



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Combative Sports Commission

Special Review

December 18, 2008

Report 08-36

FINANCIAL AUDIT DIVISION

Centennial Building – Suite 140

658 Cedar Street – Saint Paul, MN 55155

Telephone: 651-296-4708 • Fax: 651-296-4712

E-mail: auditor@state.mn.us • Web site: <http://www.auditor.leg.state.mn.us>

Through Minnesota Relay: 1-800-627-3529 or 7-1-1

Financial Audit Division

The Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division has a staff of forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

The Office of the Legislative Auditor (OLA) also has a Program Evaluation Division, which evaluates topics periodically selected by the Legislative Audit Commission. Reports issued by both OLA divisions are solely the responsibility of OLA and may not reflect the views of the Legislative Audit Commission, its individual members, or other members of the Minnesota Legislature. For more information about OLA reports, go to:

<http://www.auditor.leg.state.mn.us>

To obtain reports in electronic ASCII text, Braille, large print, or audio, call 651-296-4708. People with hearing or speech disabilities may call through Minnesota Relay by dialing 7-1-1 or 1-800-627-3529.

To offer comments about our work or suggest an audit, investigation, or evaluation, call 651-296-4708 or e-mail auditor@state.mn.us.



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

December 18, 2008

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Scott LeDoux, Executive Director
Combative Sports Commission

Members of the Combative Sports Commission

This report presents the results of our special review of the Combative Sports Commission. There were allegations that the executive director used tickets provided by a promoter of a large mixed martial arts event for personal use.

The special review was conducted by Sonya Johnson, CPA (Director of Investigations) and Jerry Foty (Investigator).

We received the full cooperation of the commission's staff while performing this review.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

Table of Contents

	<u>Page</u>
Report Summary	1
Objective, Scope, and Methodology	3
Background Information	4
Conclusion	5
Findings and Recommendations	7
1. The Combative Sports Commission’s executive director and office assistant violated the state’s Code of Ethics when they provided complimentary tickets for a combative sports event to family members and other individuals	7
2. Commission members inappropriately used complimentary tickets to an event regulated by the commission	8
3. The commission did not properly notify licensees about their rights related to private data submitted through the license application process and did not adequately safeguard that private data	9
4. The commission did not adequately secure its website or email communications	10
5. The commission did not have adequate controls over receipts	11
6. The commission did not have adequate controls over payroll	12
7. The commission posted rules for mixed martial arts before completing the legally required rule-making process	13
Combative Sports Commission’s Executive Director Response	17
Combative Sports Commission’s Board Chair Response	23

Report Summary

Conclusion

The Combative Sports Commission's executive director, office assistant, and some commission members inappropriately used tickets given to the commission by an event promoter. The commission did not fulfill its responsibility to establish adequate controls over its financial operations and comply with state laws and policies.

Key Findings

- The Combative Sports Commission's executive director and office assistant violated the state's Code of Ethics when they provided complimentary tickets for a combative sports event to family members and other individuals. ([Finding 1, page 7](#))
- Commission members inappropriately used complimentary tickets to an event regulated by the commission. ([Finding 2, page 8](#))
- The commission did not adequately secure its website or email communications. ([Finding 4, page 10](#))
- The commission did not have adequate controls over receipts or payroll. ([Finding 6, page 12](#))
- The commission did not follow the legally required rule-making process. ([Finding 7, page 13](#))

Scope

Commission operations from July 1, 2006, through October 31, 2008.

Background

The Combative Sports Commission regulates boxing and mixed martial arts events. The Governor appoints the nine-member commission and the commission's executive director.

Combative Sports Commission

The Office of the Legislative Auditor received an allegation that in August 2008 the executive director of the Combative Sports Commission inappropriately used complimentary tickets to a mixed martial arts event given to the commission by the event promoter. Based on our preliminary assessment of the allegation, we expanded our review to include other concerns related to ticket use and the commission's operations. Our review was conducted pursuant to the Legislative Auditor's statutory authority and responsibility to ensure compliance with all provisions of law respecting the appropriate and economic use of public funds.¹

Objective, Scope, and Methodology

We examined the Combative Sports Commission's operations from July 1, 2006, through October 31, 2008, including receipts and expenditures for personnel, payroll, and travel.

Our objective was to address the following questions:

- Did the Combative Sports Commission's executive director and office assistant inappropriately use complimentary tickets to an event regulated by the commission?
- Did commission members inappropriately use complimentary tickets to an event regulated by the commission?
- Did the commission have adequate internal controls for its financial operations?
- Did commission members and employees carry out commission operations in compliance with state statutes and policies?

