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District of Columbia Sports and Entertainment Commission's Contracting, Procurement, and Spending Practices Characterized by Mismanagement, Noncompliance, and Inadequate Internal Controls

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EXECUTIVE SUMMARY

PURPOSE

Pursuant to a request from Council Chairman Linda W. Cropp and Public Law 93-198 Section 455, the District of Columbia Auditor examined the accounts and operations of the District of Columbia Sports and Entertainment Commission (DCSEC) for fiscal years 1999 through 2003, as of January 31, 2003. This report focused on DCSEC's contracting, procurement, and spending practices.

CONCLUSION

The District of Columbia Sports and Entertainment Commission (DCSEC) Board and management failed to ensure prudent financial decision making, compliance with laws and regulations, and the implementation of adequate and effective internal controls over its contracting, procurement, and spending practices.

The Auditor's review of DCSEC's accounts and operations revealed that spending outpaced revenues during fiscal years 1999 through 2002. Between fiscal years 1999 and 2002, DCSEC's revenues grew an average of 49% while expenditures increased by approximately 80%. As a result, DCSEC ended the past four fiscal years with combined total operating losses of \$9.8 million. The losses were fueled by significant increases in spending on outside services, professional services, insurance, advertising and promotions, and development. According to DCSEC management officials, the increased spending reflected DCSEC's commitment to attract major league baseball to the District, its bid for the 2012 Olympics, and various other events. Numerous professional services contracts were negotiated to further these commitments as well as to support other events. Additionally, DCSEC's management incurred significant travel and entertainment expenses, and funded several unplanned capital projects during this period including repaving of Parking Lots 6 and 7 in connection with the Grand Prix auto race.

An examination of DCSEC's procurement of goods and services during fiscal years 1999 through 2003, as of January 31st, revealed that a lack of effective Board and management oversight, inadequate or nonexistent internal controls, in addition to a flawed procurement and contracting process facilitated circumvention of applicable laws, regulations and rules; costly noncompetitive

procurement practices; and a lack of management accountability. The Auditor found that management awarded contracts without Board knowledge, scrutiny, or prior approval. The Auditor also found the following deficiencies with regard to DCSEC's procurement activities: (1) the DCSEC Chief Financial Officer also acted as the Commission's in-house legal counsel and contracting officer for certain transactions; (2) DCSEC's management executed a contract above \$1 million without obtaining prior approval from the Council of the District of Columbia; (3) the competitive bidding process used by DCSEC management did not appear to promote fair and open competition; (4) \$1.3 million in contracts in excess of \$50,000 were awarded without prior Board approval; (5) \$931,151 in contracts for consulting services were awarded on a sole source noncompetitive basis or without prior Board scrutiny and approval; and (6) sole source contracts were awarded without adequate, documented justification or support.

DCSEC's recordkeeping system and practices were grossly insufficient. In reviewing DCSEC's contract files, credit card records, disbursement records and various other documentation supporting procurement, travel, hospitality and other operational expenses the Auditor found that: (1) files were incomplete and not organized in any discernible order; (2) key contract information was not consolidated in a single file or in some logical order; and (3) documentation for procurement and credit card transactions including travel, entertainment and hospitality expenses was missing or inadequate.

The Auditor found that during fiscal years 2000 through 2003, as of January 31, 2003, DCSEC management engaged in spending that appeared to be excessive and/or unnecessary, given DCSEC's unsound financial position. The Auditor identified expenditures totaling \$1.1 million during the audit period that appeared excessive and/or unnecessary including: (1) \$682,759 in expenditures for outside legal services; (2) \$62,689 in expenditures for employee travel; (3) \$43,217 in expenditures for entertainment and hospitality; and (4) \$355,500 in disbursements for sponsorships and contributions. The Auditor found that DCSEC's Board failed to ensure appropriate oversight of management's financial management and spending practices. Further, the Executive Director of DCSEC made financial commitments on behalf of DCSEC without adequately assessing the potential overall financial risk and impact on the Commission. In his stewardship of DCSEC, the Executive Director did not: (1) regularly monitor budget, revenue, and expenditure patterns; (2) investigate variances between budget, revenues, and expenditures; and (3) take appropriate timely corrective actions. As the disparity between budget, revenues, and expenditures grew more pronounced, management's response was not to trim spending and raise revenues. Instead,

management made the injudicious decision to raid DCSEC's investment funds and maintain a pattern of undisciplined spending.

