
	<u>\$8,935,295</u>	<u>\$4,902,100</u>

See accompanying notes.

NEW JERSEY SCHOOL BOARDS ASSOCIATION  
INSURANCE GROUP

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND BALANCE (DEFICIT)

Years ended June 30, 1987 and 1986

**DRAFT**  
FOR DISCUSSION PURPOSES ONLY

	<u>1987</u>	<u>1986</u>
<b>Revenues:</b>		
Premiums written	\$9,266,696	\$5,578,091
Decrease (increase) in unearned premiums	<u>(222,060)</u>	<u>(479,196)</u>
Premiums earned	9,044,636	5,098,895
Investment income	<u>553,961</u>	<u>233,014</u>
	<u>9,598,597</u>	<u>5,331,909</u>
<b>Claims and expenses:</b>		
Claims and claim expenses (Note 2)		3,466,316
Management fees	1,211,764	704,027
Agents' fees	345,000	202,934
Salaries and fringe benefits	141,362	95,760
Depreciation and amortization	8,679	8,584
Consulting and professional fees	25,459	16,525
Dividends to policyholders		486,666
Meeting and travel expenses	19,209	5,163
Office expenses	51,413	17,325
Interest expense	24,006	
Miscellaneous	<u>1,462</u>	<u>835</u>
		<u>5,004,135</u>
Excess of revenues over expenses		327,774
Realized (loss) on investments	<u>(884,083)</u>	<u>(123,255)</u>
Excess of revenues over expenses and loss on investments		204,519
Cumulative excess of revenues over (under) expenditures, beginning of year	<u>119,534</u>	<u>(84,985)</u>
Cumulative excess of revenues over (under) expenditures, end of year	<u>\$</u>	<u>\$ 119,534</u>

See accompanying notes.

**DRAFT**  
DISCUSSION PURPOSES ONLY

NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP

RECONCILIATION OF INVESTMENT ACTIVITY

Year ended June 30, 1987

	<u>Options</u>	<u>Mutual funds</u>	<u>U.S. Treasury bonds</u>	<u>Common stock</u>	<u>Limited partnerships</u>	<u>Total</u>
Balance at cost, June 30, 1986	\$ (71,376)	\$ 2,685,555		\$ 973,500	\$ 3,557,079	
Purchases, at cost	9,127,188	14,482,594	\$ 3,876,562	85,260	579,000	27,081,574
Sales at market	(8,118,058)	(11,831,685)	(2,813,750)	(5,468)		(22,868,961)
Less (losses) plus gains	(937,754)	161,260	37,188	219		(739,099)
Balance at cost, June 30, 1987	\$ -	\$ 5,507,724	\$ -	\$ -	\$ 1,553,480	\$ 7,061,204

Cash account at broker

	<u>Money Market</u>	<u>Cash</u>	<u>Total</u>
Balance at June 30, 1986		\$ 62,402	\$ 62,402
Dividends - cash basis		455,522	455,522
Deposits		3,500,000	3,500,000
Proceeds:			
Sales of securities	\$ (146,733)	22,868,961	22,868,961
Money Market funds		146,733	
Purchases:			
Securities		(27,081,574)	(27,081,574)
Money Market funds	196,353	(196,353)	
Margin interest		(24,005)	(24,005)
Balance at June 30, 1987	\$ 49,620	\$ (268,315)	\$ (218,695)

\* Per above  
Provision for decrease in value of limited partnerships

\*\* Per above  
Add:  
Accrued June 30, 1987  
Bank and C.D.  
Less accrued June 30, 1986  
Per financial statements

# DRAFT

FOR DISCUSSION PURPOSES ONLY

## NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP

INVESTMENTS AT JUNE 30, 1987

<u>Security</u>	<u>Units</u>	<u>Cost</u>	<u>Value, per unit</u>	<u>Market value</u>	<u>Unrealized gain (loss)</u>	<u>Cumulative nontemporary loss</u>
DWR Dividend Growth	71,478	\$1,482,742	\$ 21.28	\$1,521,073	\$ 38,331	
DWR U.S. Government Securities	388,243	<u>4,024,982</u>	9.99	<u>3,878,548</u>	<u>(146,434)</u>	
Total mutual funds		5,507,724		5,399,621	(108,103)	
Balcor Equity Pension Investors III	600	150,000	187.50	112,500		\$ (37,500)
Balcor Pension Investors VI	440	110,000	187.50	82,500		(27,500)
Balcor Pension Investors VII	300	75,000	187.50	56,250		(18,750)
Cencom Cable Income Partners	100	100,000	750.00	75,000		(25,000)
Century Pension Investors XXIII	360	180,000	375.00	135,000		(45,000)
Century Pension Investors XXIV	60	30,000	375.00	22,500		(7,500)
DW Realty Income III L.P.	474	237,000	375.00	177,750		(59,250)
DW Realty Income III L.P.	404	199,980	371.25	149,985		(49,995)
Dean Witter Growth Properties L.P.	80	80,000	750.00	60,000		(20,000)
JMP Mortgage Partners III	170	170,000	750.00	127,500		(42,500)
Public Storage Partners VII	150	75,000	375.00	56,250		(18,750)
Public Storage Partners XVI	13	6,500	375.00	4,875		(1,625)
Public Storage Partners XVII	60	30,000	375.00	22,500		(7,500)
U.S. Equipment Income Fund II	220	<u>110,000</u>	375.00	<u>82,500</u>		<u>(27,500)</u>
Total partnerships		<u>1,553,480</u>		<u>1,165,110</u>		<u>(388,370)</u>
Total investments		<u>\$7,061,204</u>		<u>\$6,564,731</u>	<u>\$(108,103)</u>	<u>\$(388,370)</u>

# DRAFT

FOR DISCUSSION PURPOSES ONLY

## NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP

### PURCHASES AND SALES OF INVESTMENTS BY MONTH

Year ended June 30, 1987

#### PURCHASES

<u>Month</u>	<u>Options</u>	<u>Mutual funds</u>	<u>U.S. Treasury bonds</u>	<u>Common stock</u>	<u>Limited partnerships</u>	<u>Total</u>
July 1986	\$ 681,910	\$ 2,101,034			\$130,000	\$ 2,912,944
August 1986	819,509	82,508				682,015
September 1986	474,496	83,539	\$ 949,062			1,487,097
October 1986	1,030,341	79,998	1,927,500			3,037,839
November 1986	559,134	5,055,716			99,990	6,714,840
December 1986	644,599			\$5,250		649,849
January 1987	1,052,082	5,630,276			349,990	7,032,348
February 1987	960,045					960,045
March 1987	1,949,196	1,499,525				3,448,721
April 1987	545,342					545,342
May 1987	446,346					446,346
June 1987	164,188					164,188
<b>Total</b>	<b>\$9,127,188</b>	<b>\$14,492,594</b>	<b>\$2,876,562</b>	<b>\$5,250</b>	<b>\$579,980</b>	<b>\$27,081,574</b>

#### SALES

<u>Month</u>	<u>Options</u>	<u>Mutual funds</u>	<u>U.S. Treasury bonds</u>	<u>Common stock</u>	<u>Limited partnerships</u>	<u>Total</u>
July 1986	\$ 588,308	\$ 1,686,008				\$ 2,274,316
August 1986	494,371	127,338				621,709
September 1986	643,464	204,351				847,815
October 1986	1,037,337					1,037,337
November 1986	646,606	5,111,261				5,757,867
December 1986	734,043		\$2,913,750			3,647,793
January 1987	917,817	2,880,285				3,798,102
February 1987	1,081,040			\$5,468		1,086,508
March 1987	1,103,796	1,822,442				2,926,238
April 1987	535,090					535,090
May 1987	252,790					252,790
June 1987	83,396					83,396
<b>Total</b>	<b>\$8,118,058</b>	<b>\$11,831,685</b>	<b>\$2,913,750</b>	<b>\$5,468</b>		<b>\$22,868,961</b>

NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP  
REALIZED GAINS (LOSSES) ON INVESTMENTS BY MONTH  
Year ended June 30, 1987

Month	Options	Mutual funds	U.S.Treasury bonds	Common stock	Limited partnerships	TOTAL
July 1986	-54,190	96,568			-32,500	9,878
August 1986	-146,066	7,343				-138,723
September 1986	209,774	-15,174				194,600
October 1986	-195,073	325				-194,748
November 1986	98,310	-38,282			-24,998	35,030
December 1986	257,184		37,188			294,372
January 1987	-404,504	130,294			-87,497	-361,707
February 1987	-29,655			218		-29,437
March 1987	-573,994	-19,814				-593,808
April 1987	-60,185					-60,185
May 1987	-172,855					-172,855
June 1987	133,500					133,500
<b>TOTAL</b>	<b>-937,754</b>	<b>161,260</b>	<b>37,188</b>	<b>218</b>	<b>-144,995</b>	<b>-884,083</b>

**NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP**  
**CUMULATIVE REALIZED GAINS (LOSSES) ON INVESTMENTS BY MONTH**  
**Year ended June 30, 1987**

<b>Month</b>		<b>Options</b>	<b>Mutual funds</b>	<b>U.S.Treasury bonds</b>	<b>Common stock</b>	<b>Limited partnerships</b>	<b>TOTAL</b>
July	1986	-54,190	96,568	0	0	-32,500	9,878
August	1986	-200,256	103,911	0	0	-32,500	-128,845
September	1986	9,518	88,737	0	0	-32,500	65,755
October	1986	-185,555	89,062	0	0	-32,500	-128,993
November	1986	-87,245	50,780	0	0	-57,498	-93,963
December	1986	169,939	50,780	37,188	0	-57,498	200,409
January	1987	-234,565	181,074	37,188	0	-144,995	-161,298
February	1987	-264,220	181,074	37,188	218	-144,995	-190,735
March	1987	-838,214	161,260	37,188	218	-144,995	-784,543
April	1987	-898,399	161,260	37,188	218	-144,995	-844,728
May	1987	-1,071,254	161,260	37,188	218	-144,995	-1,017,583
June	1987	-937,754	161,260	37,188	218	-144,995	-884,083



New Jersey  
School Boards Association

P.O. Box 508 Trenton, New Jersey 08646  
Telephone (609) 995-7000

# STAFF AND OFFICER TRAVEL DIARY

EXPENSES SUBMITTED BEYOND 60 DAYS OF EVENT  
WILL NOT BE HONORED.

PAGE \_\_\_\_\_ OF \_\_\_\_\_

NAME		DEPARTMENT			PERIOD COVERED		DATE	PREPARED		
Octavio T. Reichert		Exec.			FROM:	TO:				
DATE	PURPOSE	MEAL EXPENSES*			HOTEL AND OTHER TRIP EXPENSES					LINE TOTALS
MO./DAY		BREAKFAST*	LUNCH*	DINNER*	ROOM & TAX*	TIPS	TOLLS	PARKING*	MISCELLANEOUS (DETAIL ON BACK)	
1/22	Exec. Dir. Winter Dist					5.00			71.25	76.25
1/23	NJSBA Leader Conf.			74.91	351.64	4.00				460.55
1/24		9.00				5.00				14.00
1/25	JEN Conf.			555.56		6.00	.80	44.00	39.00 plane	645.66
1/26		11.00	30.25	349.70	458.15	5.00			95.00	949.68
1/27		8.50	49.15	1727.00		5.00			65.90	1,355.55
1/28			69.97	35.00		6.00			160.00	298.97
1/29		23.12				10.00			59.00 plane	92.12

\*PLEASE ATTACH RECEIPTS FOR THESE ITEMS.

AUTO MILEAGE (DETAIL ON BACK) MILES: \$ PER MILE

OFFICE USE ONLY:

ACCOUNT	AMOUNT
310.01	550.80
1312.05	3,341.94
(1700.2)	(3092.71)
TOTAL: 0	

CK. NO. \_\_\_\_\_  
MONTH Feb / 2017  
VOUCHER NO. \_\_\_\_\_

TOTAL BUSINESS TRIP EXPENSE	+
ENTERTAINMENT EXPENSES (DETAIL ON BACK)	=
TOTAL EXPENSES	3892.78 ✓
ADVANCES	
1. ADVANCED CASH TO EMPLOYEE	
2. OTHER CLEARING OWED	
TOTAL OF ADVANCES:	-
DEDUCT THE ADVANCED TOTAL FROM THE TOTAL OF EXPENSES	= -0-
NOTE: IF MONIES ARE OWED TO THE NJSBA, CHECK MUST ACCOMPANY THIS VOUCHER.	

SIGNATURE Octavio T. Reichert DATE \_\_\_\_\_  
 APPROVING SIGNATURE [Signature] DATE 6/30/17





# HYATT REGENCY WASHINGTON

1986

ON CAPITOL HILL

CLERK SEQ. DATE TIME TYPE SETTLEMENT AMOUNT

ROOM NO.  
612

NAME AND ADDRESS  
REID OCTAVIUS T  
NJ SCHL BDS ASSN  
P.O. BOX 909  
TRENTON  
NJ 08605

GROUP NAME  
E33478

RATE 1

FOLIO NO. PAGE  
746097 1

PERSONS  
1

ARRIVED  
JAN 23 04:19PM

NIGHTS

TYPE RESERVATION  
CALL TO M8366

DEPARTMENT	CHARGE	CREDIT	BALANCE	EXPLANATION
206 707	LD	5.63		
403 719	LOCAL	.75		
309 767	LD	8.96		
378	ROOM	95.00		
	TAX	9.50		
489 018	LD	7.22		
242	OCCUP TX	1.00		
	JAN 23 86		128.06	BALANCE
135 342	LD	10.14		
182 428	LD	4.96		
191 429	LOCAL	.75		
182	ROOM	95.00		
	TAX	9.50		
222	OCCUP TX	1.00		
	JAN 24 86		249.41	BALANCE
38	SPYS EYE	20.55		<i>Est.</i>
107	ROOM	95.00		
	TAX	9.50		
274	OCCUP TX	1.00		
280 012	LD	6.18		
	CURR. BAL		381.64	JAN 25 86 5:13:40 AM
	TOTAL DUE		381.64	

-40-

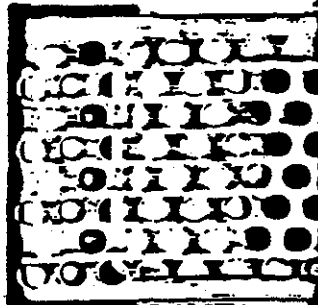
400 NEW JERSEY AVENUE, NW  
WASHINGTON, DC 20001 USA  
202 737 1234 TELEX: 897432

I AGREE THAT MY LIABILITY IS NOT WAIVED AND I AGREE TO BE HELD PERSONALLY LIABLE FOR ASSOCIATION FAILURES OR CHARGES.

I AGREE THAT MY LIABILITY IS NOT WAIVED AND I AGREE TO BE HELD PERSONALLY LIABLE FOR ASSOCIATION FAILURES OR CHARGES.

Let us extend our thanks for choosing the JW Marriott Hotel for your trip to the Washington, D.C. area. We trust your experience with our hotel has included warm and gracious service, and the type of accommodations you would expect at a Marriott Hotel. Your candid critique of our performance is always welcome.

It would be a pleasure to serve you again!