To answer these questions, we met with three commission members and the commission's executive director and office assistant. We gained an understanding of the controls related to the commission's financial operations. In determining our approach, we considered the risk of errors in the accounting records and potential noncompliance with finance-related legal requirements. We also analyzed accounting data to identify unusual transactions or significant changes in financial operations for further review. In addition, we reviewed selected financial processes and supporting documentation to determine whether the

¹[*Minnesota Statutes*](#) 2007, 3.971, subd. 6.

commission's controls were effective and if the transactions complied with state statutes and policies.

Background Information

The Legislature abolished the Boxing Board in 2001 and reestablished it in 2006. In 2008, the Legislature expanded the board's responsibilities to include the regulation of mixed martial arts events and renamed the board the Combative Sports Commission.² The purpose of the commission is to protect the safety and health of combatants and ensure the fairness of events. The Governor appoints the nine-member commission, which is composed of a retired judge, four members knowledgeable in the boxing industry, and four members knowledgeable in the mixed martial arts industry. The Governor also appoints the commission's executive director. Scott LeDoux has been the commission's executive director since 2006.

Although the original appropriation laws directed the commission to set its fees sufficient to recover its operating costs, the Legislature also gave the commission General Fund appropriations. As a new state entity, and with limited resources, the commission was challenged to initiate its operations in compliance with statutory and state policy requirements. Starting in 2007, the commission had an interagency agreement with the Minnesota Department of Administration's Small Agency Resource Team for financial management, budgeting, and human resources services. Table 1 shows the commission's sources and uses of financial resources.

² The commission operates under [Minnesota Statutes](#) 2007, Chapter 341.

Table 1
Combative Sports Commission
Sources and Uses of Financial Resources
Fiscal Years 2007, 2008, and 2009 (through October 31, 2008)

	Fiscal Years		
	2007	2008	2009
Sources:			
Appropriations	\$ 50,000	\$ 50,000	\$ 80,000
License fee receipts	7,145	54,005	101,004
Transfers in ¹	0	1,315	0
Balance forward in	0	7,145	40,991
Total Sources	<u>\$ 57,145</u>	<u>\$112,465</u>	<u>\$221,995</u>
Uses:			
Payroll and per diem	\$35,340	\$ 59,971	\$ 19,768
Travel	4,516	6,122	609
Other expenditures ²	661	5,381	2,788
Balance forward out	7,145	40,991	0
Cancellations ³	9,483	0	0
Total Uses	<u>\$ 57,145</u>	<u>\$112,465</u>	<u>\$ 23,165</u>
Balance, as of October 31, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$198,830</u>

¹Pursuant to *Session Laws* 2007, Chapter 148, Article 1, Section 31, the commission received a transfer in as a one time carry-forward of unexpended operating balances to use for technology-related needs.

²Other expenditures included general operating costs, such as advertising, printing, rent, and supplies. In fiscal year 2009, other expenditures also included costs related to the state's rule-making process.

³At the end of fiscal year 2007, appropriations not used by the commission cancelled back to the General Fund and were no longer available.

Source: Minnesota Accounting and Procurement System.

Conclusion

The Combative Sports Commission's executive director, office assistant, and some commission members inappropriately used tickets given to the commission by an event promoter. The commission did not fulfill its responsibility to establish adequate controls over its financial operations and comply with state laws and policies.

The following *Findings and Recommendations* further explain the concerns noted above.

Findings and Recommendations

The Combative Sports Commission's executive director and office assistant violated the state's Code of Ethics when they provided complimentary tickets for a combative sports event to family members and other individuals.

Finding 1

In August 2008, a promoter of a mixed martial arts event regulated by the commission gave the commission's executive director and office assistant complimentary tickets to the event. The event was held at the Target Center in Minneapolis and telecast nationwide as a pay-per-view event. At the time, it was the highest grossing event ever held at the Target Center, generating over \$2.2 million in ticket sales. The commission earned a four percent event fee of about \$81,000 on the gross sales net of applicable taxes. Tickets to the event ranged in price from \$52 to \$602.