DCSEC's executive leadership authorized the expenditure of \$14,533 to send the Mayor of the District of Columbia, the Mayor's wife, two DCSEC Board members, and five DCSEC staff members to the Major League Baseball All Star Game in Atlanta, Georgia during July 2000. According to DCSEC management, the purpose of this trip was to help promote bringing major league baseball back to the District of Columbia. The Auditor is concerned that there is no reasonable basis upon which it can be determined whether this expenditure materially benefitted the District's efforts to obtain a major league baseball team, or that the expenditure was beneficial to DCSEC's mission. Further, there is reason to question the necessity and reasonableness of underwriting the cost of five DCSEC employees' expenses for this activity, as well as the legitimacy of paying the expenses of the Mayor's wife, which are not the financial obligation of the District government or DCSEC.

Finally, the Auditor found that DCSEC's Executive Director failed to adopt, implement, and enforce policies and procedures governing accountability for the use of corporate credit cards issued to DCSEC's Executive Director, CFO, Armory Manager, and Facilities Manager for operating expenditures. During fiscal years 2001 through 2003, as of January 31st, the Auditor found credit card payments totaling approximately \$81,339.42. The Auditor found that of the \$81,339.42 in credit card expenditures, \$1,648.35 were related to charges that appeared to be personal purchases made by DCSEC's Executive Director and Armory Manager during fiscal years 2001 through 2003, as of January 31, 2003. At least \$11,372.07 in credit card payments were made without supporting documentation explaining the purpose of each expenditure and its relationship to DCSEC.

DCSEC must implement strong internal controls over its contracting, procurement, and spending, and exercise effective management control over expenditures to ensure the financial viability of the Commission in the future.

MAJOR FINDINGS

1. Inadequate internal controls facilitated non-compliance with procurement laws, policies and procedures.

2. DCSEC's recordkeeping practices were insufficient.
3. DCSEC's management engaged in excessive and/or unnecessary spending during fiscal years 2000 through 2003, as of January 31, 2003.
4. DCSEC spent \$14,533 to send the Mayor and DCSEC staff to the major league baseball game in Atlanta during fiscal year 2000.
5. DCSEC management failed to adopt policies and procedures governing the use of credit cards.

MAJOR RECOMMENDATIONS

1. With regard to the employee serving in the capacity of chief financial officer, in-house legal counsel, and contracting officer, the Board of Directors should immediately ensure that these three functions are not administered under any circumstances by the same employee. The Board of Directors, through its Personnel Committee, should use a competitive recruitment and selection process to identify qualified, competent candidates who possess an adequate mix of governmental and private sector expertise appropriate to the requirements of DCSEC's legal, financial, and procurement operations.
2. The DCSEC Board of Directors and management comply with District laws requiring the submission of Sports and Entertainment Commission contracts in excess of \$1,000,000 to the Council of the District of Columbia for review and approval. Contracts that DCSEC classifies as event services are not exempt from this requirement.
3. DCSEC's Board of Directors, through the Contracting and Procurement Committee, revise current procurement regulations to address deficiencies related to small purchases, competitive bidding, and sole source procurements, including specific provisions to govern contracts for consulting and expert services and the use of retainer agreements and retainer fees.

4. DCSEC's Board of Directors, through the Contracting and Procurement Committee, hold the Executive Director accountable for the development of more comprehensive procurement procedures governing small purchases, including implementing a requirement for a minimum of three quotes for all small purchases above a specific dollar threshold to ensure fair and competitive procurement practices.
5. DCSEC's Board of Directors, through the Committee on Contracting and Procurement, identify specific requirements for and documentation to be maintained by management in the solicitation and evaluation of proposals submitted through the competitive bidding process.
6. DCSEC's Board of Directors must exercise more extensive and effective oversight of DCSEC's procurement and contracting activities; establish policies and procedures that ensure the Board's scrutiny and approval of contracts exceeding \$50,000 before management awards such contracts; and require management's strict adherence to requirements under DCSEC's procurement regulations with regard to the award of sole source contracts.
7. DCSEC's Board of Directors hold the Executive Director accountable for the development and implementation of an adequate effective record keeping system for the maintenance of contract files, credit card records, disbursement records, and various other documents that support all operational expenses.
8. DCSEC management immediately terminate all agreements with private law firms in that these agreements were based on a noncompetitive procurement process that lacked integrity and created the appearance of preferential treatment.
9. DCSEC's Board of Directors and Executive Director conduct a study to determine whether it is cost effective to employ an optimally sized full-time legal staff, use the legal resources of other District agencies such as the Office of the Corporation Counsel on a short-term or temporary basis, contract out only specified types of legal work, or contract out all legal work to a private law firm based upon the use of a competitive procurement process. In the meantime, when DCSEC lacks the requisite legal resources or expertise in-house, it should seek to utilize the legal expertise of the District's Office of the Corporation Counsel, under a cost reimbursement