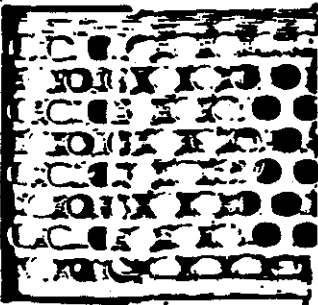


643 REID/OCTAVIUS/T JR 105.00 01/29/86 8:20 ACCT#  
 ROOM NAME RATE DEPART TIME 19059  
 KNG NEW JERSEY SCHOOL BO 01/26/86  
 TYPE FROM OR GROUP PLAN ARRIVE TIME GROUP  
 47 413 W STATE ST  
 TRENTON NJ SC SAC/AX37101140903  
 ROOM OB605 ADDRESS PAYMENT

DATE	REFERENCE	CHARGES	CREDITS	BALANCE DUE
01/26	GTERRACE 582	70.16		
01/26	ROOM. 643, 1	105.00		
01/26	RM.TX 643, 1	10.50		
01/26	DC TAX	1.00		
01/27	LNG DIST 0020-609	4.06		
01/27	LOCAL 0028-LOC	.50		
01/27	LOCAL 0117-LOC	.50		
01/27	LOCAL 0226-LOC	.50		
01/27	LNG DIST 1608-609	14.75		
01/27	LNG DIST 1667-503	10.51		
01/27	LOCAL 1773-LOC	.50		
01/27	LOCAL 2554-LOC	.50		
01/27	LOCAL 2589-LOC	.50		
01/27	LNG DIST 2698-609	6.02		
01/27	ROOM. 643, 1	105.00		
01/27	RM.TX 643, 1	10.50		
01/27	DC TAX	1.00		
01/28	LOCAL 0616-LOC	.50		
01/28	ROOM. 643, 1	105.00		
01/28	RM.TX 643, 1	10.50		
01/28	DC TAX	1.00		

*- Encls for Pres. receipt*

458.50



The undersigned agrees to make immediate payment upon receipt of statement. In the event such payment is not made within 25 days after receipt of the original statement, it is agreed that the hotel may immediately impose a LATE PAYMENT CHARGE at the rate of 1% per month (ANNUAL RATE 18%), or the maximum allowed by law, on the unpaid balance, and the reasonable cost of collection, including attorney fees.

Signature X

JW MARRIOTT HOTEL

On Pennsylvania Avenue  
 at National Place  
 1331 Pennsylvania Avenue, NW  
 Washington, D.C. 20004  
 202-319-2000



# HYATT REGENCY WASHINGTON

ON CAPITOL HILL

P.O. BOX 992  
WASHINGTON, DC 20044 USA  
202 737 1234 TELEX: 897432

## STATEMENT

Payment shall be made immediately upon receipt of statement. Please address any discrepancy to the attention of the credit manager.

NEW JERSEY SCHL. BRUS. ASSN, JAN 23-29  
414 W. STATE ST., P.O. B. 404  
IRVINGTON NJ 08604

ATTN TUS JUAN H. MANCIA

M-000366

U2-04-86

REMIT TO:  
HYATT REGENCY WASHINGTON  
P.O. BOX 992  
WASHINGTON, D.C. 20044  
202-737-1234 EXT. 1295  
TELEX: 897432

AMOUNT ENCLOSED 4499.52

PLEASE RETURN THIS SECTION WITH  
YOUR REMITTANCE - THANK YOU!

NT AMOUNT  
381.64  
PAGE  
1  
VATION

REFERENCE	DATE	CODE	DESCRIPTION	DEBIT	CREDIT	AMOUNT DUE
746271	11/27/86	NC	MURKIN, RICHARD	864.22		
746097	11/27/86	NC	NEID, TICTAVIUS	361.64		
746436	11/27/86	NC	ROBINSON, CHARLES	569.73		
746582	11/27/86	NC	FURTHLOCH, PERINA	755.97		
746488	11/27/86	NC	MUELLEN, MARGARET	14.58		
746488	11/27/86	NC	MUELLEN, MARGARET	861.43		
746501	11/27/86	NC	KEGAN, JEREMIAH	1,131.95		
			HYATT REGENCY WASHINGTON			

ACCOUNT NUMBER  
#1300-0A  
#1700-10  
4,457.28  
42.24  
4,499.52

DATE PAID 3/21/86  
CHECK # 30886  
PO # 12869  
BUDGET ACCTS AMOUNTS See attached  
BALANCE DUE 4,499.52

**PAID**

40  
WASHINGTON, DC 20044  
202 737 1234 TELEX: 897432

I AGREE THAT MY LIABILITY FOR THIS BILL IS NOT WAIVED AND I AGREE TO BE HELD PERSONALLY LIABLE IN THE EVENT THAT THE INDICATED PERSON, COMPANY OR ASSOCIATION FAILS TO PAY FOR ANY PART OR THE FULL AMOUNT OF THESE CHARGES.

-42-

W MARRIOTT HOTEL  
 351 Pennsylvania Avenue  
 National Place  
 351 Pennsylvania Avenue NW  
 Washington, D.C. 20004  
 02 395 2000, X6742

Conna Udoh  
 Guest Account Representative

NEW JERSEY SCHOOL BUNKING ASSN  
 MARY ALICE DURHAM  
 413 WEST STATE ST-P O BOX 909  
 TRENTON NJ 08600

DATE 02/07/86  
 ACCT #GP 2157

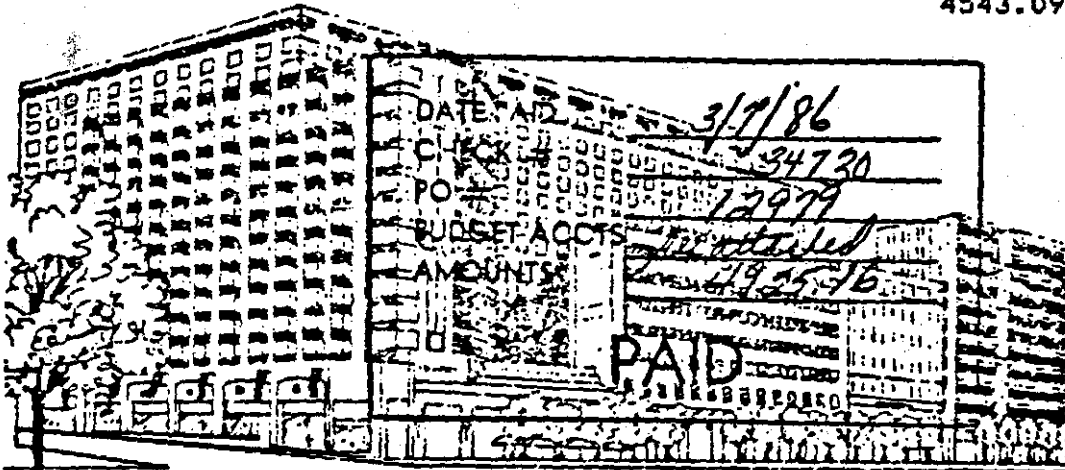
USA

PLEASE RETURN THIS PORTION WITH YOUR REMITTANCE \$

DATE	REFERENCE	CHARGES	CREDITS	BALANCE DUE
2/04	NEW JERSEY SCHOOL BO	4554.09		
2/05	OVERCHGE ON RM.RATE		11.00	4543.09
				4543.09

backup  
 e bill  
 ng.

account,  
 artment.



(Didimamoff added)  
 4925.16

CURRENT	30 TO 60 DAYS	60 TO 90 DAYS	OVER 90 DAYS	TOTAL DUE
4543.09	.00	.00	.00	4543.09

Payment is due in  
 original amount,  
 RATE 1 1/2% or the  
 Please contact us

such payment is not made within 25 days after receipt of the  
 LATE CHARGE at the rate of 1 1/2% per month (ANNUAL  
 and the reasonable cost of collection, including attorney fees.  
 this statement.

Guest  
 \$808.05

4,683.35+

\$1700.10

241.81+

4,925.16



# New Jersey School Boards Association

Headquarters: 315 West State Street, P.O. Box 908, Trenton, New Jersey 08608  
Telephone (609) 695-7600

Vendor **J. W. Marriott**  
 1331 Pennsylvania Avenue, N.W.  
 Washington, D. C. 20004

PURCHASE ORDER **12978**  
 Show this number on all packing slips and invoices  
 DATE REQUISITIONED **February 25, 1966**  
 REQUISITIONED BY **M. Durham**  
 DELIVERY DATE REQUESTED **A.S.A.P.**

ACCOUNT NUMBER	QUANTITY	ITEM, MODEL NUMBER, STYLE, CATALOG NUMBER	UNIT PRICE	TOTAL PRICE	REC'D DATE
808.05		FEDERAL RELATIONS NETWORK CONFERENCE			
		Harold Greenberg ✓		\$532.00	
		Maureen Vaskis ✓		363.62	
		Joseph Zemaitis ✓		488.48	
		Mark Finkelstein ✓		383.23	
		Octavius T. Reid, Jr. ✓		458.50	
		Susan Buchanan ✓		357.38	
		Norman Field ✓		432.39	
		Carol Francis ✓		237.41	
		Francis Herbert ✓		424.17	
		Dorothy Johnston ✓		373.26	
		Virgil Johnson ✓		280.57	
		Richard Mover ✓		826.23	
		Jerrothia Riggs ✓		350.50	
		Stephen Marchetti ✓		458.98	
		Fred Walters ✓		353.30	

SHIP TO:

**IMPORTANT:** The purchaser is exempt from all Federal, State and Municipal excise, sales and other taxes. The contract, and all invoices for payment, of same, are subject to conditions printed on reverse side. Vendor must indicate purchase order number on all invoices, packages, shipping notices, correspondence, etc. Invoices are to be submitted in duplicate, as soon after completion as possible. Merchandise received and invoiced prior to the 20th of the month will be paid prior to the 15th of the next month.

*Octavius T. Reid, Jr.*  
 Approval Signature

**COPY DIRECTORY:**  
 White—Vendor Goldenrod and Canary—Business office  
 Green—Original Pink—Shipping and Receiving

**memo** from Octavius T. Reid, Jr.  
December 19, 1985

TO: BUSINESS

Please prepare a check in the amount of \$2,085.00 to be used as room deposits for FRN members at the FRN Conference. Charge to account no. 808.05. Make check payable to the J. W. Marriott Hotel.

Check needed by December 24th.

Thanks.

OTR:md

RETURN CHECK TO DENISE.

RECEIVED DEC 20 1985

*Octavius T. Reid Jr.*



New Jersey  
School Boards Association

Headquarters: 415 West State Street, P.O. Box 908, Trenton, New Jersey 08646-0908

DATE PAID	<u>12/27/85</u>
CHECK #	<u>33905</u>
PO #	
BUDGET ACCTS	<u>808.05</u>
AMOUNTS	<u>2085.00</u>

PAID

ENCLOSURE



New Jersey  
School Boards Association

PO Box 505 Trenton New Jersey 08645  
Telephone (609) 695-1000

# STAFF AND OFFICER TRAVEL DIARY

EXPENSES SUBMITTED BEYOND 60 DAYS OF EVENT  
WILL NOT BE HONORED.

PAGE 1 OF     

NAME		DEPARTMENT			PERIOD COVERED		DATE		PREPARED											
OCTAVIUS T. REID, JR.		EXEC. OFFICE			FROM: 8/25/87 TO:															
DATE	PURPOSE	MEAL EXPENSES*			HOTEL AND OTHER TRIP EXPENSES				LINE TOTALS											
MO./DAY		BREAKFAST*	LUNCH*	DINNER*	ROOM & TAX*	TIPS	TOLLS	PARKING*	MISCELLANEOUS (DETAIL ON BACK)											
7/25/87	NCSL ANNUAL MTG INDIANAPOLIS, INDIANA				\$233.94				AIRFARE (ret) FOR OTR & T.M. \$20.00 \$20.00	233.94										
7/26/87	"		21.98		142.15	5.00			(Ball Captain) (Ball Mar)	456.00										
7/27/87	"		83.74		104.40				\$4.50	201.13										
7/28/87	"	16.91	18.32							35.23										
7/29/87	"	37.06	92.39	117.52					\$9.00	255.97										
7/29/87	"				899.16	5.00			\$12.00	921.16										
						5.00														
*PLEASE ATTACH RECEIPTS FOR THESE ITEMS.					AUTO MILEAGE (DETAIL ON BACK)		MILES:		\$ PER MILE											
<b>OFFICE USE ONLY:</b> CK. NO. _____ MONTH _____ VOUCHER NO. _____ ACCOUNT AMOUNT <table border="1"> <tr> <td>808.5</td> <td>2319.07</td> </tr> <tr> <td>1700.2</td> <td>1500.00</td> </tr> <tr> <td colspan="2">TOTAL: 819.07</td> </tr> </table>					808.5	2319.07	1700.2	1500.00	TOTAL: 819.07		TOTAL BUSINESS TRIP EXPENSE					2216.07				
					808.5	2319.07														
					1700.2	1500.00														
					TOTAL: 819.07															
					ENTERTAINMENT EXPENSES (DETAIL ON BACK)					23.00										
TOTAL EXPENSES					2319.07															
ADVANCES																				
1. ADVANCED CASH TO EMPLOYEE					1500.00															
2. OTHER CLEARING OWED																				
TOTAL OF ADVANCES:					1500.00															
DEDUCT THE ADVANCED TOTAL FROM THE TOTAL OF EXPENSES:					819.07															
NOTE IF MONIES ARE OWED TO THE NJSBA, CHECK MUST ACCOMPANY THIS VOUCHER																				

819.07



I ACKNOWLEDGE RECEIPT OF TICKET(S) AND/OR COUPONS FOR RELATED CHARGES DESCRIBED HEREON. PAYMENT IN FULL TO BE MADE WHEN BILLED OR IN EXTENDED PAYMENTS IN ACCORDANCE WITH STANDARD POLICY OF COMPANY ISSUING CARD AND AS REFLECTED IN APPLICABLE TARIFFS.		<b>UNIVERSAL CREDIT CARD CHARGE FORM</b>		DATE AND PLACE OF ISSUE	
CARRIER CODE <b>037</b>		3. CARDHOLDER COPY		<b>JOLE TRAVEL CENTER INC WILLINGBORO NJ 31 71607-5</b>	
DATE OF ISSUE <b>13 JUL 87</b>		IF EXTENDED PAYMENT APPLICABLE CIRCLE NO. OF MONTHS <b>3 6 9 12</b>			
NAME OF PASSENGER IF OTHER THAN CARDHOLDER <b>O. Reid</b>		STATE NO		CONNECTION OF PASSENGER WITH SUBSCRIBER	
COMPLETE ROUTING <b>IND NR AL</b>		APPROVAL CODE <b>0378807585284</b>			
		TICKETS NOT TRANSFERABLE NO CASH REFUNDS		<b>372845470171008</b>	
		CREDIT CARD NAME/CODE <b>AK</b>		<b>O. Reid</b>	
				<b>08-88</b>	
FARE BASIS <b>211-11</b>		TOTAL <b>228-</b>			
TAX <b>16.89</b>					

I ACKNOWLEDGE RECEIPT OF TICKET(S) AND/OR COUPONS FOR RELATED CHARGES DESCRIBED HEREON. PAYMENT IN FULL TO BE MADE WHEN BILLED OR IN EXTENDED PAYMENTS IN ACCORDANCE WITH STANDARD POLICY OF COMPANY ISSUING CARD AND AS REFLECTED IN APPLICABLE TARIFFS.		<b>UNIVERSAL CREDIT CARD CHARGE FORM</b>		DATE AND PLACE OF ISSUE	
CARRIER CODE <b>037</b>		3. CARDHOLDER COPY		<b>JOLE TRAVEL CENTER INC WILLINGBORO NJ 31 71607-5</b>	
DATE OF ISSUE <b>13 JUL 87</b>		IF EXTENDED PAYMENT APPLICABLE CIRCLE NO. OF MONTHS <b>3 6 9 12</b>			
NAME OF PASSENGER IF OTHER THAN CARDHOLDER <b>T. Mollw</b>		STATE NO		CONNECTION OF PASSENGER WITH SUBSCRIBER	
COMPLETE ROUTING <b>IND NR AL</b>		APPROVAL CODE <b>0378807585285</b>			
		TICKETS NOT TRANSFERABLE NO CASH REFUNDS		<b>372845470171008</b>	
		CREDIT CARD NAME/CODE <b>AK</b>		<b>T. Reid</b>	
				<b>08-88</b>	
FARE BASIS <b>211-11</b>		TOTAL <b>228-</b>			
TAX <b>16.89</b>					

TELEPHONE  
609-695-7600

413 West State Street  
Trenton, NJ 08605

# NEW JERSEY SCHOOL BOARDS ASSOCIATION

DATE July 13, 1987

TO: Jolie Travel Center, Inc.  
Country Club Plaza  
Beverly-Rancocas Road  
Willingboro, New Jersey 08046

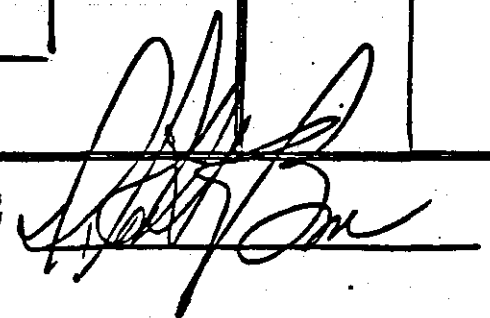
Airfare for Toni to attend the National Conference of  
State Legislatures Conference, July 1987.