The executive director distributed 18 complimentary tickets to family members and other individuals at his discretion. In addition, the office assistant gave two other complimentary tickets to members of his family. By distributing the tickets according to their preferences and not to achieve a public purpose, they treated the tickets as a personal gift to themselves from the promoter. As a result, the executive director and office assistant violated [Minnesota Statutes](#) 2008, 43A.38, subd. 2, the state Code of Ethics for Employees in the Executive Branch, which says:

Employees in the executive branch in the course of or in relation to their official duties shall not directly or indirectly receive or agree to receive any payment of expense, compensation, gift, reward, gratuity, favor, service or promise of future employment or other future benefit from any source, except the state for any activity related to the duties of the employee unless otherwise provided by law.

The executive director and office assistant's actions also constituted a conflict of interest under the Code of Ethics. [Minnesota Statutes](#) 2008, 43A.38, subd. 5, says it is a conflict of interest for a state employee to:

(a) use or attempted use of the employee's official position to secure benefits, privileges, exemptions or advantages for the employee or the employee's immediate family or an organization with which the employee is associated which are different from those available to the general public....

It was appropriate for the executive director to obtain free admission for himself and the commission's office assistant because they were performing state regulatory functions at the event. However, it was not appropriate for them to use their position to obtain free admission for anyone that was not associated with the regulatory function of the commission.

Recommendation

- *The Combative Sports Commission's executive director and office assistant should comply with the state's Code of Ethics.*

Finding 2

Commission members inappropriately used complimentary tickets to an event regulated by the commission.

In addition to the tickets to the Target Center event referenced in Finding 1, the event promoter also provided two complimentary tickets for each commission member. Six commission members used the tickets for themselves and members of their families.

Although no law expressly prohibited commission members from accepting and using these tickets, doing so created the appearance of a conflict of interest.³ Accepting and using complementary tickets from the promoter of an event subject to the commission's regulation may prejudice a commissioner's ability to perform his or her regulatory duties.

Several state laws prohibit certain public officials from accepting gifts and other benefits from an individual or business affected by the public official's action; however, as explained in the following bullets, these laws do not specifically apply to commission members:

- *Minnesota Statutes* 2008, 43A.38, the Code of Ethics cited in Finding 1, prohibits executive branch state employees from accepting gifts. This statute does not apply to commission members because they are not state employees; commission members are appointed public officials.
- *Minnesota Statutes* 2008, 10A.071, prohibits certain public officials from accepting a gift or other benefit from a lobbyist. Although commission members are subject to this law, the promoter of the mixed martial arts event was not a lobbyist.

³ *Minnesota Statutes* 2008, 341.28 provides that one member of the commission shall be present at every combative sport contest and make a written report on the contest. Free admittance to an event for this purpose would not constitute a conflict of interest.

- *Minnesota Statutes* 2008, 471.895, prohibits local government officials from accepting a gift from "... a person or association that has a direct financial interest in a decision that a local official is authorized to make." Commission members are not subject to this law because they are state officials, not local government officials.

While these laws do not apply to commission members, they reiterate an important principle: Public officials and employees should avoid situations and circumstances that are or could appear to be in conflict with their public duties and responsibilities, or that provide personal benefit not available to the public. The commission did not have a policy to define and address the resolution of potential conflicts its members may face.

Recommendation

- *The commission should establish a policy that prohibits its members from accepting gifts or other benefits from the people and businesses they regulate.*

The commission did not properly notify licensees about their rights related to private data submitted through the license application process and did not adequately safeguard that private data.

Finding 3

The Combative Sports Commission did not appropriately safeguard private data obtained through its licensing process. The commission's license application form requested information that statutes classify as private, including driver's license numbers and personal medical information. The form did not include the statutorily required notification about how the commission would use this information, the applicant's right to refuse to provide the information, and any consequence of not providing the information.⁴ The executive director stated that he was advised by their legal advisor that this notification was to be on the commission's license applications.⁵

In addition, the commission did not adequately safeguard the private licensee data it obtained. Until March 2008, the executive director conducted the commission's operations out of his home.⁶ Family and visitors to his home may have had inappropriate access to licensee data. After the commission moved its operations to more acceptable office space, it kept license applications in a locked file cabinet at its office and on an unencrypted desktop computer. Neither the file

⁴*Minnesota Statutes* 2008, 13.04, subd. 2.

⁵Based on an interagency agreement, the commission obtains legal advice from an attorney at the Minnesota Department of Labor and Industry.

⁶The executive director stated to us that his budget was not sufficient to allow him to rent appropriate office space. However, the Department of Finance's staff told us he declined available rent-free space because it was not in a location convenient to him.

cabinet nor the desktop computer were in a secure area. The commission's office space was accessible to employees of other organizations and the general public.