arrangement, on a temporary or short-term basis before it procures outside legal counsel.

10. In procuring legal services, DCSEC must use a competitive procurement process that is fair, open, and well-documented. Further, the competitive process used must ensure that quality legal services are obtained at a reasonable price.
11. DCSEC's Board of Directors and Executive Director prepare written guidelines, approved by a majority of the Board of Directors, which set forth:
 - (a) the criteria for deciding whether to seek outside legal counsel; and
 - (b) criteria and procedures regarding the type of legal work to be obtained from outside legal counsel, the specific agency official authorized to request legal services from a legal services contractor, cost control measures, and monitoring the quality of services rendered.
12. DCSEC's Executive Director exercise effective management control over the authorization of travel at DCSEC's expense to ensure that it is necessary, economically priced, fully documented, and directly related to DCSEC's core mission.
13. DCSEC's Board of Directors establish a policy regarding the expenditure of DCSEC funds by the Executive Director and any other DCSEC employee for entertainment and hospitality expenses. The policy should, at a minimum, include a requirement for a written justification to be submitted to and approved by a majority of the Board of Directors prior to the obligation of DCSEC funds to pay the expense. The failure to comply with this policy and procedure should result in the accountable employee being held personally liable for reimbursing the expenditure to DCSEC.
14. DSCEC's Board of Directors and Executive Director should discontinue the practice of sponsoring events and making contributions for various projects until the organization's financial position improves. Further, the Board of Directors should consider establishing a policy and procedures which govern the use of DCSEC funds

to make contributions to or sponsor events presented by other organizations, when such activities fall outside of DCSEC's grant award process.

15. DCSEC's Executive Director and former Facilities Manager immediately reimburse DCSEC for personal expenditures charged to the corporate credit card totaling \$818.68. If these reimbursements are not made within 15 days of the date of this final report, the amounts should be deducted from each manager's salary payments until fully repaid.
16. DCSEC's Executive Director immediately cancel all corporate credit cards issued in DCSEC's name, or the names of its employees if DCSEC is ultimately responsible for paying the bills, and provide the Auditor with evidence of the cancellation within 15 days of the date of this report.
17. Each manager responsible for expenditures that are not supported by adequate or any documentation must repay these expenditures to DCSEC within 60 days of the date of this report, unless adequate original supporting documentation can be provided. If these officials fail to provide adequate original documentation to support each expenditure and fail or refuse to repay these charges to DCSEC, the Auditor will refer this matter to appropriate law enforcement authority for further investigation and the Office of Corporation Counsel to initiate the appropriate civil action to recover these funds. At a minimum, the Executive Director must substantiate or repay \$8,938.89; the Armory Manager must substantiate or repay \$291.37; and the Chief Financial Officer must substantiate or repay \$2,141.81.
18. DCSEC's Board of Directors establish a specific policy and process regarding the criteria that must be used to determine the necessity for corporate credit cards to be issued in DCSEC's name, in addition to the criteria that will be used to determine which DCSEC employees will be assigned credit cards; expenditure limits for each card; the types of purchases that cards may be used to make; regular specific reports that must be filed with the Board concerning expenditures made with all credit cards issued to DCSEC employees including the Executive Director; a requirement that the Executive Director develop complete policies and procedures regarding credit card usage that must be adhered by DCSEC employees under his management control;

and specific accountability measures that will be applied by the Board for any failure of the Executive Director to comply with the Board's policy and procedures.

19. The DCSEC official who authorized the disbursement of \$2,315 for the purchase of first class air fare for the Mayor and his spouse must reimburse DCSEC for this improper expenditure of public funds.
20. The DCSEC official who authorized the disbursement of \$1,116 to the campaign to Re-elect Bill Campbell reimburse DCSEC for this improper expenditure of public funds.