\$228.00

Charge to Account No. 1315.05.

DATE PAID	<u>7/17/87</u>
CHECK #	<u>40404</u>
PO #	<u></u>
BUDGET ACCTS	<u>1315.05</u>
AMOUNTS	<u>228.00</u>
<b>PAID</b>	

I declare that the goods or services itemized in this bill have been delivered or rendered;  
that no bonus has been given or received by any person or persons with the knowledge of  
the dependent; and that the above bill is true and correct.



*Jolie*

TRAVEL CENTER, INC.

COUNTRY CLUB PLAZA  
BEVERLY-RANCOCAS RD.  
WILLINGBORO, NEW JERSEY 08046

(609) 871-1827

July 6, 1987

INV. 585283

N.J. SCHOOL BOARDS ASSOCIATION  
413 West State Street - P. O. BOX 909  
Trenton, N.J. 08605

Air Fare - 25 July #0378807585283

Phila./Indianapolis/Phila.

a/c T. Mullins . . . . . \$228.00

THANK YOU

WE APPRECIATE YOUR BUSINESS  
RECEIVED JUL 9 1987

JOLIE TRAVEL

**PAID**

# EXPENSE REIMBURSEMENT FORM

DATE SUBMITTED \_\_\_\_\_

Submit to  
P.O. Box 909, Trenton, New Jersey 08605  
609-895-7600

**Boards**  
T. Reid, Jr.

TYPE	FROM	TO	PURPOSE	MILEAGE	TOLLS	MEALS	MISC. (ITEMIZE)	TOTAL	ACCT. NO.
			Mtg. w/Bill Dressel			\$17.07		\$17.07	1300.0b
12/5	Trenton	Washington, D.C.	Eastern Assn. of College Deans Conf.				Airfare	160.00	1300.0a
12/9			Mtg. w/President Mueller			24.70		24.70	1300.0b
12/9			Mtg. w/ Legislators			380.00		380.00	1310.01
12/12			Mtg. w/Legislators			265.00		265.00	"
12/14							Polution Shields (3)	117.00	<del>700.02</del> 407.02
12/15			Mtg. w/Legislators			74.90		74.90	1310.01
12/17			Mtg. w/Assemblywoman Kalik			54.10		54.10	"
12/18			Mtg. w/ State Board of Ed. Mbrs.			126.38		126.38	"
1/2			Mtg. w/Commissioner Boose			52.81		52.81	"
1/6			SDOE Board Member Academy			586.00		586.00	"
1/9							Photo Processing	7.31	
1/9			Mtg. w/Assemblyman Mazur & Frank		Herbert	37.78		37.78	1310.01
1/9			Mtg.w/Legislators			178.62		178.62	"

I certify that the above expenses were incurred on behalf of the NJSEA.

*James J. Reid*  
SIGNATURE

**\$2081.67** GRAND TOTAL

*Clearing 1700.2 (2000.00)*

BUSINESS OFFICE USE		CK. NO.
ACCT.	AMOUNT	
1300.0b	41.77	34459
1700.00	(2000.00)	1/31/86
1310.01	1767.96	28
1300.0a	761.00	
700.02	117.00	
	682.67	TOT. CK. 682.67

*Page 1 of 2 pages*

STAFF USE

1/30/86 *James J. Reid*  
DATE APPROVAL

Original - White  
Copy - Yellow

-50-



# REVERE TRAVEL



1891 NORTH OLDEN AVENUE • TRENTON, N.J. 08638-3191  
609.882-0072

ACCT. NO.	DATE	PAGE	INVOICE
00-044 ITINERARY			INVOICE

Unless previously agreed in writing, all past due accounts of 30 days or more are subject to an annual interest rate of 18% or 1 1/2 % per month.

SOLD TO

NU SCHOOL BOARDS ASSOC  
MS D JARVEY  
315 W STATE ST  
TRENTON NJ 08610

SENT TO

REID/OCTAVIUS

6"122"20

20JAN86

A FR 24JAN LV WASH/NATIONAL	340P	USAIR INC	1114Y OK	
AR PHILADELPHIA-PHL	430P			OSTOP FRP
A WE 28JAN LV WASH/NATIONAL	230P	NEW YORK AIR	306Y OK	
AR NEWARK	330P			OSTOP DC9

TICKET NUMBER(S): 0377618398059

AIR FARE	148.15
TAX	11.85
TOTAL AIR FARE	160.00

THANK YOU AND HAVE A PLEASANT TRIP...PEGGY  
PLEASE RECONFIRM ALL RESERVATIONS 24 HOURS PRIOR TO DEPARTURE.

AMOUNT

160.00

THIS AMOUNT WILL BE CHARGED TO:  
CREDIT CARD AX 3710 114090 31000

THANK YOU FOR YOUR BUSINESS



New Jersey  
School Boards Association

PO Box 500 Trenton New Jersey 08646  
Telephone (609) 695-7000

# STAFF AND OFFICER TRAVEL DIARY

EXPENSES SUBMITTED BEYOND 60 DAYS OF EVENT  
WILL NOT BE HONORED.

PAGE        OF       

NAME		DEPARTMENT			PERIOD COVERED		DATE PREPARED		
<i>Octavius T. Reich</i>		<i>Exec.</i>			FROM:	TO:			
DATE	PURPOSE	MEAL EXPENSES*			HOTEL AND OTHER TRIP EXPENSES				LINE TOTALS
MO./DAY		BREAKFAST*	LUNCH*	DINNER*	ROOM & TAX*	TIPS	TOLLS	PARKING*	MISCELLANEOUS (DETAIL ON BACK)
<i>1/22</i>	<i>Exec. Dir. Winter Dist</i>					<i>5.00</i>			<i>71.25</i>
<i>1/23</i>	<i>NJSBA Winter Conf.</i>			<i>74.91</i>	<i>351.64</i>	<i>4.00</i>			<i>460.55</i>
<i>1/24</i>		<i>9.00</i>				<i>5.00</i>			<i>14.00</i>
<i>1/25</i>	<i>JLD Conf</i>			<i>555.50</i>		<i>6.00</i>	<i>.80</i>	<i>44.00</i>	<i>39.00 plane</i>
<i>1/26</i>		<i>11.00</i>	<i>50.28</i>	<i>349.90</i>	<i>458.50</i>	<i>5.00</i>			<i>95.02</i>
<i>1/27</i>		<i>8.50</i>	<i>49.15</i>	<i>1227.00</i>		<i>5.00</i>			<i>65.40</i>
<i>1/28</i>			<i>47.97</i>	<i>35.00</i>		<i>6.00</i>			<i>160.00</i>
<i>1/29</i>		<i>23.12</i>				<i>10.00</i>			<i>59.00 plane</i>

\*PLEASE ATTACH RECEIPTS FOR THESE ITEMS.

OFFICE USE ONLY:	ACCOUNT	AMOUNT
CK. NO. <u>          </u>	<i>310.01</i>	<i>558.80</i>
MONTH <i>1/2017</i>	<i>1315.01</i>	<i>3,341.91</i>
VOUCHER NO. <u>          </u>	<i>(1700.2)</i>	<i>(3492.78)</i>
	TOTAL:	<u>0</u>

SIGNATURE *Octavius T. Reich* DATE           

APPROVING SIGNATURE *[Signature]* DATE *6/30/17*

AUTO MILEAGE (DETAIL ON BACK)	MILES:	¢ PER MILE
TOTAL BUSINESS TRIP EXPENSE		<i>+</i>
ENTERTAINMENT EXPENSES (DETAIL ON BACK)		<i>-</i>
TOTAL EXPENSES		<i>3892.78</i>
ADVANCES		
1. ADVANCED CASH TO EMPLOYEE		
2. OTHER CLEARING OWED		
TOTAL OF ADVANCES:		<i>-</i>
DEDUCT THE ADVANCED TOTAL FROM THE TOTAL OF EXPENSES		<i>-0-</i>

Original - White  
Copy - Yellow





# REVERE TRAVEL



1891 NORTH OLDEN AVENUE • TRENTON, N.J. 08638-3191  
609-882-0072

ACCT. NO.	DATE	PAGE	INVOICE

002044 ITINERARY INVOICE

Unless previously agreed to in writing, all past due accounts of 30 days or more are subject to an annual interest rate of 18% or 1 1/2 % per month.

SOLD TO

SENT TO

NJ SCHOOL BOARDS ASSOC  
MS D JARVEY  
315 W STATE ST  
TRENTON NJ 08610

REID/OCTAVIUS

6°122°20

20 JAN 86

A FR 24JAN	LV WASH/NATIONAL	340P	USAIR INC	1114Y OK	
	AR PHILADELPHIA-PHL	430P			OSTOP PRP
A WE 29JAN	LV WASH/NATIONAL	230P	NEW YORK AIR	306Y OK	
	AR NEWARK	330P			OSTOP DC9

TICKET NUMBER(S): 0377618398059

AIR FARE	148.15
TAX	11.85
TOTAL AIR FARE	160.00

THANK YOU AND HAVE A PLEASANT TRIP...PEGGY  
PLEASE RECONFIRM ALL RESERVATIONS 24 HOURS PRIOR TO DEPARTURE.

AMOUNT

160.00

THIS AMOUNT WILL BE CHARGED TO:  
CREDIT CARD AX 3770 114090 31000

THANK YOU FOR YOUR BUSINESS

693 00229 01/201555



7618398059

TRENTON NJ

31 66849-0/DM/

ARC (LIGHT COUPON)

20 JAN 68

REID/OCTAVIUS

14-VJCSMB

WASHINGTON

11141 ZAGAW 280P OK YC

PHILADELPHIA-PH

VOID

WASHINGTON

NY 2067 29JAN 230P OK Y

NEWARK

VOID

148. 18000

700.00 7.00MSVEM

11.00

73.13 6 148.10

160. 00AT 2710 11000 21000

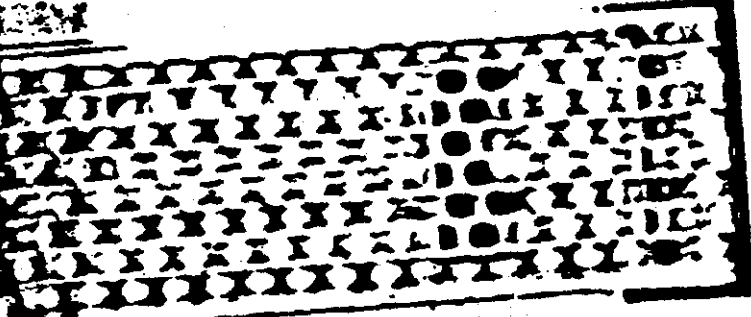
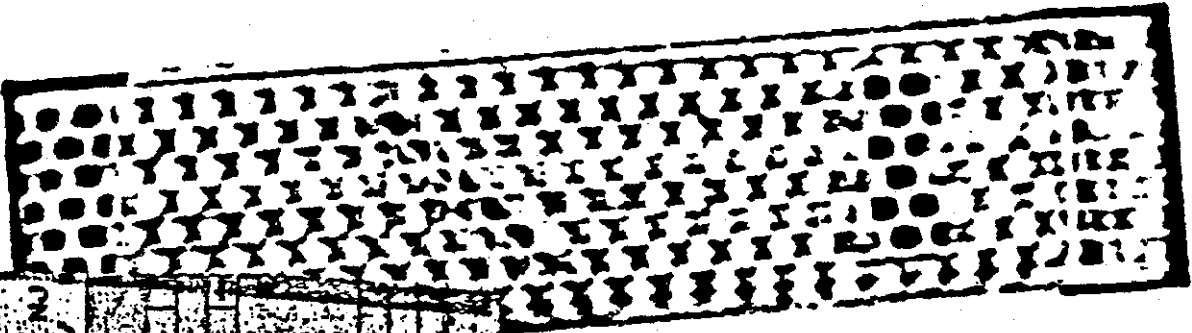
10. 0972

01817

10. 11.05

0200130618

3 09 7618398059 4 0





New Jersey School Boards

EXPENSE REIMBURSEMENT FORM

Submit to P.O. Box 909, Trenton, New Jersey 08605 609-695-7600

1 10/24/85 DATE SUBMITTED

NAME (PRINT OR TYPE)

ADDRESS

Table with columns: MODAY, FROM, TO, PURPOSE, MILEAGE, TOLLS, MEALS, MISC. (ITEMIZE), TOTAL, ACCT. NO. Handwritten entry: Phila - Burl. Vermont, N. E. Region NSBA, Air fare 305.00, TOTAL 305.00, ACCT. NO. 1300.00

I certify that the above expenses were incurred on behalf of the NJSBA.

Signature of Deanne S. Reich

SIGNATURE

GRAND TOTAL 305.00

STAFF USE

10/25/85

Signature of staff member

DATE

APPROVAL

BUSINESS OFFICE USE

Table with columns: ACCT., AMOUNT, CK. NO., MO., VCHR., TOT. CK. Handwritten entries: 1300.00, 305.00, 33346, 11/1/85, 17, 305.00

Original - White Copy - Yellow

-56-

PLEASE RETURN YELLOW COPY WITH REMITTANCE



**REVERE  
TRAVEL**



1891 NORTH OLDEN AVENUE • TRENTON, N.J. 08638-3191  
609-882-0072

ACCT. NO.	DATE	PAGE	INVOICE
008229	ITINERARY	INVOICE	
	PAGE NO.		