State statutes require the commission to protect private data it collects.⁷ The commission had not developed policies or procedures to ensure that it complied with its statutory responsibility.

Recommendations

- *The commission should ensure that it informs licensees about how it will use the private data it collects, the licensee's right to refuse to provide the private data, and the consequence of not providing the information.*
- *The commission should develop and comply with a policy to safeguard private data, as required by statute.*

Finding 4

The commission did not adequately secure its website or email communications.

The commission did not have fundamental information technology controls to protect its website or email communications. The commission did not meet the reasonable expectations of visitors to a state agency's website. The website did not ensure the integrity of its data and did not protect visitors from computer viruses, as explained in the following bullets:

- The commission's website included important information, including lists of licensees and combatants' win-loss records. The website's design did not include basic security features to protect the integrity of this data. Because of these security weaknesses, anyone on the Internet could make unauthorized changes to the data without the commission's knowledge.
- During our review, we learned that the commission's website was infected with malicious software. The software may have attempted to install itself on the computer of anyone who visited certain of the website's pages, including the commission's desktop computer. The Office of Enterprise Technology notified the commission about the website's virus in early November 2008, but the commission did not promptly disable the website.

In addition, the commission did not follow the state's policy for its official email communications.⁸ The commission used several personal email accounts for its official electronic communications. These personal email accounts did not

⁷ *Minnesota Statutes* 2008, 13.05, subd. 5.

⁸ Office of Enterprise Technology CIO Policy 2006-05.

encrypt transmitted data and were not subjected to the state's email security controls. The executive director and the office assistant shared one of the accounts; the executive director's wife also had access to and used this account on the executive director's behalf. The state developed its email policy to protect email messages from unauthorized disclosure and to reduce the risk of computer viruses and other email-based security threats. The policy prohibits state agencies from using nonstate email addresses to conduct official state business and requires that email messages containing not public data be encrypted. The policy also requires a state agency's email messages to flow through and be examined by the state's central email hub managed by the Office of Enterprise Technology.

Recommendations

- *The commission should ensure that its website adequately protects visitors from viruses and protects the website's information from unauthorized changes. It should work with the Office of Enterprise Technology to determine the extent of damage to its website and other electronic resources and identify alternative methods of managing and securing its computer systems and data.*
- *The commission should use state email accounts and comply with the state's email policy. It should have separate email accounts for all staff and prohibit staff from sharing passwords.*

The commission did not have adequate controls over receipts.

Finding 5

The Combative Sports Commission did not adequately safeguard, independently reconcile, or promptly deposit licensing and event receipts. The process lacked the following fundamental internal controls:

- The commission did not adequately safeguard assets before deposit. Funds held at the commission's office were not protected from access by employees of other entities who shared the office space. When commissioners or staff collected receipts at an event, they often took the receipts home with them and did not bring them to the office for deposit until the next week. The commission did not always comply with the statutory requirement to deposit receipts exceeding \$250 daily.⁹
- The commission had not separated incompatible receipt duties and had not developed effective mitigating controls. The commission's office assistant controlled nearly all aspects of the receipt process. He generated

⁹ [*Minnesota Statutes*](#) 2008, 16A.275.

a spreadsheet of money due to the commission, issued licenses, collected payments, prepared and made the bank deposits, and sent deposit information to the Department of Administration's Small Agency Resource Team accountants who recorded the information on the state's accounting system. Generally, the duties of collecting, depositing, and recording receipts are incompatible. When one person is responsible for all these duties, errors or fraud could occur without detection. Since the commission may not have enough employees to separate these incompatible duties, it needs to design and implement other effective controls to mitigate the risk of loss, theft, or fraud. This could include oversight by commission members or the Department of Administration's Small Agency Resource Team.

- No one independent of the receipt process reconciled receipts collected to the bank deposit or the accounting records.

State policy requires a state agency to develop policies and procedures to ensure that receipts are properly safeguarded, deposited, and recorded in the state's accounting system, and that there is adequate separation of incompatible duties.¹⁰ The commission obtained revenue by licensing combatants, fight officials, and event fees. In fiscal year 2007, commission receipts were approximately \$7,000, which increased to \$54,000 in fiscal year 2008 and \$101,000 in fiscal year 2009 (through the end of October 2008).