PURPOSE

Pursuant to a request from Council Chairman Linda W. Cropp and Public Law 93-198 Section 455, the District of Columbia Auditor examined the accounts and operations of the District of Columbia Sports and Entertainment Commission (DCSEC) for fiscal years 1999 through 2003, as of January 31, 2003. This report focused on DCSEC's contracting, procurement, and spending practices.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the audit was to determine whether DCSEC's contracting, procurement, and spending were carried out in accordance with applicable laws, rules and regulations.

The review focused on fiscal years 1999 through 2002. In some cases the audit period was extended to include fiscal year 2003 as of January 31, 2003.

To accomplish the objectives, the Auditor reviewed D.C. Law 10-152 entitled, "Omnibus Sports Consolidation Act of 1994"; D.C. Law 10-115 entitled, "Omnibus Sports Consolidation Amendment Act of 1998"; D.C. Code, Sections 3-1401 through 3-1419; Title 19, Chapters 27 through 34 of the District of Columbia Municipal Regulations; audited financial statements for the period under audit; event schedules; management reports; DCSEC personnel rules; Board minutes; cash receipts and disbursement journals; contracts; contract files; expenditures and supporting documentation; and bank and investment account statements.

BACKGROUND

District of Columbia Law 10-152, the "Omnibus Sports Consolidation Act of 1994," established the District of Columbia Sports and Entertainment Commission, effective August 23, 1994, to consolidate the non-military functions of the D.C. Armory Board (Armory), the Robert F. Kennedy Memorial Stadium (the Stadium), the District of Columbia Commission on Baseball, and the non-regulatory functions of the District of Columbia Boxing and Wrestling Commission. The DCSEC was established as a corporate body and instrumentality of the District of Columbia government.

The DCSEC is authorized to perform the following responsibilities, among others:

- Promote the District as a location for holding sporting events to enhance the District's economic development;
- Provide community outreach and grassroots recreation for all District residents, especially children;
- Coordinate and develop construction and implementation of new facilities and related infrastructure as well as the improvement of existing facilities in the District;
- Manage and maintain facilities in the District which already exist and any new construction by the D.C. Sports and Entertainment Commission; and
- Promote, market, and participate in sports events in the District.

The DCSEC's Board of Directors consists of 11 members. Eight (8) members are appointed by the Mayor with the advice and consent of the Council of the District of Columbia, and three (3) ex-officio members. The three members who serve ex-officio include an official designated by the Mayor, the Chief Financial Officer of the District of Columbia, and the Director of the District's Department of Parks and Recreation. Board members serve a 4-year term, except ex-officio members, and may be compensated at a rate equivalent to the highest step of a grade 15 in the District service. During fiscal years 1999 through 2003 as of January 31, 2003, none of the Board members received compensation.

D.C. Code, Section 3-1405, states, in relevant part, the following:

- (a) The Board shall appoint an Executive Director who shall serve as the chief executive officer of the Sports and Entertainment Commission. The Executive Director shall be an employee of the Sports and Entertainment Commission...and shall receive such compensation as shall be fixed by the Board.
- (b) In addition to any other duties set forth in this chapter, the Executive Director shall:

- (1) Direct and supervise the administration and management of the Sports and Entertainment Commission, and direct the affairs and activities of the Sports and Entertainment Commission, in accordance with policies, rules, and regulations of the Sports and Entertainment Commission;
- (4) Approve all accounts for salaries, per diem payments, and allowable expenses of the Sports and Entertainment Commission and its employees and consultants, and approve all expenses incidental to the operation of the Sports and Entertainment Commission;

Throughout this report, the Auditor will refer to the chief executive officer of the Sports and Entertainment Commission as the Executive Director rather than president and Executive Director in that there is no provision in the Sports Commission Law, by-laws, or personnel regulations regarding the position or title of president.

DCSEC's Spending Outpaced Revenues During Each of the Four Fiscal Years Under Review

The Auditor's review of DCSEC's accounts and operations revealed that spending outpaced revenues during fiscal years 1999 through 2002. Between fiscal years 1999 and 2002, DCSEC's revenues grew an average of 49% while expenditures increased by approximately 80%. As a result, DCSEC ended the past four fiscal years with combined total operating losses of \$9.8 million.