Unless previously agreed to in writing, all past due accounts of 30 days or more are subject to an annual interest rate of 18% or 1% per month.

*SOLD TO Ted your records for your Amer Express*  
REID/OCTAVIUS/JOAN

SENT TO

6"20"20

22OCT85

A FR 01NOV LV PHILADELPHIA-PHL 1010A DELTA 898V OK  
AR BOSTON 1112A OSTOP 767

A FR 01NOV LV BOSTON 1210P DELTA 1777Q OK  
AR BURLINGTON-BTV 110P OSTOP PRP

C FR 01NOV BURLINGTON-BTV NATIONAL  
03NOV STANDARD  
802 864.7441  
RATE 45.00\* .00  
CONFO NBR- 0181321880

A SU 03NOV LV BURLINGTON-BTV 230P BROCKWAY AIR 335K OK  
AR PHILADELPHIA-PHL 540P 2STOP PRP

TICKET NUMBER(S): 0067609971862-863

AIR FARE	282.40
TAX	22.60
TOTAL AIR FARE	305.00
AMOUNT	305.00

THIS AMOUNT WILL BE CHARGED TO:  
CREDIT CARD AX 3710 114090 31000

THANK YOU FOR YOUR BUSINESS



New Jersey  
School Boards Association

PO Box 505 Trenton New Jersey 08646  
Telephone (609) 695-7000

# STAFF AND OFFICER TRAVEL DIARY

EXPENSES SUBMITTED BEYOND 60 DAYS OF EVENT  
WILL NOT BE HONORED.

PAGE 1 OF 1

NAME		DEPARTMENT			PERIOD COVERED				DATE PREPARED		
Octavius T. Reid, Jr.		Executive Office			FROM: Nov. 1	TO: Nov. 3	November 7, 1985				
DATE	PURPOSE	MEAL EXPENSES*			HOTEL AND OTHER TRIP EXPENSES					LINE TOTALS	
MO./DAY		BREAKFAST*	LUNCH*	DINNER*	ROOM & TAX*	TIPS	TOLLS	PARKING*	MISCELLANEOUS (DETAIL ON BACK)		
11/1	NSBA Northeast Region Mtg. Burlington, Vermont					4.00			\$305.00	\$305	00
11/2			24 63	614 80		7.00			\$13.80	653.	23
11/3			69 95					36 00	80.50	193	45
*PLEASE ATTACH RECEIPTS FOR THESE ITEMS.					AUTO MILEAGE (DETAIL ON BACK)		MILES:	¢ PER MILE			

OFFICE USE ONLY:		ACCOUNT	AMOUNT
CK. NO.	<u>33446</u>	<u>1300 00</u>	<u>1177.27</u>
MONTH	<u>11/8/85</u>	<u>1700 20</u>	<u>(500.00)</u>
VOUCHER NO.	<u>18</u>		<u>677.27</u>
		TOTAL: <u>1165.84</u>	

TOTAL BUSINESS TRIP EXPENSE	+ 1155	68
ENTERTAINMENT EXPENSES (DETAIL ON BACK)	=	16 59
TOTAL EXPENSES	=	1172 27
ADVANCES		
1. ADVANCED CASH TO EMPLOYEE	500.00	
2. OTHER CLEARING OWED		
TOTAL OF ADVANCES:	- 500	00
DEDUCT THE ADVANCED TOTAL FROM THE TOTAL OF EXPENSES	=	672 27

NOTE: IF MONIES ARE OWED TO THE NJSBA, CHECK MUST ACCOMPANY THIS VOUCHER.

SIGNATURE: Octavius T. Reid, Jr. DATE: 11/7/85  
 APPROVING SIGNATURE: [Signature] DATE: 11/7/85

Printed - White  
 Copy - Yellow

Page #2

-58-



# REVERE TRAVEL



1891 NORTH OLDEN AVENUE • TRENTON, N.J. 08638-3191  
609-882-0072

ACCT. NO.	DATE	PAGE	INVOICE
008229	ITINERARY		INVOICE

Unless previously agreed to in writing, all past due accounts of 30 days or more are subject to an annual interest rate of 18% or 1 1/2 % per month.

SOLD TO

SENT TO

REID/OCTAVIUS/JOAN

6"20"20

22OCT85

A FR 01NOV LV PHILADELPHIA-PHL 1010A DELTA 895V OK  
AR BOSTON 1112A OSTOP 7L

A FR 01NOV LV BOSTON 1210P DELTA 1777Q OK  
AR BURLINGTON-BTV 110P OSTOP PF

C FR 01NOV BURLINGTON-BTV  
03NOV

*Car rental*  
 NATIONAL STANDARD  
 802.864.7441  
 RATE 45.00\* .00  
 CONFO NBR- 0181381930

A SU 03NOV LV BURLINGTON-BTV 230P BROCKWAY AIR 335K OK  
AR PHILADELPHIA-PHL 540P 25STOP P.

TICKET NUMBER(S): 0067609971862-863

AIR FARE	282.
TAX	22.
TOTAL AIR FARE	305.

AMOUNT

305.

THIS AMOUNT WILL BE CHARGED TO:  
CREDIT CARD AX 3710 114090 31000

THANK YOU FOR YOUR BUSINESS



New Jersey  
School Boards

EXPENSE REIMBURSEMENT FORM

Submit to  
P.O. Box 909, Trenton, New Jersey 08600  
609-695-7600

2/27/87

DATE SUBMITTED

NAME (PRINT OR TYPE)

ADDRESS

DATE	FROM	TO	PURPOSE	MILEAGE	TOLLS	MEALS	MISC. (ITEMIZE)	TOTAL	ACCT. NO.
	Union Pt Trenton - Lambertville		Bd. member Headmaster			577.77	4 1/2 hrs. dial.		1310.01
	<del>Union Pt Trenton - Lambertville</del>		<del>Headmaster</del>						

3855 808325 0003

OCTAVIUS T REID  
66, DC US 08/86 08/87

Approval Code  
0233  
1155

Establishment: LAWRENCEVILLE STATION NJ  
Date of Charge: 01-02-87  
Amount of Purchase: 476.55  
Type of Charge: 2023  
Amount of Charge: 81.00  
Total: 577.77  
Revised Total: 577.77

463053  
Diners Club | Carte Blanche Copy

463053

I certify that the above expenses were incurred on behalf of the NJSBA.

600.77 GRAND TOTAL

SIGNATURE: Octavius T. Reid

BUSINESS OFFICE USE

ACCT.	AMOUNT	CK. NO.	MO.	VCHR.	TOT. CK.
1310.01	600.77	38793	2/27/87	32	600.77

STAFF USE

DATE: [Signature] APPROVAL

Original - White  
Copy - Yellow



New Jersey  
School Boards

*Octavius T. Reid Jr.*

# EXPENSE REIMBURSEMENT FORM

Submit to  
P.O. Box 909, Trenton, New Jersey 08605  
609-695-7600

*July 17, 1988*  
DATE SUBMITTED

NAME (PRINT OR TYPE)

ADDRESS

DATE	FROM	TO	PURPOSE	MILEAGE	TOLLS	MEALS	MISC. (ITEMIZE)	TOTAL	ACCT. NO.
11/3/87			3855 808326 0003			49.99		49.99	1315.05
11/4			OCTAVIUS T REID EXEC DIRECTOR NJ SCH BDS 86 DC US 08/86 08/87			63		77.63	11
11/4			Approval Code 0433 Check or Bill # 1125			58		31.58	1310.01
11/8-11/9	NSCA Exh. Dur		Establishment LAMBERTVILLE STATION 444-0023 00000/0129017140 2291046037 NJ	Date of Charge 11/23/87	Amount of Purchase 116.25	Any charges not entered on your bill at check-out time will appear below	Hotel (misc charges)	127.54	11
11/9-11/10	Oklahoma State		00000/0129017140 2291046037 NJ	11/23/87	116.25	Type of charge	15 Airfare to Florida for Oklahoma State	786.00	11
11/11-11/12			Signature <i>Octavius T. Reid Jr.</i>	Tip/Misc 31.00	Amount of charge	Amount of charge	Cab to Hotel	10.00	11
11/12			Charges recorded hereon were incurred by me and receipt of the service or merchandise is hereby acknowledged	Total 577.77	Revised Total	Revised Total	Parade	53.00	11
11/12			463053				02	51.02	11
11/20			DINERS CLUB CARTE BLANCHE World Wide AmEx and travel services from Citicorp				40 Tape \$9.00	124.40	11
11/23							92 Tape \$4.00	143.92	11
							00	28.00	11
							55	32.55	11
							Car Wash	6.60	405.02
			DOE BkM Academy				577.77	577.77	1310.01

I certify that the above expenses were incurred on behalf of the NJSEA.

*\$2116.43* GRAND TOTAL

*Octavius T. Reid Jr.*  
SIGNATURE

STAFF USE

DATE \_\_\_\_\_ APPROVAL \_\_\_\_\_

BUSINESS OFFICE USE

ACCT.	AMOUNT	CK. NO.
405.02	60.00	
1310.01	1482.21	
1315.05	127.62	
		VCHR. _____
		TOT. CK. <i>2116.43</i>

Original - White  
Copy - Yellow



New Jersey  
School Boards

*Victorius A. Reid, Jr.*

### EXPENSE REIMBURSEMENT FORM

Submit to  
P.O. Box 909, Trenton, New Jersey 08605  
609-695-7600

*April 24, 1987*  
DATE SUBMITTED

*Exhibit C-97*

NAME (PRINT OR TYPE)

ADDRESS

DATE	FROM	TO	PURPOSE	MILEAGE	TOLLS	MEALS	MISC. (ITEMIZE)	TOTAL	ACCT. NO.
1/26			Executive Committee Mtg				Overnight accomod.	112.17	803.01
1/19			Mtg of Assemblywoman Muller			34.00		34.00	1315.05
1/26			Mtg of Daniel Drey			62.70		62.70	1310.01
1/16			Management Topics				Management Topics	137.45	707.01
1/30			NSBA NE Region Mtg			108.32		108.32	1310.01
			"				Cocktails	76.50	"
			"			213.82		213.82	"
1/22			Mtg of Senator Harris			67.10		67.10	1315.05
1/25							Subscriber Management Topics	29.95	707.01
1/26			Finance Committee Mtg				Cocktails	21.75	804.02
1/23			Mtg of Toni Mullins			44.15		44.15	1315.05
1/28			Burlington Co. SEA Legis Mtg			82.00		82.00	"
1/21			Mtg of Joe Zonatis			22.74		22.74	1310.01
			"				Membership Renewal	38.00	707.01

certify that the above expenses were incurred on behalf of the NJSBA.

**\$1050.65** GRAND TOTAL

*Victorius A. Reid, Jr.*  
SIGNATURE

STAFF USE  
  
APPROVAL

BUSINESS OFFICE USE

ACCT.	AMOUNT	CK. NO.	MO.	VCHR.	TOT. CK.
707.01	205.40	39289			
803.01	112.17				
804.02	21.75	5/22/87			
1315.05	227.25			43	
1310.01	484.08				
	1050.65				

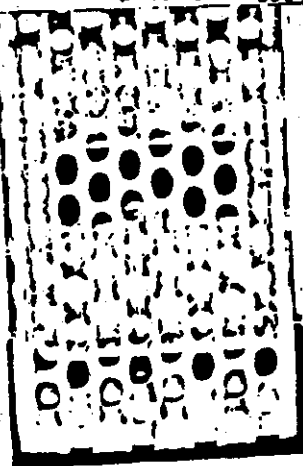
Original - White  
Copy - Yellow



Cardholder Acct No  
**3782 456818**  
 Service Establishment  
**THE COFFEE HOUSE**  
 Record of Charges  
**INV#815847**

3782 456818 11001  
 TOCIT 818954 28LE

03/86 THRU 03/88 86 AX  
 OCTAVIUS T REID JR  
 W J SCHOOL BOARD ASC  
 03/86 119-315-4335-23  
 110010076  
 401002136  
 \*3 20 87 69 50  
 7.00  
 1076.50  
 Amexco Copy



00 269689

3782 456818 11001  
 03/86 THRU 03/88 86 AX  
 OCTAVIUS T REID JR  
 W J SCHOOL BOARD ASC  
 0106033415  
 4368412690  
 4061015960  
 \*3 20 87  
 179.82  
 341.00  
 219.182  
 Amexco Copy

3782 456818 11001  
 03/86 THRU 03/88 86 AX  
 OCTAVIUS T REID JR  
 W J SCHOOL BOARD ASC  
 0106033415  
 4368412690  
 4061015960  
 \*3 18 87  
 93.32  
 151.00  
 108.32  
 Amexco Copy

3782 456818 11001  
 03/86 THRU 03/88 86 AX  
 OCTAVIUS T REID JR  
 W J SCHOOL BOARD ASC  
 0129034974  
 44062705  
 2291016442 NJ  
 031687  
 50.75  
 1.95  
 20.10  
 62.70  
 Amexco Copy

memo from Octavius T. Reid, Jr.

April 24, 1987

Kathy:

The attached voucher represents expenses charged to my corporate AMEX credit card. Please make check payable to "American Express" (Account #3782-456818-11001) and mail the check to:

American Express  
Travel Related Services Co., Inc.  
P.O. Box 1270  
Newark, NJ 07101-1270

Ted

Attachment

DATE PAID	<u>5/22/87</u>
CHECK #	<u>39229th d jamae</u>
PO #	<u></u>
BUDGET ACCTS	<u>see attached</u>
AMOUNTS	<u>1050.65</u>

PAID



New Jersey  
School Boards Association



New Jersey School Boards Association

PO Box 909 Trenton New Jersey 08608  
Telephone 609-981-1000

# STAFF AND OFFICER TRAVEL DIARY

EXPENSES SUBMITTED BEYOND 60 DAYS OF EVENT  
WILL NOT BE HONORED.