Recommendations

- *The Combative Sports Commission should safeguard receipts at its office and when collected at events.*
- *The commission should separate incompatible receipt duties or develop effective mitigating controls to ensure that it deposits all receipts in the bank and accurately records the receipts in the state's accounting system.*
- *Someone independent of the receipt process should reconcile receipts to the bank deposits and the accounting records.*

Finding 6

The commission did not have adequate controls over payroll.

The Combative Sports Commission did not have adequate internal controls for its payroll process. The executive director signed blank timesheets in advance for himself and the commission's office assistant. Each pay period, the office assistant filled out a timesheet for the executive director and for himself. The

¹⁰ Department of Finance Policy 0602-03.

office assistant sent the timesheets to the Department of Administration's Small Agency Resource Team for input into the state's payroll system without review or authorization by the executive director.

State policy requires that employees fill out their own timesheets and report the actual hours worked each pay period.¹¹ The policy also requires that employees' supervisors review and authorize the hours reported by their subordinates. Without these controls, neither the executive director nor the office assistant could substantiate that they actually worked the hours for which they were paid.

The commission also did not verify that the Department of Administration's Small Agency Resource Team accurately input payroll transactions into the state's accounting system. State policy requires agencies to obtain certain payroll reports and verify the accuracy of input hours and any adjustments.¹²

Recommendations

- *The executive director should prepare his own timesheet each pay period to reflect actual hours worked each day.*
- *The executive director should review and authorize the office assistant's timesheet before payment.*
- *The commission should review payroll reports and verify that payroll transactions in the state's accounting system agree with authorized timesheets or other supporting documents.*

The commission posted rules for mixed martial arts before completing the legally required rule-making process.

Finding 7

The Combative Sports Commission posted on its website rules generally referred to as the *Unified Rules for Mixed Martial Arts*. The mixed martial arts community has accepted these rules, and several states have adopted these rules for their regulation of the sport. However, the commission posted the rules on its website without having completed the statutory rule-making process. Although it did take the first step in the rule-making process (in March 2008, the commission published a request for comment in the State Register), it did not advance the proposed rules through the process defined in statute. The rule-making process ensures that state agencies establish rules through a public process that provides opportunity for discussion and debate.

¹¹ Department of Finance Policy PAY 0016.

¹² Department of Finance Policy PAY 0028.

Statutes¹³ state that the commission “must adopt unified rules for mixed martial arts contests.” According to statutory timelines, the commission has until December 31, 2008, to adopt those rules. If it does not meet this deadline, its authority to set rules expires. Without the adoption of enforceable rules, the commission will not be able to effectively protect the health and safety of combatants or ensure that promoters conduct mixed martial arts events fairly and may expose the state to an unnecessary liability risk.

Recommendation

- *The Combative Sports Commission should adopt rules for its regulation of mixed martial arts events in compliance with statutory provisions and the state’s rule-making process.*

¹³ *Minnesota Statutes* 2008, 341.25 (c).

*Following is the response from the executive director
of the Combative Sports Commission*

December 12, 2008

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
State of Minnesota
658 Cedar St.
St Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for the time your office has taken to review the practices of the Combative Sports Commission. We realize that many hours were given by your office in order to reach the conclusions that are contained in your report.

In your cover letter, you state that we could make separate responses, which we have elected to do, since the commission, as it currently exists, has only been on board since December of 2007. As you know, we operated for one year as the boxing commission and in July of 2007, we added the responsibilities of Mixed Martial Arts. The result was an increase in administrative duties that no one had anticipated, and we were grossly understaffed. My wife, to reiterate, had volunteered for the previous year. When MMA was added, my wife was named office administrator as a volunteer, and we needed additional office staff. We had no additional commissioners appointed until 5 months after we had oversight, and most of our original commission had resigned because they did not want to participate in the added responsibility and time commitment that this oversight would mandate. We want everyone to note that we sought to regulate MMA because of the growing popularity, the need for safety for combatants, and realization that without the revenue this popular sport would generate, combative sports oversight in Minnesota would again be gone. With that in mind, we felt that in order for the public to have an accurate perspective, we would craft separate responses.