Losses were fueled by significant increases in spending on outside services, professional services, insurance, advertising and promotions, and development. According to DCSEC management officials, the increased spending reflected DCSEC's commitment to attract major league baseball to the District, its bid for the 2012 Olympics, and various other events. Numerous professional services contracts were awarded to further these commitments as well as to support other events. Additionally, DCSEC's management incurred significant travel and entertainment expenses, and funded several unplanned capital projects including repaving Parking Lots 6 and 7 in connection with the Grand Prix auto race. Table I presents a comparison of DCSEC's operating revenues and expenses for fiscal years 2001 through 2002.

TABLE I
Comparison of DCSEC's Operating Revenues and Expenditures:
Fiscal Years 2001-2002
(dollars presented in thousands)

Category	FY 2001	FY 2002	Variance
<i>Operating Revenues</i>			
Rental	\$2,118	\$2,346	11%
Event Services	1,476	1,830	24%
Ticket Sales	35	41	17%
Commissions	1,764	1,358	-23%
Advertising and Sponsorship	474	265	-44%
Parking	1,282	1,136	11%
Ancillary Sales	6	0	-100%
Other Income	202	525	160%
Co-Promoted Events	0	0	0%
Miscellaneous	0	0	0%
TOTAL REVENUE	\$7,357	\$7,501	2%
<i>Operating Expenditures</i>			
Personnel	\$4,908	\$4,397	7%
Outside Services	1,343	1,949	45%
Equipment and Supplies	364	409	12%
Repairs and Maintenance	430	451	5%
Utilities	710	583	-18%
Advertising and Promotions	144	176	22%
Development	6	365	5,983%
Professional Services	348	695	100%
Administration	306	319	4%
Technology	232	297	28%
Insurance	183	363	98%
Grants	178	177	-1%
Depreciation	1,171	1,414	21%
Other	54	51	-6%
TOTAL EXPENDITURES	\$9,567	\$11,646	22%
NET OPERATING PROFIT (LOSS)	(\$2,210)	(\$4,145)	88%

Source: DCSEC Audited Financial Statements

FINDINGS

INADEQUATE INTERNAL CONTROLS FACILITATED NON-COMPLIANCE WITH PROCUREMENT LAWS, POLICIES AND PROCEDURES

The Auditor's examination of DCSEC's procurement of goods and services during fiscal years 1999 through 2003, as of January 31st, revealed that a lack of effective Board oversight, inadequate or nonexistent internal controls, and a flawed procurement and contracting process facilitated: (1) circumvention of applicable laws, regulations, and rules; (2) costly noncompetitive procurement practices; and (3) a lack of management accountability. The Auditor also found that management awarded contracts without Board knowledge, scrutiny, or prior approval.

D.C. Code, Section 3-1407(a)(12), states:

(a) The Sports and Entertainment Commission shall have the power to:

(12) Adopt policies, rules and procedures governing its procurement of goods and services, notwithstanding Unit A of Chapter 3 of Title 2.

Pursuant to this provision, DCSEC was granted independent procurement authority. On September 24, 1998, DCSEC adopted procurement rules and regulations. The regulations adopted by DCSEC cover the following types of procurements: purchase orders (not to exceed \$25,000); small purchases (not to exceed \$100,000); formal solicitations (competitive bidding required for procurements exceeding \$100,000); sole source procurements (awarded where there is a reasonable basis); and emergency procurements (unanticipated occurrence demanding immediate action).¹

In addition to the requirements noted above, all procurements reasonably expected to exceed \$50,000 must be approved by DCSEC's Board.² Further, 19 DCMR, Chapter 28, Section 2801 designates the Executive Director as the Chief Contracting Officer (CCO) and grants the Executive Director the authority and responsibility to administer DCSEC's procurement process.

¹The rules adopted by DCSEC do not apply to the booking and scheduling of events at Commission facilities (see Title 19 DCMR, Chapter 28, section 2800.4).