PAGE 1 OF 1

NAME		DEPARTMENT			PERIOD COVERED		DATE PREPARED																																			
OCTAVIUS T. REID JR.		EPSC OFFICE			FROM 3/4/88	TO 3/22/88																																				
DATE	PURPOSE	MEAL EXPENSES*			HOTEL AND OTHER TRIP EXPENSES				LINE TOTALS																																	
MO./DAY		BREAKFAST*	LUNCH*	DINNER*	ROOM & TAX*	TIPS	TOLLS	PARKING*	MISCELLANEOUS (DETAIL ON BACK)																																	
3/4/88	WSBA NE Region Mtg								149.00																																	
"	"								20.00																																	
3/5/88	"			813.72					813.72																																	
3/9/88	Mt of Laura Mayo, SDDE		27.06						27.06																																	
3/9-10	Mt of Charles Craig Cranstoun Jenkins Washington DC				108.44				108.44																																	
3/10	Mt of William Palatin	Corp. AIC	90.87	62.70					62.70																																	
3/19	Cony Co. Staff Burch			55.58					55.58																																	
3/19	Mt of Les DOE Staff			108.32	90.87	Corp. AIC			108.32																																	
3/20	Mt of Barbara Kelluh	90.87	76.50	213.82	90.87	Corp AIC			213.82																																	
				51.95					51.95																																	
*PLEASE ATTACH RECEIPTS FOR THESE ITEMS.					AUTO MILEAGE (DETAIL ON BACK)		MILES:		¢ PER MILE																																	
<table border="1"> <tr> <td colspan="2">OFFICE USE ONLY:</td> <td>ACCOUNT</td> <td>AMOUNT</td> <td></td> </tr> <tr> <td>CK. NO. _____</td> <td></td> <td>8085</td> <td>398.64</td> <td></td> </tr> <tr> <td>MONTH _____</td> <td></td> <td>1300.00</td> <td>813.72</td> <td></td> </tr> <tr> <td>VOUCHER NO. _____</td> <td></td> <td>1310.01</td> <td>304.50</td> <td></td> </tr> <tr> <td></td> <td></td> <td>1315.06</td> <td>170.23</td> <td>\$1687.09</td> </tr> <tr> <td></td> <td></td> <td>TOTAL:</td> <td></td> <td></td> </tr> </table>									OFFICE USE ONLY:		ACCOUNT	AMOUNT		CK. NO. _____		8085	398.64		MONTH _____		1300.00	813.72		VOUCHER NO. _____		1310.01	304.50				1315.06	170.23	\$1687.09			TOTAL:			TOTAL BUSINESS TRIP EXPENSE		1687.09	
OFFICE USE ONLY:		ACCOUNT	AMOUNT																																							
CK. NO. _____		8085	398.64																																							
MONTH _____		1300.00	813.72																																							
VOUCHER NO. _____		1310.01	304.50																																							
		1315.06	170.23	\$1687.09																																						
		TOTAL:																																								
ENTERTAINMENT EXPENSES (DETAIL ON BACK)									-																																	
TOTAL EXPENSES									1687.09																																	
ADVANCES																																										
1. ADVANCED CASH TO EMPLOYEE																																										
2. OTHER CLEARING OWED																																										
TOTAL OF ADVANCES:									-																																	
DEDUCT THE ADVANCED TOTAL FROM THE TOTAL OF EXPENSES									1687.09																																	
NOTE: IF MONIES ARE OWED TO THE NJSBA, CHECK MUST ACCOMPANY THIS VOUCHER.																																										

Original - White  
Copy - Yellow

Cardmember Acct. No. **3782 456818 11001**

Expiration Date Checked

Card No. **03/86 THRU 03/88 86 AX** Approval Code **AB**

Cardholder Name **OCTAVIUS T REID JR**  
**N J SCHOOL BOARD ASC**

Check or Bill No. **982-981**

Service Establishment **COUNTY LINE INN** Date of Charge **031687** Any delayed charges are listed below

**0129004974**  
**44062705**  
**2291016442 NJ**

Merchandise/Services	Type of Delayed Chg.
<b>30175</b>	
Taxes <b>1.95</b>	Amnt. of Delayed Chg.
Tip/Misc. <b>20.10</b> Revised Total	
Total <b>62.70</b>	Amesco Use Only
	Equivalent Amount

Establishment agrees to transmit to American Express Travel Related Services Co., Inc. or Authorized Representative for payment. Merchandise and/or service purchased on this card shall not be resold or returned for cash refund.

Cardmember Signature **X [Signature]**

Invoice Number **205755**

Please Print Firmly **Record of Charge**

Cardmember Copy

Cardmember Acct. No. **3782 456818 11001**

Expiration Date Checked

Card No. **03/86 THRU 03/88 86 AX** Approval Code **24**

Cardholder Name **OCTAVIUS T REID JR**  
**N J SCHOOL BOARD ASC**

Check or Bill No.

Service Establishment **SUNNYSIDE** Date of Charge **03 20 87** Any delayed charges are listed below

**0108003815**  
**4368412890 WASH DC**  
**4081015968**

Merchandise/Services	Type of Delayed Chg.
<b>179182</b>	
Taxes	Amnt. of Delayed Chg.
Tip/Misc. <b>34.10</b> Revised Total	
Total <b>213.182</b>	Amesco Use Only
	Equivalent Amount

Establishment agrees to transmit to American Express Travel Related Services Co., Inc. or Authorized Representative for payment. Merchandise and/or service purchased on this card shall not be resold or returned for cash refund.

Cardmember Signature **X [Signature]**

Invoice Number **058220**

Please Print Firmly **Record of Charge**

Cardmember Copy

Cardmember Acct. No. **3782 456818 11001**

Expiration Date Checked

Card No. **03/86 THRU 03/88 86 AX** Approval Code **18**

Cardholder Name **OCTAVIUS T REID JR**  
**N J SCHOOL BOARD ASC**

Check or Bill No. **11572**

Service Establishment **BLUES ALLEY** Date of Charge **03 20 87** Any delayed charges are listed below

**110010072**  
**4081002156**

Merchandise/Services	Type of Delayed Chg.
<b>69.50</b>	
Taxes	Amnt. of Delayed Chg.
Tip/Misc. <b>11.00</b> Revised Total	
Total <b>80.50</b>	Amesco Use Only
	Equivalent Amount

Establishment agrees to transmit to American Express Travel Related Services Co., Inc. or Authorized Representative for payment. Merchandise and/or service purchased on this card shall not be resold or returned for cash refund.

Cardmember Signature **X [Signature]**

Invoice Number **269694**

Please Print Firmly **Record of Charge**

Cardmember Copy

Cardmember Acct. No. **3782 456818 11001**

Expiration Date Checked

Card No. **03/86 THRU 03/88 86 AX** Approval Code **184**

Cardholder Name **OCTAVIUS T REID JR**  
**N J SCHOOL BOARD ASC**

Check or Bill No. **16**

Service Establishment **COFFEE** Date of Charge **03 19 87** Any delayed charges are listed below

**43000560717**  
**010222379 WASH DC**  
**4081005011 DC**

Merchandise/Services	Type of Delayed Chg.
<b>53.32</b>	
Taxes	Amnt. of Delayed Chg.
Tip/Misc. <b>15.10</b> Revised Total	
Total <b>68.42</b>	Amesco Use Only
	Equivalent Amount

Establishment agrees to transmit to American Express Travel Related Services Co., Inc. or Authorized Representative for payment. Merchandise and/or service purchased on this card shall not be resold or returned for cash refund.

Cardmember Signature **X [Signature]**

Invoice Number **512966**

Please Print Firmly **Record of Charge**

Cardmember Copy



NCC Form 2024B-SP Rev. 12-83 Pkg. USA 4-8-83

NCC Form 2024B-SP Rev. 12-83 Pkg. USA 4-8-83

NCC Form 2024B-SP Rev. 12-83 Pkg. USA 4-8-83

4239 0071 3021 5022

1 12/85 CV

OCT 1985

444804001171  
CRECCO'S  
0129946513  
0001010100

DATE	CLERK/WTR.
AUTHOR/CLERK NO.	
DESCRIPTION	14300

5792273

SALE	656
TAX	2.51
TIPS	13.24
TOTAL	82.49

The bearer of the card identified on this slip is authorized to pay the amount shown as TOTAL upon proper presentation. I promise to pay such TOTAL (except for any other charges not shown) to and in accordance with the Agreement governing the use of such card.  
SIGN HERE X *[Signature]*

SALES SLIP

CUSTOMER: RETAIN THIS COPY FOR YOUR RECORDS



TRAVEL & ENTERTAINMENT SALES SLIP  
CUSTOMER COPY

4/8 DATE	5 PERSONS	\$ 64.20 TOTAL AMOUNT	14300
-------------	--------------	--------------------------	-------

# Crecco's

*Best Regards  
LLC*

Reg (609) 393-4823

THIS RECEIPT IS PROVIDED FOR YOUR CONVENIENCE FOR TAX & PERSONAL RECORDS



New Jersey  
School Boards

*Octavio T. Reid*

**EXPENSE REIMBURSEMENT FORM**

Submit to  
P.O. Box 909, Trenton, New Jersey 08605  
609-695-7600

DATE SUBMITTED

NAME (PRINT OR TYPE)

ADDRESS

MO/DA	FROM	TO	PURPOSE	MILEAGE	TOLLS	MEALS	MISC. (ITEMIZE)	TOTAL	ACCT. NO.
6/5			Lunch w/ M. Alban			15.75		15.75	1350.05
6/5			Lunch w/ Hansen & Sullivan			15.00		15.00	
6/13			NJASA Conf.			96.82		96.82	
6/6			Gov. Council Minna w/ office			82.49		82.49	
6/9			Minna w/ Dr. Colburn, Minna & Cassidy					64.55	

I certify that the above expenses were incurred on behalf of the NJSBA.

**274.66** GRAND TOTAL

SIGNATURE *Octavio T. Reid*

BUSINESS OFFICE USE

ACCT.	AMOUNT	CK. NO.	MO.	VCHR.	TOT. CK.
1350.05	274.66	33510	11/15/85	19	6036.33

*Page 2*

STAFF USE  
DATE *11/15/85* APPROVAL *[Signature]*

Original - White  
Copy - Yellow



New Jersey  
School Boards

*Ostinis T. Rinal*

### EXPENSE REIMBURSEMENT FORM

Submit to  
P.O. Box 909, Trenton, New Jersey 08605  
609-695-7600

DATE SUBMITTED \_\_\_\_\_

NAME (PRINT OR TYPE)

ADDRESS

MO/DY	FROM	TO	PURPOSE	MILEAGE	TOLLS	MEALS	MISC. (ITEMIZE)	TOTAL	ACCT. NO.
4/8			Mtg w/ Mr M & R. Rinal			64.80	Wash Car park - 6.60	71.40	1350.05
4/11			Alumni mtg w/ Ples.					52.72	
4/12			Lunch w/ C. Conner			32.50	Car park - 3.50	36.00	
4/12			Alumni - E. O. Harsco Comm.					79.10	
4/16			Alumni w/ F. Walters, Jim Murphy					72.40	
4/17			Mtg w/ Paul Winkler, L. Brennan & D. Harrison					63.45	
4/22			Alumni Mtg w/ P. Mullaly					57.60	
4/23			Mtg w/ Sandra Clark					39.45	
4/25			Lunch w/ M. Ford & Kaleb					36.45	
4/25			Sharon / Lehman rep.				Entertain -	19.90	
4/26			Mtg. re: DOE.					72.04	
4/29			Alumni Luncheon - Rutgers U.					52.60	
4/30			Training - Right to Know					21.38	
4/30			Film Processing					50.75	
4/6			" "					58.35	

I certify that the above expenses were incurred on behalf of the NJSSA.

*D. James S. Rinal*

SIGNATURE

BUSINESS OFFICE USE

ACCT.	AMOUNT	CK. NO.	MO.	VCHR.	TOT. CK.
1350.05	775.59	335.0	11/15/85	19	6036.33

~~775.59~~ GRAND TOTAL  
775.59

Page 5

STAFF USE

11/15/85

*D. James S. Rinal*

DATE

APPROVAL

Original - White  
Copy - Yellow

-69-



New Jersey  
School Boards

OCTAVIUS O. REID JR.

# EXPENSE REIMBURSEMENT FORM

Submit to  
P.O. Box 909, Trenton, New Jersey 08605  
609-695-7600

July 19, 1988  
DATE SUBMITTED

\* 7d directly to Am. Exp. CK # 40464  
\* \* Questionable - CK + No rec restaurant receipt agree to  
CK + on 10/15/87 Am. Exp. charge slip

NAME (PRINT OR TYPE)

ADDRESS

MO/DAY	FROM	TO	PURPOSE	MILEAGE	TOLLS	MEALS	MISC. (ITEMIZE)	TOTAL	ACCT. NO.
10/28	Trenton	NYC	Mtg w/ Peterson				1 signature *	\$17.50	1310.01
10/8			Mtg w/ Lorraine Kulick			\$18.50		18.50	"
10/8			Mtg w/ Frank Squicelli			56.89		56.89	"
10/9			Mtg w/ Vince Calabrese			30.45		30.45	"
10/13			Exec Com Mtg			94.30	*	94.30	803.01
10/15			NJSBA NE Region Mtg Rhode Island			53.16		53.16	1310.01
10/16			" "			47.95		47.95	"
10/17			" "			893.65	Entertainment \$46.50	893.65	1300.00
10/18			" "			20.25		20.25	1310.01
10/19			Rutgers Advisory Committee Mtg			88.90		88.90	"
10/20			Alliance for Art & Ed Mtg			Hotel \$82.08		82.08	"

I certify that the above expenses were incurred on behalf of the NJSBA.

O. Reid Jr.  
SIGNATURE

STAFF USE

DATE \_\_\_\_\_ APPROVAL \_\_\_\_\_

BUSINESS OFFICE USE

ACCT.	AMOUNT	CK. NO.
1310.01	814.96	
1315.01	275.78	
1300.00	893.65	
803.01	94.30	
1700.00	(1500.00)	
	749.89	

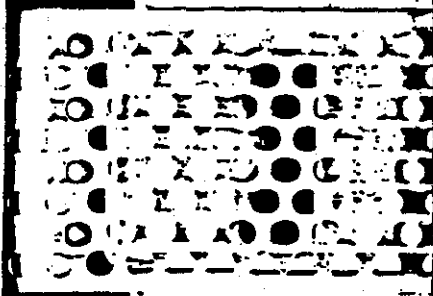
less advance 1500.00  
\$1450.13 GRAND TOTAL

VCHR. # 64540  
TOT. CK. 64540


Original - White  
Copy - Yellow

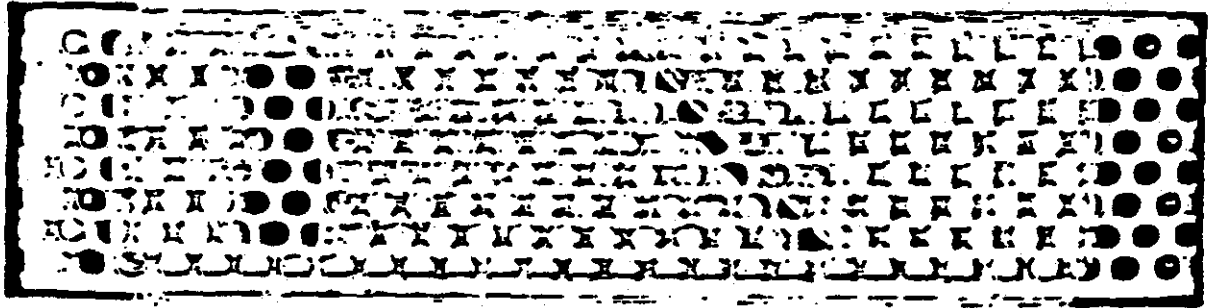
-70-




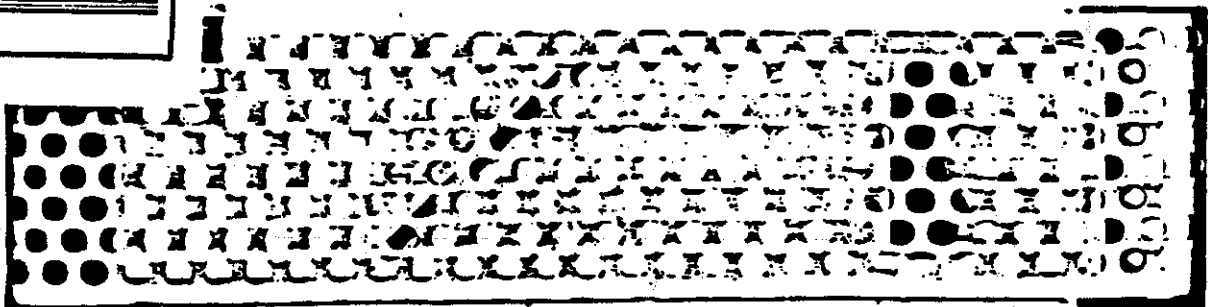
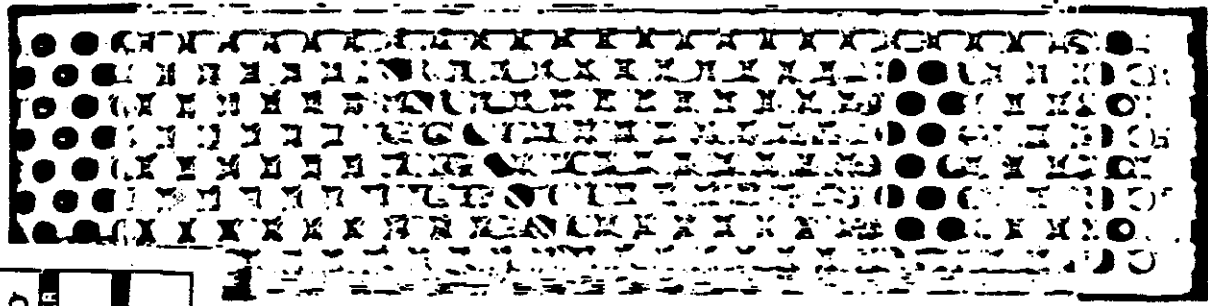