During those months, I had no commissioners familiar with MMA to ask questions of. Further, during that time, we licensed several times the combatants than had been licensed in the previous year. Add to this mix, this was the first time we were made fully aware of what "rule making" entailed. You see, we thought that since our commission had adopted the ABC rules, we indeed could use them as "rules". Obviously, we were well off the mark and started the process of rule making for boxing just in the nick of time. I stress this, because we had lawyers, a judge, and a legislator on our initial commission. No one on the commission realized that we had to go through a long, expensive and complicated process of rule making to satisfy the state's requirement. If they did know it, no one voiced their concern, nor did anyone at the state level. We learned about rule making in a meeting with the Department of Labor and Industry (DOLI) in November of 2007, and had Ms. Munkel-Olson assigned to our team. She has done a terrific job and along the way has proven over and over to be an extremely credible source of information for our questions. In addition, she has been instrumental in the second stage of rule making that we needed for MMA.

After waiting for 5 months for appointments, we had our first full commission meeting in December of 2007. It is important that the public realize that the sport of MMA had not been regulated previously. Unlike boxing, that has had oversight for decades, MMA had only recently come under regulation and oversight. With its immense popularity and growing market share, most boxing commissions around the country were in the process of regulating it or banning it from their jurisdictions. And even though many communities in Minnesota were going to ban the sport if it was not regulated, some of the participants and managers were resentful of the state's perceived control of "their" sport. This contentiousness only added to the stress of the early days of oversight, especially when we had no help and an extremely busy calendar. Add to this, we had no funding that was adequate for our operation; it was a difficult job to balance.

Finding 1 and 2

In direct response to the statute 2008, 43A.38, subd. 5, as it states that use or attempted use of an employee's official position to secure benefits, and privileges, exemptions or advantages for the employee

We have provided the committee with an email from Mr. Ratner from the UFC, the promoter of the very successful event held at the Target Center. It very clearly states that I did not ever request or ask for any tickets. It also clearly states that I was requested to distribute tickets on their behalf to people that were involved in the sport locally, local celebrities, or other interested parties. I did give tickets to my children that would have not been used. Promoters do not like to have ring side seats vacant for broadcasting purposes, among others. It is common practice in the boxing world for promoters to distribute tickets and the past commission, which I was on for 18 years, was no exception. We always distributed tickets for the promoters and as a commission member we had tickets for our use. Further, it is important to make the public aware that when they see a celebrity enter a venue like the Delahoya versus Pacquiao bout, they did not pay for the seat. They are there for the benefit of the show. We also realize now, that if the promoter had distributed these tickets personally, there would be no issue.

Since we now realize the code of ethics of the state, the commission is in process of formulating a policy for commissioners and staff that will not allow for any tickets to be distributed unless a person is actively involved in working the show or overseeing it as a part of the duties of their position as commissioner. Any tickets that the promoter wishes to distribute must be done on their own and without any input from the commission or staff. But, this does beg the question that if this was a potentially such an egregious offense, why would a new agency not be made of aware of this policy immediately?

Finding 3

We have to comply with the requirements of the ABC which requires certain information be submitted in order to obtain a Federal ID number for boxers. The information that is obtained is submitted to the licensing authority and then destroyed. Medical information

that is collected is maintained in the licensees' file for health and safety reasons. This information is and has always been, in our view, safeguarded. While we do not have it under armed guard, it was in a locked cabinet in our home, which was our first office. Our home has a security system. While it could be breached, it is not likely that this would be what intruders were seeking. Currently, it is in a locked cabinet, in a locked office, in a locked building that has staff patrolling the premises.

We will however, take whatever precautions the committee thinks appropriate and is possible for the owner of the space to provide. Again, the question must be raised; when the state was negotiating and approving the space for the commission, why were these concerns not a part of the equation much less expressed to me?

Finding 4

At several meetings, we discussed email accounts and our web site. At the outset, we established a web site that was mostly informational and contained contact information only. With the additional responsibilities of MMA, we needed to drive people to the site and get them in the habit of using the web site to check results, license status, and to submit their request of licenses online. We did this because we were never made aware of the availability of anything through the state and because we had very limited funds available. The webmaster designed the site for a very nominal fee and the hosting is \$39.99 per month. We have been very open about this. We discussed it at a Finance meeting in August of 2007 and again with the DOLI people in November. We were never made aware of the state's policy of having "secure" email communications. In fact, we were told at the Finance meeting that "just let them do what they are doing. It's too complicated to change it now." The IT people we met with at DOLI did not say anything about the policy or the security requirements. Again, one must ask, Why?