²Title 19 DCMR section 2706.4

Although granted independent procurement authority, DCSEC's enabling legislation did not provide any guidance on the development of its procurement system or compliance with minimum procurement standards. To ensure accountability and integrity, DCSEC management, at a minimum, should conduct its procurement operations in a manner that: promotes the public's confidence in the integrity of the procurement process; results in the maintenance of appropriate documentation of the complete history of each procurement transaction; and ensures compliance with applicable laws, regulations, and rules. The Auditor found the following deficiencies with regard to DCSEC's procurement activities:

1. the DCSEC Chief Financial Officer also acted as the Commission's in-house legal counsel and contracting officer for certain transactions;
2. DCSEC executed a contract in excess of \$1 million without approval from the Council of the District of Columbia;
3. the competitive bidding process used by DCSEC management did not promote fair and open competition;
4. contracts in excess of \$50,000 were awarded without prior Board approval;
5. contracts for consulting services were awarded on a sole source noncompetitive basis or without prior Board scrutiny and approval; and
6. sole source contracts were awarded without adequate, documented justification or support.

DCSEC's Current Chief Financial Officer (CFO) Also Serves as Its In-House Legal Counsel and Contracting Officer

DCSEC's current CFO also serves as its in-house legal counsel and chief contracting officer. The Auditor found cause for concern with this arrangement in that it undermines the system of checks and balances that should exist through the segregation of these duties. Administering the financial and procurement affairs of DCSEC under this arrangement facilitates the undetected circumvention of rules

and regulations, invites fraud, waste, and abuse, and raises questions regarding the integrity and fairness of DCSEC's financial and procurement operations.

According to data reviewed by the Auditor, this employee is assigned the following duties and responsibilities:

1. analyzing DCSEC's financial performance;
2. managing DCSEC's accounting function, including establishing, reviewing and implementing accounting and procurement practices, guidelines and procedures;
3. negotiating, drafting, reviewing, and analyzing, from a legal, financial and business perspective, documents and information relating to the Commission's events, advertising, procurement, and other activities; and
4. serving as in-house legal counsel, including identifying and analyzing the legal implications of DCSEC's activities; and communicating and working with DCSEC's outside counsel on legal issues affecting DCSEC.

DCSEC's Management Executed a Contract Valued at More Than \$1 Million Without Obtaining Prior Approval From the Council of the District of Columbia

The Auditor found that DCSEC's executive leadership awarded a \$1.2 million contract to Sudden Impact Entertainment for Fright House design and set production without obtaining approval from the Council of the District of Columbia.

In accordance with Public Law 104-8, the District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995, Section 304(b)1:

No contract involving expenditures in excess of \$1,000,000 during a 12-month period may be made unless the Mayor submits the contract to the Council for its approval and the Council approves the contract (in accordance with criteria established by act of the Council)

Further, on May 10, 1996, the District of Columbia's Office of Corporation Counsel issued an opinion at the request of the General Counsel of the Council of the District of Columbia regarding whether Council review was required for proposed contracts of independent agencies in excess of \$1 million during a 12-month period. The Corporation Counsel's opinion stated, in relevant part, the following:

After weighing the various arguments and considering the language of the Self-Government and FRMA Acts, their purpose, structure, and legislative history, I conclude that Congress intended that the Council review the proposed contracts of all District government entities, including executive independent agencies like the Washington Convention Center Authority, that exceed one million dollars during a 12-month period (hereafter "covered contracts").

Finally, D.C. Code, Section 2-301.05a states that pursuant to Section 1-204.51, prior to the award of a multiyear contract or a contract in excess of \$1,000,000, during a 12-month period, the Mayor (or executive independent agency) shall submit the proposed contract to the Council for review and approval in accordance with criteria established in this section.

DCSEC's executive leadership awarded the above identified contract without obtaining approval from the Council of the District of Columbia as required by law. As a result, the Auditor found that DCSEC management violated D.C. Code, Section 2-301.05a by entering into a contract in excess of \$1 million without first obtaining Council approval.

DCSEC's Procurement Process Did Not Promote Fair and Open Competition

Under 19 DCMR, Chapter 28, Section 2804.1, competitive bidding is required whenever a contract for goods and services is reasonably expected to exceed \$100,000. Further, Section 2804.2 states the following:

As used herein, the term "competitive bidding" shall mean the employment of such procedures, requirements and techniques as will result in fair and reasonable competition among suppliers, equality of opportunity, optimal pricing and quality, and maximization of the best interest of the Commission.