Member Acct. No. <b>3728 454701 71008</b>		Expiration Date <b>08/86 THRU 08/88</b>	
Cardholder Name <b>OCTAVIUS T. REID JR</b>		Check or Bill No. <b>211875</b>	
Service Address <b>ALLEY, PUB 41512108002656 013 001409 2381005784 RI</b>		Date of Charge <b>10 15 88</b>	
Establishment agrees to transmit to American Express Travel Related Services Co., Inc. or Authorized Representative for payment. Merchandise and/or service purchased on this card shall not be resold or returned for cash refund.		Merchandise/Services <b>45.16</b>	
Customer Signature <i>O. T. Reid Jr</i>		Total <b>53.16</b>	
Invoice Number <b>745499</b>		Please Print Firmly Cardmember Copy	

	140 THAMES STREET NEWPORT, RI 02840 849-6334 V.I.P. Reservations: 849-8291	CHECK NO. <b>211875</b>
		DATE OF DEBIT <b>10/15/88</b>
		CASH AMOUNT PAID <b>53.16</b>



	<p>100 THAMES STREET NEWPORT, RI 02840 849-6334 V.I.P. Reservations: 849-8291</p>
	<p>CHECK NO. <b>211875</b></p> <p>DATE <i>10/10/80</i></p> <p>SERVER <i>[Signature]</i></p> <p>AMOUNT <i>[Signature]</i></p>



# STAFF AND OFFICER TRAVEL DIARY

EXPENSES SUBMITTED BEYOND 60 DAYS OF EVENT  
 WILL NOT BE HONORED.

NAME		DEPARTMENT			PERIOD COVERED		DATE PREPARED			
Octavius T. Reid, Jr.		Executive Office			FROM: 7/16	TO: 8/15	Sept. 12, 1986			
DATE	PURPOSE	MEAL EXPENSES*			HOTEL AND OTHER TRIP EXPENSES				LINE TOTALS	
MO./DAY		BREAKFAST*	LUNCH*	DINNER*	ROOM & TAX*	TIPS	TOLLS	PARKING*	MISCELLANEOUS (DETAIL ON BACK)	
7/16									\$209.57	\$ 209.57
7/23	Council of State Govts. Conf, Parsippany			394.17						394.17
"	"				313.69				39.59	313.69
7/24	"				288.32	(for T. Mullins)				288.32
7/23	Educ. Comms. of the States Mtg., San Diego, CA		32.30	86.77						32.50
7/23	"									86.77
7/24	"			210.96						210.96
7/26	"		28.33							28.33
7/27	"			588.10						588.10
7/26	"			346.22		(for M. Mueller)				346.22
7/28	NSBA Exec. Dir. Inst., Vancouver, BC			124.63						* 91.24
7/30	"			180.77						*131.73
7/30	"				1090.62					*798.28

\*PLEASE ATTACH RECEIPTS FOR THESE ITEMS.\* Canadian dollars converted

AUTO MILEAGE (DETAIL ON BACK)	MILES:	¢ PER MILE
TOTAL BUSINESS TRIP EXPENSE		+
ENTERTAINMENT EXPENSES (DETAIL ON BACK)		=
TOTAL EXPENSES		+
ADVANCES		
1. ADVANCED CASH TO EMPLOYEE		
2. OTHER CLEARING OWED C.T.		
TOTAL OF ADVANCES:		-
DEDUCT THE ADVANCED TOTAL FROM THE TOTAL OF EXPENSES		=

NOTE: IF MONIES ARE OWED TO THE NJSBA, CHECK MUST ACCOMPANY THIS VOUCHER.

-73-

OFFICE USE ONLY:

CK. NO. 36849

MONTH 9/26/86

VOUCHER NO. 12

ACCOUNT	AMOUNT
1310.01	5613.03

TOTAL: 5613.03

*NA*

SIGNATURE Octavius T. Reid, Jr. DATE \_\_\_\_\_

APPROVING SIGNATURE [Signature] DATE 9/24/86

Original - White  
 Copy - Yellow

Page 1

3782 456818 11001

F

03/86 TRFO 03/88 86 AX		Description of Merchandise/Service	Adaptor Code
OCTAVIUS T REID JR		Description des Marchandises/Services	Code d'autorisation
N J SCHOOL BOARD ASS			Check or Bill No.
VANCOUVER BC			NO de votre facture
Merchant Ref. No. / Description des Marchandises/Services	Date of charge / Date des fact	Type	Device / Type
			Registration / Reg. No.
9321025976	30.766	15077	Amount / Montant
662296CX0030			Amount Total / Montant Total
VANCOUVER BC			Equivalent Amount / Montant équivalent
Subject to Conditions on Reverse / Sujet Aux Conditions Auverso		Total / Pourboire / Divers	Amount Total / Montant Total
Signature - Signature de l'acheteur		Total	Amount Total / Montant Total
OCTAVIUS T REID JR		186.77	Amount Total / Montant Total
Invoice No. / No de la facture		Amexco Copy / Exemple d'Amexco	

00 142572



New Jersey-  
School Boards Association

PO Box 909 Trenton New Jersey 08646  
Telephone (609) 995-7800

86-87

# STAFF AND OFFICER TRAVEL DIARY

EXPENSES SUBMITTED BEYOND 60 DAYS OF EVENT  
WILL NOT BE HONORED.

RECEIVED JUL 8 1988

PAGE 1 OF 1

NAME		DEPARTMENT			PERIOD COVERED		DATE	PREPARED		
Octavio S. Reid, Jr.		Executive Office			FROM: 8/2	TO: 8/6	June 30, 1988			
DATE	PURPOSE	MEAL EXPENSES*			HOTEL AND OTHER TRIP EXPENSES					LINE TOTALS
MO/DAY		BREAKFAST*	LUNCH*	DINNER*	ROOM & TAX*	TIPS	TOLLS	PARKING*	MISCELLANEOUS (DETAIL ON BACK)	
8/2/88	National Conf. of State			76.00					airfare	208.00
8/3-8/6	Legislature Conf. New Orleans					6.00		18	6.00, 7.10	136.00
8/4			87.67						64.71, 7.50	159.88
8/5			83.43	182.95					6.00, 4.9	281.38
8/6		38.20		89.67					18, 20.50	166.37
8/7		16.97	50.00	150.00					6.00, 80.00	302.97
8/8						11.00			18, 20.00	49.00
					AUTO MILEAGE (DETAIL ON BACK)    MILES:    \$ PER MILE					
					TOTAL BUSINESS TRIP EXPENSE					1303.66
					ENTERTAINMENT EXPENSES (DETAIL ON BACK)					
					TOTAL EXPENSES					1303.66
					ADVANCES					
					1. ADVANCED CASH TO EMPLOYEE					
					2. OTHER CLEARING OWED					
					TOTAL OF ADVANCES:					
					DEDUCT THE ADVANCED TOTAL FROM THE TOTAL OF EXPENSES					1303.66
					NOTE: IF MONIES ARE OWED TO THE NJSBA, CHECK MUST ACCOMPANY THIS VOUCHER.					

**the Teahouse Restaurant**      103560

DATE: 8/15/88      AMOUNT: 150.77

\*PLEASE ATTACH RECEIPTS FOR THESE ITEMS\*

**OFFICE USE ONLY:**

CK. NO. \_\_\_\_\_

MONTH \_\_\_\_\_

VOUCHER NO. \_\_\_\_\_

ACCOUNT	AMOUNT
TOTAL: _____	

SIGNATURE: *Octavio S. Reid, Jr.*      DATE: 6/30/88

APPROVING SIGNATURE: \_\_\_\_\_      DATE: \_\_\_\_\_

-75-

Heidi Biederman  
Dallas 567  
Gen. Corp, Texas 567  
10th Mallino

Ferguson Point  
STANLEY PARK  
669-3281

the Teahouse  
Restaurant

103560

DATE	AMOUNT
X	150.77

3782 456818 11001

03/86 TRKO 03/88 86 AX Description of Merchandise/Services  
OCTAVIUS BEID JR  
W J SCHOOL BOARD ASC  
Description des Produits/Services  
Code d'autorisation  
Check-out & Bill No.  
N° de votre facture

VANCOUVER WEST  
9321025976  
6622960X0030  
VANCOUVER BC

30.76

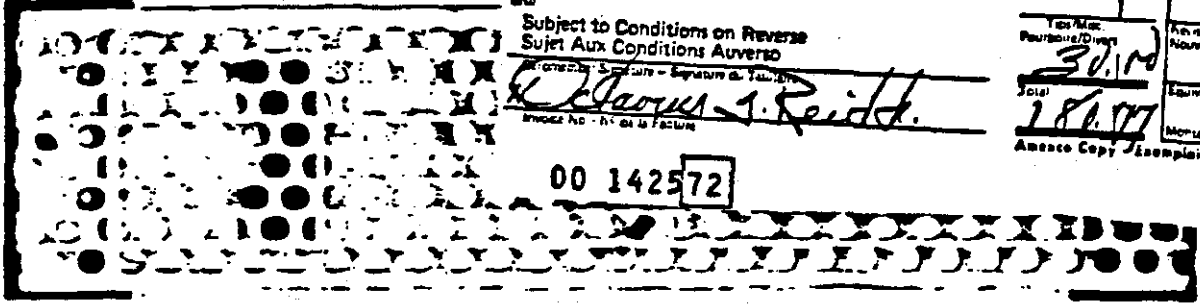
Merchandise/Services Produits/Services	Date Rec. (Date Rec.)	Type
Taxes	Amount - Montant	
Tax/Misc. Taxes/Div.	Amount Total Montant Total	
30.76		
Total	Equipment Amount Montant Equipement	
180.00		

Amesco Copy / Exemplaire d'Amesco

Subject to Conditions on Reverse  
Sujet Aux Conditions Au verso

Signature - Signature  
*James J. Reidt*

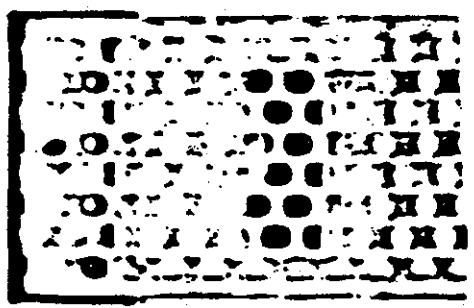
00 142572



the Teahouse  
Restaurant

103560

DATE / AMOUNT  
8 / 50.77



Hide Rindman  
Williams 58A  
Don Crow, Telus 58A  
STANLEY PARK  
669-3281

TELEPHONE  
695-7600

RECEIVED FEB 24 1988

P.O. Box 909  
Trenton, NJ 08605

## NEW JERSEY SCHOOL BOARDS ASSOCIATION

To: American Express  
Travel Related Services Company, Inc.  
P.O. Box 1270  
Newark, NJ 07101-1270

Date February 23, 1988  
Date Ordered Dec. 1987-1/88  
Your Order No.  
Ordered By Octavius Reid

808.05	Overnight accommodation for O. Reid for FRN Briefing 1/13/88	\$100.70 ✓
405.02	Four snow tires for Association automobile	218.36 ✓
	Total	\$319.06

I declare that the goods or services itemized in this bill have been delivered or rendered; that no bonus has been given or received by any person or persons with the knowledge of the deponent; and that the above bill is true and correct.

*Octavius Reid*

DATE PAID	<u>2/26/88</u>
CHECK #	<u>43043</u>
POST	
EXCESS COSTS	<u>See above</u>
AMOUNTS	<u>319.06</u>

PAID



X *James R. Pfeiffer* Total 10.10  
 Amexco Copy

00 9531 74

3782 456818 11001



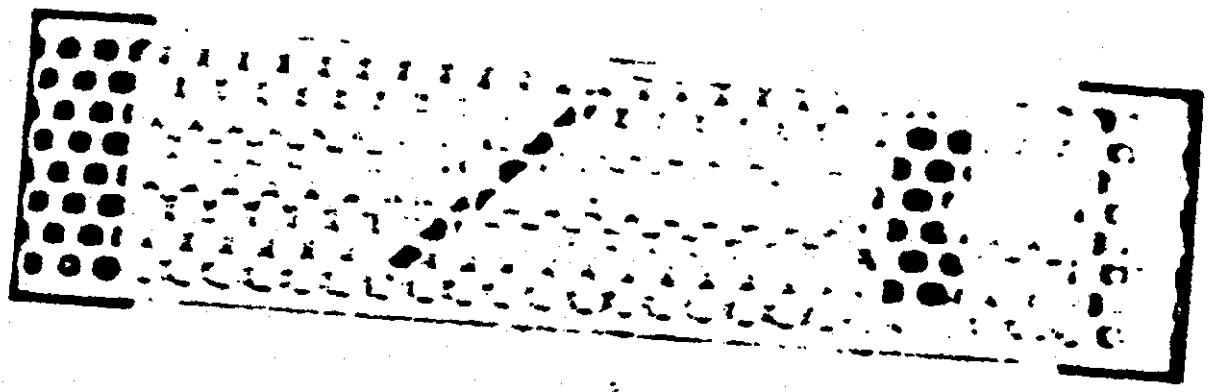
03/86 THRU 03/88 86 A  
 OCTAVIUS T REID JR  
 W J SCHOOL BOARD ASC

6030 10070977  
 D ANDREA TIRE 122687  
 MOORESTOWN NJ  
 2034834334

STORE NUMBER	DEPARTMENT NO.	SALES PERSON	REGISTER NO.	APPROVAL CODE
				250001
DATE	CLASS	QUAN	PRICE	AMOUNT
			23.70	
SHIP TO: NAME (PRINT)				Sub Total 206.00
ADDRESS				Tax 12.36
CITY STATE ZIP CODE				Total 218.36

*O. James R. Pfeiffer*

00 8711 53



# EXPENSE REIMBURSEMENT FORM

*July 1, 1986*  
DATE SUBMITTED



New Jersey School Boards

Submit to  
P.O. Box 909, Trenton, New Jersey 08605  
609-695-7800

*OCTAVIUS T. REID JR.*

NAME (PRINT OR TYPE) ADDRESS

MO/DAY	FROM	TO	PURPOSE	MILEAGE	TOLLS	MEALS	MISC. (ITEMIZE)	TOTAL	ACCT. NO.
12/11/87			Board of Dir.				Entertainment * \$30.75	30.75	802.01
12/12			Deleto Assembly				" * 39.46	39.46	801.01
12/13-15	NSBA National	Washington, DC	NSBA National				Taxi \$5.00 " \$6.00 Entertainment \$21.30	33.89	808.05
							29.38	56.68	"
							67.00	67.00	"
							85.28	85.28	"
							10.68 Hotel 387.00 *366.81	377.49	"
12/14			Refuel				55.83	55.83	1310.01
12/15							Auto Insur **	218.36	405.02

I certify that the above expenses were incurred on behalf of the NJSBA:

\* Pd directly to Aut. Exp - ck # 43675  
\*\* Pd directly to Aut. Exp - ck # 43673

*962.74* GRAND TOTAL

*Octavius T. Reid Jr.*  
SIGNATURE

STAFF USE

DATE APPROVAL

BUSINESS OFFICE USE

ACCT.	AMOUNT	CK. NO.
801.1	30.75	
802.1	39.46	
405.2	218.36	
808.5	625.34	
1310.01	55.83	
VCHR: \$962.74		
TOT. CK. 314		

-80-

Member Acct. No. 3782 456818 11001

03/86 THRU 03/88 06 AX  
 OCTAVIUS T REID JR  
 N J SCHOOL BOARD ASC

8030 10070977  
 D AMBREA TIRE 122687  
 MOORESTOWN NJ  
 229-336932

Establishment agreed to accept American Express Travel Related Services Co. Inc. as authorized payment method. Merchant's signature and address purchased on this card shall not be required or returned for cash refund.