Currently, I am in contact with the web hosting and web master. As of December 12, 2008, I have been assured that the site is indeed secure. Whether this security meets with state approval has not been communicated as yet. Further, if necessary, we will be taking the site down after we have retrieved all the files and will have a site that will meet the requirements of the state. I emphasize that this site was constructed as it has been to save money and relieve the pressure that we were experiencing due to the administrative duty increase that MMA created. But again, one must ask, why is it difficult to inform a new agency of the requirements of email and web site security so problems like this can be avoided?

Finding 5

During the time my wife was the Office Administrator, we had a great system. My wife and our other clerical assistant worked all the shows. They collected fees, when possible, prior to the show but most proceeds were collected at the venue. The money, mostly cash, was posted to our show ticket, a paper receipt was issued if cash was received, and cash was kept in the commission's bank bag. The licensee was posted on the web site so they could verify their money had been properly allocated. In addition, we established an

account for each licensee with all their account information and their renewal date so we could accurately track their license status. We did this because no one made us aware of any better method and of the availability of any state system that already existed. We always removed license revenue from the venue and secured it. Now, we have only one person that is available for this process. And while we have streamlined the process by collecting many of the license fees prior to events, we still have no choice but to collect money at an event. Sometimes, commissioners have to collect money which they turn in to the office the following Monday, which is currently our next business day. We make every effort to safeguard this money, but I admit that sometimes the commissioners may not segregate receipts as carefully as needed. But to date, we have had no one come forward and complain that they paid for a license that is not posted or did not get their license if they complied with all the licensing requirements: fee, clean blood work, pictures and completed application. During the time the office was in our home, we used our copy of Quick Books. After we moved, we purchased our own copy. We made no secret of our procedures. We discussed them openly with our budget people and with the SMART people. If this was not the correct procedure to use, why did we have to wait until now to have the correct information?

We will impress it upon all commissioners that have the responsibility of handling any fees, that it is very important to secure the money and to keep it separate from any of their personal funds. In addition, we have appointed a treasurer for the commission. We will ask that the treasurer make an audit of the commission's receipts and verify the correctness of same.

Finding 6
No response

Finding 7

The rules were posted as "unified rules". I realize the implication was that these were Minnesota rules, but without some guidelines, we would have had a free-for-all at the events. To quote Representative Rukavina it would have been "a bar fight like up at the range." These are the rules that are commonly accepted by the MMA community and are those used in Nevada. And further, if we could not use any rules, why would we not be warned to cease any direct oversight until this process was complete? We are currently in the final stages of formal rule making for MMA. The SONAR has been unnecessarily delayed but is back on track. Ms. Munkel-Olson has finished the needed documents and the finish line is in site.

In conclusion, I liken this process of starting a new agency to being dropped in a cave with no light. We were thrown into the vortex of the state's maze of procedures, statutes, and requirements without any assistance about where to find the answers and needed information. We have been adrift at best and wrong at worst. We apologize for any indiscretion but hasten to add that we likely would not have made the mistakes had we had the information we needed to operate within the guidelines available to us. I am not versed in the processes of the state. I am versed in the combative sports industry. I

suspect that there have been many agencies in the same predicament. Many a state employee veteran will testify that these are not easy waters to navigate. It is an easy response to say that we “should have known,” but I ask you, how? Circular logic is not applicable here. We have gotten as many different answers to the same question as we have had questions. It has been immensely frustrating. People need tools to be successful. Given that, I would heartily recommend that the Office of Administration take up this cause: Be proactive. Write a set of instructions that is idiot proof for new agencies. No one wants to make mistakes, especially when the state’s credibility is on the line. And it is incumbent on the state’s official regulating bodies to assure that agencies not only follow the rules after the fact, but make it possible for the agency to be in compliance from the outset. The state owes it to itself to help their agencies succeed, and not stand back and wait until they fail and say “you should have known.”

Again, we thank your office and look forward to making the necessary adjustments contained in this response. Any further guidance from your agency is welcomed.

Sincerely,

/s/ Scott LeDoux

Scott LeDoux
Executive Director
MN Combative Sports Commission

LAW OFFICES OF
**YAEGER
JUNGBAUER &
BARCZAK, PLC**

December 11, 2008

Mr. James Nobles
Legislative Auditor State of Minnesota
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Robert T. Dolan
Attorney at Law
rdolan@yjblaw.com

Enclosed please find the Combative Sports Commission response to your request for an audit report. I am additionally enclosing an electronic version of this report on a disk.

Paralegal
Colleen Ayd
cayd@yjblaw.com

If you have any questions, please do not hesitate to give me a call. Thank you.

Very truly yours,

Secretary
Tricia L. Olson
tolson@yjblaw.com

YAEGER, JUNGBAUER & BARCZAK, PLC



Robert T. Dolan

RTD/tlo
enclosures

745 KASOTA AVENUE
MINNEAPOLIS, MN 55414

Office: 612/333-6271
Toll Free: 1-800-435-7888
Toll Free: 1-800-243-4253
Fax: 612/333-3610
Website: <http://www.yjblaw.com>



Offices in
Minneapolis,
St. Louis.

December 10, 2008

Mr. James Nobles
Legislative Auditor State of Minnesota
Room 140 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155-1603

Dear Mr. Nobles:

Please accept this letter as the response of the Combative Sports Commission to report you have issued summarizing the results of your review of the Commission.

At the outset it should be noted, which you have, this is relatively new agency operated by nine volunteers and two part time employees. While as you set out this Commission was reestablished in 2006 its current structure and membership has been in place for one year. The Commission has gone from regulating a small number of boxing events a year to regulating over twenty boxing and mixed martial arts events a year. I believe through the course of this year we have improved the service we are performing and been a good representative of the State.

In conformance with the request you made as to the format of our response I will address each Finding. Findings 1 and 2 relative to the Target Center Event can be answered together. Long after the Commission approved this event, in fact a couple of days before the event, the promoter offered a number of tickets to the Commission. Six of the Commissioners as well as the executive director and the office assistant took tickets for family members. Additionally some tickets were given to people instrumental in helping the popularity of mixed martial arts to grow. It is not uncommon for promoters to fill a venue with complimentary tickets. Out of state promoters often need help in identifying the people who are involved in the sport. The executive director served as a conduit for the promoter to distribute most of the tickets. No one believed they were acting unethically. No one overtly used their position to secure these tickets. We understand your concern about this process and recognize you find it to be contrary to Minnesota law. We will not do this in the future. In that regard we as a Commission will continue to try and conduct ourselves in an ethical manner. Our duties, as a Commission, require us to attend all the combative sport events. We believe the promoter must provide Commission members access to the events. As to access to anyone other than Commission members we have a policy wherein we will not accept free tickets to events for family or friends. We also will not accept anything that might be construed as a gift, from the people and businesses we regulate. This is a Commission policy and all members are expected to comply.

In the first paragraph of Finding 3 I believe you are telling us our license application is not in compliance with the Tennessen warning found in Minnesota Statutes 13.04, subd.2. We will include in the application all the information needed to comply with the statute. You also found

the procedure we are using to maintain private data, which is to keep it in a locked file cabinet and in a computer in our office is not secure enough. The undersigned as Chair of the Commission has been in contact with the Assistant Attorney General who is the attorney for the Commission. Together we will change the application to contain the language of the Tennessee bill. We will also look for a place to keep the information in a place you find to be secure. We should be able to change the application in the next thirty days or less. Finding a place for keeping the records may take longer.

Finding 4. Based upon the reading of this finding coupled with the comments made at our meeting we understand the agency's website is not in compliance with state policy. In that regard we will shut down the website we have and work with the Office of Enterprise Technology to create the appropriate website and email account. We will shut down the current website immediately and not open it again until the proper security measures have been implemented. The Executive Director and office assistant will follow up on this finding.

Finding 5. All of the events we regulate are held on weekends. We usually collect most of the funds at least a week before the event and they are deposited immediately. We do collect some funds on the day of the event. Our policy now will be that whoever collects the funds will put them in a bank bag or envelope and lock them away until the Monday after the event when they will be turned over to the office assistant. The office assistant will make the deposit of these funds forthwith. The Commission has a treasurer who henceforth will provide oversight of the office assistant's fiscal duties.

Finding 6. The Executive Director and the office assistant will prepare their own time sheets each pay period. The Executive Director will review the office assistant's sheet before payment. The treasurer will review payroll reports and verify payroll transactions agree with time sheets and supporting documents.

Finding 7. The Commission has been working, over the course of this last year, with an attorney from the Department of Labor and Industry to ensure we are in compliance with our rule making mandate in a timely and appropriate manner. It is my understanding the process is ongoing and we are in compliance with all statutory provisions. The appropriate documents have been submitted to the appropriate agencies and the Governor has granted permission for the Commission to publish mma rules..

Very truly yours,

/s/ Robert T. Dolan

Robert T. Dolan