Cardmember Signature

Invoice Number

871153

Cards

Expiration DATE CHECKED

3/30/86

REGISTERED NO.

DEPARTMENT NO.

CLASS QUANT

ARTICLE

AT

STATION

DATE

TIME

AMOUNT

TAX

23170

20600

17 36

218 36

STATE

CITY

ZIP CODE

ADDRESS

NAME (PRINT)

ADDRESS

CITY

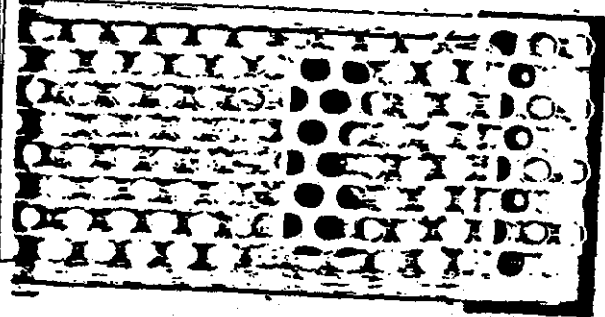
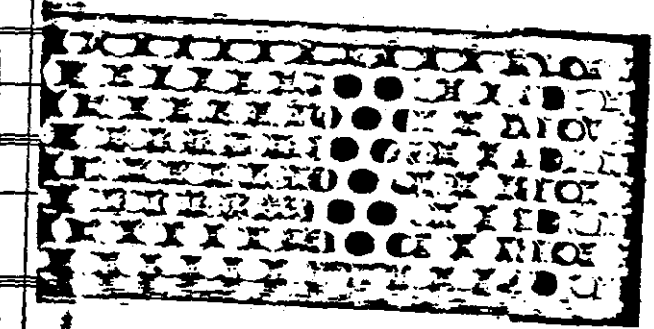
STATE

ZIP CODE

ADDRESS

CITY

STATE



TELEPHONE  
695-7600

P.O. Box 909  
Trenton, NJ 08605

# NEW JERSEY SCHOOL BOARDS ASSOCIATION

DATE January 7, 1988

TO American Express  
Travel Related Services Company, Inc.  
P.O. Box 1270  
Newark, NJ 07101-1270

Date Ordered

Your Order No.

Ordered By Octavius T. Reid, Jr.

802.01	Breakfast meeting w/ officers, Board of Directors members and alternates (Sept. 18, 1987)	\$66.71 ✓
1315.05	Mtg. w/William Kaufman, Donald Percy & Edward Coyle	126.85 ✓
1310.01	Mtg. w/Linda Leopardi, California Sch. Bds. Association	27.05 ✓
1315.05	Mtg. w/Robert Gamble & Craig Whitehead	80.80 ✓
805.05	Trainfare to Washington, D.C. (9-26-87)	37.00 ✓
"	Mtg. w/NSBA Staff re Federal Policy Coordinators Conf.	180.77 ✓
"	Overnight accommodation for FPC Conf. (one-night)	113.84 ✓
"	NSBA FPC Conf. (mtg. w/Sandra Henningburg, NSBA)	112.96 ✓
"	NSBA " " lunch mtg. w/State Association Execs)	168.16 ✓
"	NSBA " " dinner mtg. w/Assn. Execs. & NSBA staff	214.01 ✓
"	Hotel accommodations (NSBA FPC Conf 9/27-29)	385.57 ✓
700.02	Cassette Recorder	51.94 ✓
1310.01	Executive Staff Retreat	38.11 ✓
825.01	Mtg. w/Dean Witter Vice President (train fare)	28.00 ✓
1310.01	Mtg. w/Gregory Stewart	67.95 ✓
"	Mtg. w/Steve Audubato, Louise Stanton	94.30 ✓

I declare that the goods or services itemized in this bill have been delivered or rendered; that no bonus has been given or received by any person or persons with the knowledge of the deponent; and that the above bill is true and correct.

\$1,794.02

*W. J. Reid*



Cardmember  
Copy E 00515

Previous Balance

~~\$2,020.14~~

New Charges

\$1,794.02

Other Debits

Payments

Other Credits

New Balance

\$3,852.16

Corporate Account Number

3782-456818-11001

Payments or Charges received after Closing Date below will appear next month.

10/27/87

DATE PAID

CHECK #

PO #

BUDGET ACCTS

AMOUNTS

1/9/88  
45464  
See attached  
1794.02

PAID

Notice:

See reverse side and accompanying statement(s) for important information.

82 456818 11001 33

03/86 THRU 03/88 86 AX

37594

OCTAVIUS T REID JR  
4 J SCHOOL BOARD ASC

Check or Bill No. 25  
Cards

DOMINIQUE 33  
REST. WASH. DC  
4061007106  
01C8113077

24 9 28 87

Merchandise/Services 179.01  
Type of Delayed Chg.  
Taxes Amt. of Delayed Chg.

Tips/Misc. 35.00 Revised Total

Total 214.01

*Octavius T. Reid Jr.*

Amexco Copy

00 987979

3782 456818 11001

9/88

03/86 THRU 03/88 86 AX

250  
12 33  
Approval Code

OCTAVIUS T REID JR

Check or Bill No. 1145  
Cards

DOMINIQUE 33  
REST. WASH. DC  
4061007106

24 9 27 87

Merchandise/Services  
Type of Delayed Chg.  
Taxes Amt. of Delayed Chg.

Tips/Misc. Revised Total

Total 385.57

*Octavius T. Reid Jr.*

Amexco Copy

SEP 20 1987

00 337309

CARD MEMBER ACCOUNT NUMBER		EXPIRATION DATE	
378245681811001		9/88	
CARD MEMBER NAME AND ADDRESS		CHARGE CARD	
OCTAVIUS REID JR 413 N STATE ST		AMEX 9/29/87	
MERCHANT NAME AND ADDRESS		DATE	AUTH NUMBER
THE SHARPER IMAGE 529 14TH STREET NW WASHINGTON DC 20045		9/27/87	565999
MERCHANT NUMBER		4084604590	
ORDER NUMBER	INVOICES	MERCHANDISE	45.00
752484	2924343	SHIPPING	.00
UNIVERSAL TELEPHONE AND MAIL ORDER CHARGE		TAX	2.94
		TOTAL	51.94

REV 1982 CB Corporation Form UCC-1

Printed by CB Corporation (31) 228-6283 (80)

00 276561



New Jersey  
School Boards Association

P.O. Box 509 Trenton, New Jersey 08646  
Telephone (609) 995-7000

# STAFF AND OFFICER TRAVEL DIARY

EXPENSES SUBMITTED BEYOND 60 DAYS OF EVENT  
WILL NOT BE HONORED.

PAGE 1 OF 1

NAME		DEPARTMENT			PERIOD COVERED		DATE PREPARED		
OCTAVIUS T. REID SR		EXEC. OFFICE			FROM: 9/26/87	TO: 9/29/87	July 11, 1988		
DATE	PURPOSE	MEAL EXPENSES*			HOTEL AND OTHER TRIP EXPENSES				LINE TOTALS
MO/DAY		BREAKFAST*	LUNCH*	DINNER*	ROOM & TAX*	TIPS	TOLLS	PARKING*	MISCELLANEOUS (DETAIL ON BACK)
9/26/87	NJSBA Federal Prog. Conference Conf., Wash., DC.		*112.96	*180.77		\$3.00			
9/27				**194.73					
9/28			*168.16	*244.01					
9/29			*38.41		\$385.57	\$4.00 (meal)		3.00	
*PLEASE ATTACH RECEIPTS FOR THESE ITEMS.					AUTO MILEAGE (DETAIL ON BACK)		MILES:		¢ PER MILE
OFFICE USE ONLY:					TOTAL BUSINESS TRIP EXPENSE				
CK. NO.	ACCOUNT	AMOUNT		ENTERTAINMENT EXPENSES (DETAIL ON BACK)					
	808.5	1322.31		TOTAL EXPENSES					
MONTH	1700.2	(1000.00)		ADVANCES					
VOUCHER NO.	Check		TOTAL: 322.31		1. ADVANCED CASH TO EMPLOYEE 1000.00				
SIGNATURE	OCTAVIUS T. REID SR			2. OTHER CLEARING OWED					
APPROVING SIGNATURE				TOTAL OF ADVANCES: -1000.00					
				DEDUCT THE ADVANCED TOTAL FROM THE TOTAL OF EXPENSES = 322.31					
				NOTE: IF MONIES ARE OWED TO THE NJSBA, CHECK MUST ACCOMPANY THIS VOUCHER.					

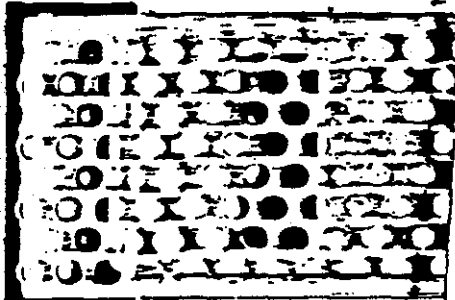
808.45

Original - White  
Copy - Yellow

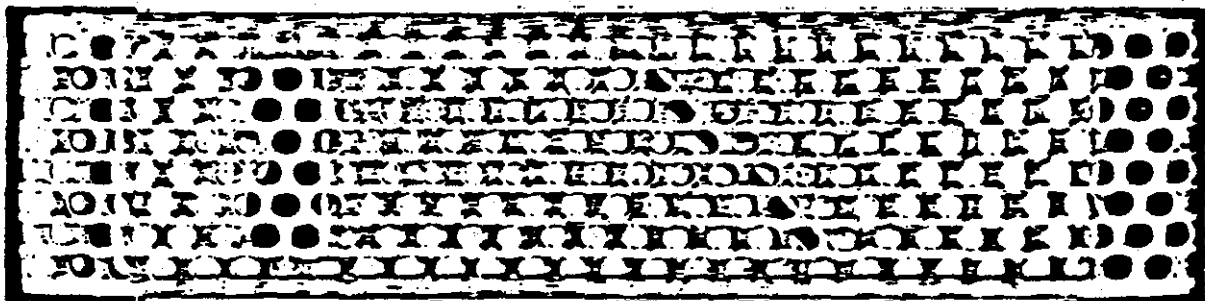
\* Paid directly to Am. Exp. CK# 42464

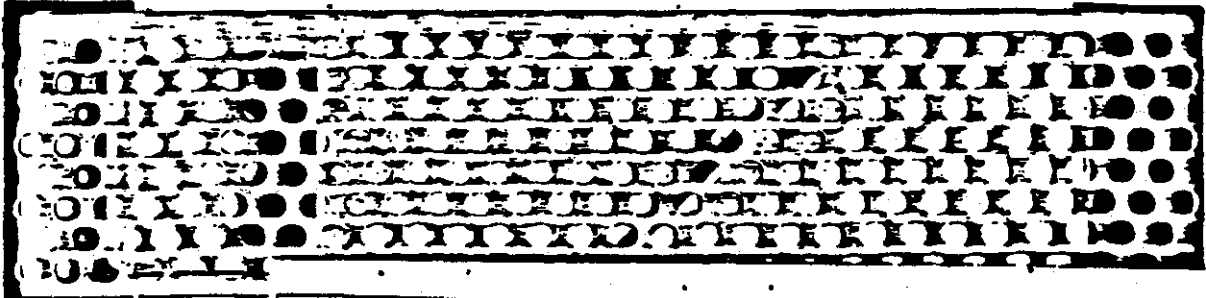
\*\* Questionable - Restaurant receipt & agree to give Am. Exp. charge slip

(7772) 1979



Acc. No.	3782 456818 11001	Expiration	33
Card No.	03/86 THRU 03/88	086	0511
Merchant	OCTAVIUS T WETZ	59594	73
	M J SCHOOL BOARD ASC		
Service	DOMINIQUE	Date of Charge	248,928.87
	REST. WASH. DC	33	179/01
	4081007106	250	
	8108113077		
<small>Establishment agrees to transmit to American Express Travel Related Services Co., Inc. or Authorized Representative for payment. Merchandise and/or service purchased on this card shall not be resold or returned for cash refund.</small>			
<i>St. Thomas J. Reed</i>		Total	35.10
Invoice Number		Total	214.01
Cards	987979	Please Print Firmly	Record of Charge
		Cardmember Copy	



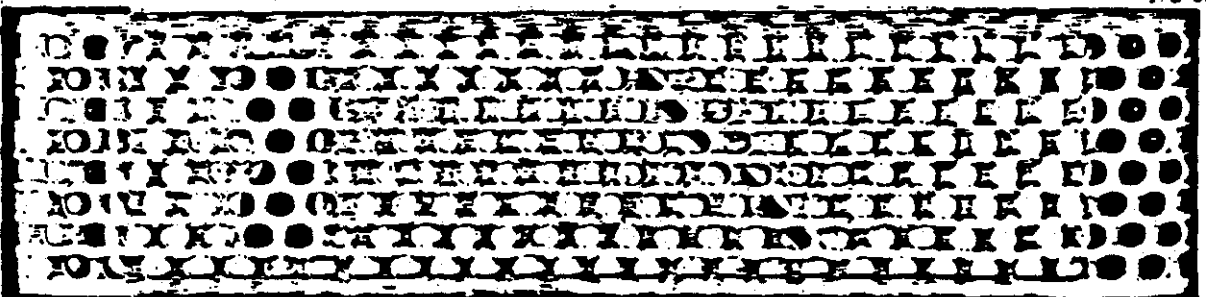


Member Acct No <b>3782 456818 11001</b>		Expiration Date <b>9/58</b>
Card No <b>03786 THRU 03788 86 AX</b>		Account No <b>12 33</b>
Name <b>OCTAVIUS T REID JR</b>		Copy of Receipt <b>1775</b>
Address <b>M J SCHOOL BOARD ASC</b>		
Service Establishment <b>A R IOTT</b>	Date of Charge <b>09 27 87</b>	Any other charges are added below
Phone No <b>0187720</b>	City <b>DC</b>	Type of Delayed Charge
Card No <b>0200000497</b>	State <b>DC</b>	Amount of Delayed Charge
Establishment agrees to transmit to American Express Travel Related Services Co., Inc. or Authorized Representative for payment. Merchandise and/or service purchased on this card shall not be resold or returned for cash refund.		Taxes
Cardholder Signature <i>Octavius T. Reid Jr.</i>		Tips/Misc.
Invoice Number <b>337309</b>	Total <b>385.57</b>	Revised Total
American Express Logo	Please Print Family Cardmember Copy	Record of Charge

or your trip  
r hotel has  
ations you  
performance

ACCT#  
11143  
46  
GROUP  
9536  
1001/0

DATE	REFERENCE	CHARGES	CREDITS	BALANCE DUE
09/27	LNG DIST	1156-609	2.73	







504 525-6500

11509

BANQUET

EO #8553

*Out -  
New Hill for  
N.O. Reception  
De*

*PO  
14847*

ORGANIZATION New .  
FUNCTION Recep  
ROOM IDF B  
GUARANTEE 600  
CHARGE TO New .  
STREET ADDRESS 413 W  
CITY Trent

March 27, 1988

VED  
Bates

509-695-7000

FOOD	Oysters @\$100.00/125pcs.	750 00	FLOWERS	Cocktails @\$2.50/ea	2100 00
	+ 800 Shrimp @\$200.00/100pcs.	2400 00	WINE	Wine @\$2.50/ea	1050 00
	2 Crudite display @\$250.00/ea	500 00	MUSIC	Dom. Beer @\$2.00/ea	172 00
	600 Tomato @\$125.00/100pcs	750 00		Imported Beer @\$2.50/ea	105 00
	400 Ham @\$125.00/100pcs.	500 00	AMPLIFICATION	Soft Drinks @\$1.50/ea	165 00
LIQUOR	Jambalaya @\$18.00/dal.	72 00			
	800 Meatball/ @\$125.00/100/pcs	1000 00	AUDIO VISUAL		
	500 Quiche @\$125.00/100pcs	625 00			
WINE	Seafood @\$125.00/100pcs	500 00	ROOM RENTAL		
	400 Mushroom @\$150.00/100pcs	600 00			
	2 Steamship @\$350.00/each	700 00	MISC.	1/ Center @\$45.00	45 00
	SUBTOTAL ①	13792 00		2 Bartenders @\$45.00/ea	270 00
				1 Centerpiece @\$75.00	75 00
SERVICE CHG.		2046 72			
TOTAL B		15838 72			
TAX		1354 31			
GRAND TOTAL		17193 03		TOTAL B	472 00

GUEST NAME

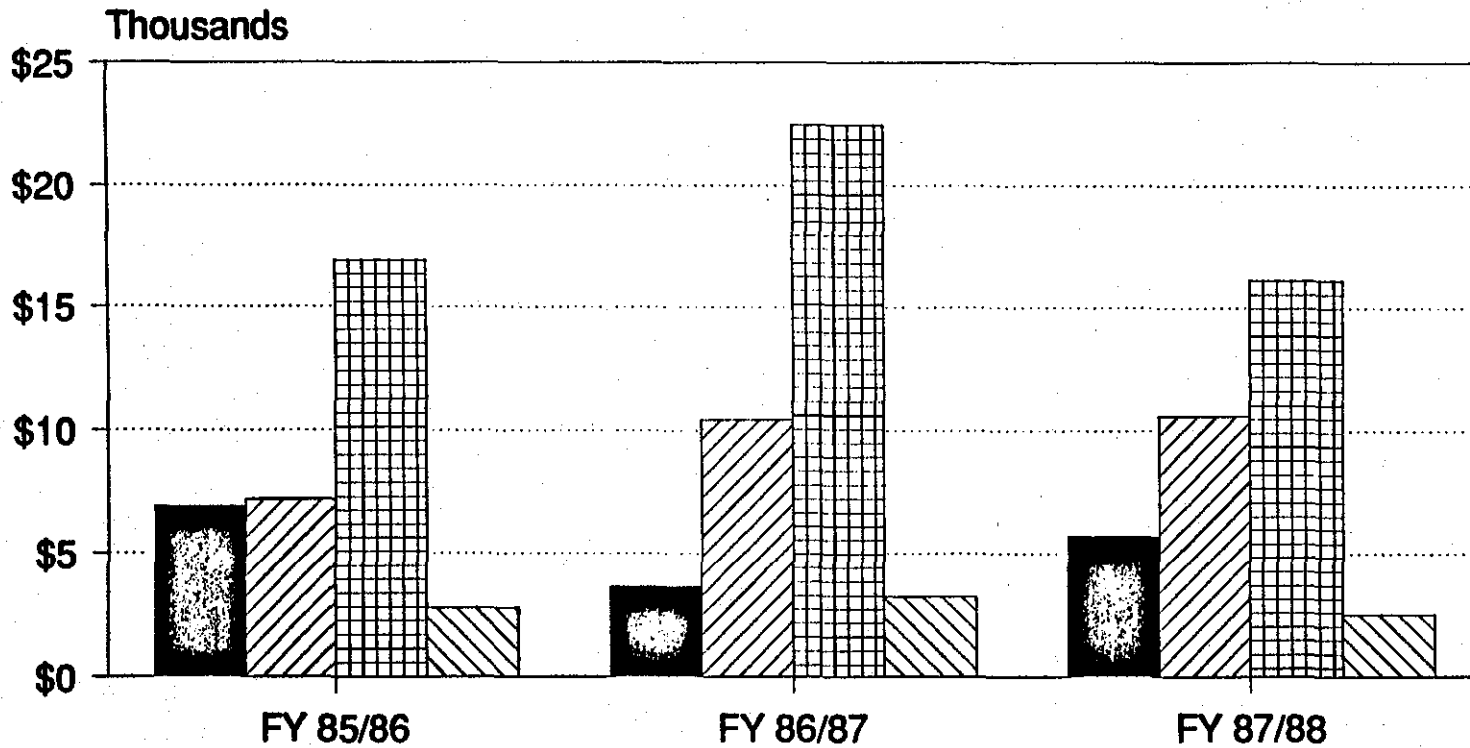
DATE

GUEST SIGNATURE

*J. Clayton  
Manager*

# N.J.S.B.A.

## REID'S EXPENSES--BY FISCAL YEAR



SCHEDULE B

1984 SURVEY SCHOOL MEMBERS CONTRIBUTION  
 SCHEDULE OF SELECTED RECEIPTS, EXPENSES OF 01 MEMB

	-40 RECEIPTS-		-DUAL LINES-		-QUESTIONS-		-MEMBERS-		-EXTENDED STAFF-	
	FOOD	TRAVEL	FOOD	TRAVEL	FOOD	TRAVEL	FOOD	TRAVEL	FOOD	TRAVEL
	146.50	75.00	64.00	149.44	305.00	13.50	716.54	136.22	104.41	
	42.00					87.00	193.21	215.07	54.33	
TOTAL '85	188.50	75.00	64.00	149.44	305.00	13.50	909.75	351.29	158.74	158.73
	42.30	125.00	34.00	391.64	140.00	62.00	529.00	244.00	178.02	
	43.00	102.07	143.00	408.50		30.23	576.51	764.30	1554.00	
	50.00					28.12	428.40		171.73	
	48.10					59.65				
TOTAL '87	183.40	227.07	177.00	800.14	140.00	90.00	1,007.50	1,238.61	1,176.02	1,176.02
	100.70	120.00	116.70	61.00	61.00	47.45	189.77	113.84	24.00	
	104.20	304.50	117.41	210.30	17.30	27.22	24.24	398.42		
	62.75	451.76	117.41	49.00	49.00	22.47	152.75			
	66.10	409.40	149.00	228.00	228.00	60.00	227.50			
	56.00		366.81			53.55	238.50			
	67.50					46.39				
	116.75					17.04				
	23.00					46.80				
	43.00					41.60				
	27.00					59.65				
	32.00					119.00				
	32.00					77.63				
	14.00					247.51				
	158.65					214.27				
	82.00					30.32				
	142.00					109.00				
	99.00					13.73				
						16.07				
						61.00				
						41.00				
						57.71				
						137.10				
						50.46				
						81.16				
						54.30				
						57.77				
TOTAL '88	1,244.03	1,258.16	1,137.63	983.86	983.86	62,124.71	90.00	90.00	90.00	624.00
LESS DUES BY EM	171.40	0.00	286.77	276.86	276.86					
TOTAL '88	1,072.63	1,258.16	850.86	706.99	706.99	62,124.71	90.00	90.00	90.00	624.00
TOTAL '89	307.40	238.67	149.44	160.00	160.00	304.76	0.00	0.00	0.00	178.02
TOTAL '90	284.30	40.00	64.00	149.44	149.44	814.02	214.00	13.50	13.50	158.73
TOTAL '91-95	1,454.41	1,284.83	1,140.44	1,052.00	1,052.00	63,445.69	924.00	913.50	913.50	936.75

## REFORM?

During the course of this investigation, the NJSBA adopted some new policies designed to correct past abuses and close some loopholes. Despite these laudable efforts, some of the reforms today are honored more in the breach than in the observance. And Reid, who never let written policies stand in his way before, is ignoring the new ones while the Executive Committee continues to sanction those violations by inaction as it did so many times in the past.

That these new policies were even proposed at all was largely the result of efforts by the Association's current president, Jeremiah Regan, who in turn credited the impetus generated by the SCI investigation. Regan testified:

*Naturally, I regret the circumstances that led to this investigation,...but the Association has used it as a stimulus to engage in self-analysis and policy reform.... We've seen where we need improvement and we have improved. We shall continue to implement management techniques to tighten our operation and to ensure greater accountability on the part of officers and staff. I am confident that when this is all over, the Association will be even stronger and more sound than when all of this began.*

Many of these policies are designed to prevent a recurrence of what happened in July, 1988, when Reid presented \$53,000 worth of expense vouchers covering a three-year period. Regan testified about new policies he has implemented:

*Q. Have you taken steps to effect changes?  
A. Oh, yes. I have a number of policies that*

*we've put in, and they've been restrictive types of policies. I've put in policies in competitive bidding which we didn't have before. It's hard to believe, but we didn't have a competitive bidding policy. I've also had a policy put in having to do with purchasing to make sure we do cost effectiveness studies on purchasing because today you can lease an awful lot of things cheaper than you can buy them. We had a time and attendance reporting system put in which now gives us positive information as to whether people are in the building or not in the building. Limited advances to anybody...to \$500 and you don't get anymore until you satisfy all you've spent that first \$500 and there are no exceptions to that.... Reimbursements for travel and expenses incurred on behalf of the Association, normally you have to get them in within 30 days. We allow 60 if you appeal to the Executive Committee. After 90 days you don't get it no matter what your excuse is. We have a control over unused vacation time which didn't exist before. Now, it's got to be appealed to the Executive Committee and the Executive Committee can or cannot grant you payment for unused vacation time. There was no limit before.... You had to do it.*

The Association has also adopted a new conflict of interest policy for officers and directors that would require disclosure of a business relationship over \$1,000 with any Association contractor, such as the \$12,000 loan from Druz to Reid.

Regan testified:

*The only resistance to any of these policies really has been in the competitive bidding area.... I was not aware of it. Maybe I should have been but I wasn't. It never occurred to me that in this day and age that...an organization that...spends as much money as we spend wouldn't have some rule and regulation governing competitive bidding. We have it on school boards. It's a state law.*

Despite the new policy restricting advances to \$500, Reid requested and received a check for a \$1,000 advance in the fall of 1988 at a time when the new policy had gone through its first reading. Regan testified, "As far as I was concerned, it was implemented on first reading." Reid subsequently reimbursed the Association \$1,000 and submitted a second advance request for only \$500.

As of January, 1989, the following travel policy has been in effect at the Association:

*Out-of-state travel of officers and Association members shall require the prior approval of the President.*

When Regan appeared before the SCI, he testified, "From now on, no officer goes out-of-state without my approval." Despite this new policy and Regan's good intent, the SCI staff learned that one Association officer traveled to a conference in Monterey, California, in July, 1989, and as well to a conference in Washington, D.C., without clear prior approval by the President. Reid wrote a note to the business office that the President had authorized such attendance when, in fact, he had not. The Executive Committee later approved payment of this officer's expenses.

Under a new policy effective December, 1988, expense forms not submitted within 60 days require Executive Committee approval for payment. Expense forms not submitted within 90 days are not to be reimbursed under any circumstances. Again, despite this policy, the Executive Committee, on

October 9, 1989, approved \$10,200 in late expense vouchers submitted by Reid for the previous summer. According to SCI sources, Reid has also recently interpreted the new 60-day requirement to start from the time he receives his American Express bill rather than the date an expense is actually incurred. In another case, Reid recently submitted expense claims on a "purchase order" rather than on the usual expense voucher, thus avoiding having to list actual dates of late claims.

The Association still has a long way to go in some of its written policies. One local school board, the Verona Board of Education, recently wrote to the Association expressing its opposition to the Association's policies of reimbursement of travel expenses for officers' spouses and guests, and reimbursement of expenses for alcoholic beverages. This Board wrote:

*The Verona Board of Education believes that the expenses of the Executive Committee members should be reimbursed by the Association; however, all expenses incurred by spouses of Executive Committee members should be borne by the committee member and not the School Boards Association. The Verona Board of Education also believes that the expenses of guests of Executive Committee members should not be reimbursed by the State Association. The Verona Board of Education also expresses its opposition to the present policy, which reimburses expenses for alcoholic beverages.*

Other NJSBA Board members have also expressed concern about the reimbursement for personal business calls, spouse and guest expenses, certain meal allotments, and payment of alcoholic beverages other than with meals. The only change to come out of these expressions of concern to date was the substitution of the word "entertainment" for the words "liquor" or "alcoholic beverage" in Association written policies.

## CLOSING OBSERVATIONS

Obviously, the Commission believes strongly that Octavius T. Reid has both abused and neglected his position at the New Jersey School Boards Association. But his conduct has been permitted to continue because some members of the Board of Directors and of the Executive Committee, all of whom are members of local school boards, have failed to ask the right questions and declined even to consider evidence of wrongdoing by Reid.

In recent months, the Association has made some efforts to reform but has stumbled occasionally. The Commission believes that for effective reform to take place, the Association officers must find an executive director who is trustworthy and in whom they can have confidence but also one who takes direction willingly and who is scrupulously honest with the officers.

Board members must assert themselves, not by becoming involved in the day-to-day running of the Association but in being active overseers of that organization, to protect the dues that local school boards pay.

Finally, the current leadership must vigorously protect the rights and reputations of those who "blew the whistle" and those who cooperated with the State Commission of Investigation in its inquiry.