The Auditor found that DCSEC management failed to maintain sufficient documentation to demonstrate that contract awards exceeding \$100,000 were based on a fair and open competitive process. Of the 13 contracts DCSEC awarded under the competitive bidding process during fiscal years 2002 through 2003, as of January 31st, the Auditor was provided bid review documentation for only one contract. Although DCSEC management was able to provide actual proposals received from vendors in response to two additional request for proposals (RFPs), they could not provide documentation of the proposal/bid evaluation criteria or selection process used. In the absence of sufficient supporting documentation, there was no assurance that DCSEC management used a credible competitive process in awarding contracts.

For example, during a Board meeting held on September 25, 2001, the Board Chairperson informed Board members that a search had been conducted to identify a law firm to provide legal services to DCSEC. Further, the Chairperson recommended that DCSEC enter into an agreement with a particular law firm to provide legal services because it was the only firm willing to provide free or discounted time. During the same Board meeting, two Board members raised concerns that the Chairperson failed to follow procurement guidelines in the decision to select this particular law firm and recommended the issuance of a formal solicitation prior to awarding a contract for legal services. During October 2001, DCSEC management issued a RFP for legal services. On February 6, 2002, DCSEC awarded the contract for legal services to the law firm initially recommended by the Board Chairperson on September 25, 2001. (See Minutes of September 25, 2001 Meeting in Appendix IV) With regard to this contract award, DCSEC management failed to provide the Auditor with documentation to support the use of a credible competitive procurement process. It appears that DCSEC management used a process designed to culminate in the award of this contract to the law firm first recommended by the Board Chairperson. Further, disbursement information revealed that the law firm had been providing services without a contract and actively billing DCSEC since December 31, 2000, long before the Board Chairperson recommended the law firm to the Board as a legal services contractor on September 25, 2001. Between fiscal years 2000 and 2003, DCSEC paid the law firm a total of \$518,199.

The manner in which the contract was awarded suggests that the law firm selected to provide legal services received preferential treatment. This finding is further corroborated in a report on DCSEC procurement issued by the District of Columbia Office of the Chief Financial Officer. The report included a finding that DCSEC's contracting practices with respect to competitive bidding did not promote equal opportunity, citing DCSEC management's practice of contacting vendors from

previous engagements to request them to submit proposals instead of advertising bids or using other methods to promote an open, fair, competitive procurement process.³ DCSEC officials further acknowledged allowing certain law firms to gain insight and expertise in specific areas of DCSEC's operations and permitting these firms to compete with other firms that were not afforded the same advantage.

DCSEC's current regulations do not set forth specific minimum requirements that must be met in soliciting and evaluating bids and proposals. In fact, DCSEC has not developed and implemented sufficient internal procedures governing any of its procurement activities, although 19 DCMR, Chapter 28, Section 2801 assigns the responsibility for the development of such procedures to the Chief Contracting Officer.

DCSEC Management Awarded \$1.3 Million in Contracts Over \$50,000 Without Board Approval

As noted previously, DCSEC's by-laws state that all contracts and procurements expected to exceed \$50,000 must be approved by the Board prior to the contract award or the acquisition of goods and services. The Auditor found that DCSEC management failed to obtain the Board's prior approval for 11 contracts totaling \$1.3 million. Most of the contracts presented in Table II were reported by the Executive Director to the Board during a meeting held on July 26, 2001, well after the contracts were awarded and funds were expended. The minutes from the Board meeting held on July 26, 2001 also indicate that several Board members raised concerns about management's failure to obtain the Board's approval before awarding the contracts, implementing the capital improvements presented in Table II, and using investment funds to pay for the projects. Additionally, several Board members expressed the view that the Board's authority with respect to major spending decisions needed to be clarified.

³See Office of the Chief Financial Officer, Office of Integrity and Oversight. *Final Report on Review of Contracting Practices of the D.C. Sports and Entertainment Commission for FY 01 and First Quarter of FY 02*. July 2002. Pg. 4

TABLE II**Contracts Over \$50,000 Awarded Without Prior Board Approval**

Vendor	Services Provided	FY 01	FY 02	Total
Metro Paving	Island Removal	\$287,047.63	\$23,728.22	\$310,775.85
Mount Vernon Paving	Patching	134,155		134,155
EE Lyons Construction	Slurry Seal	102,896		102,896
SME Power Branding	Logos/Branding	61,600		61,600
Communication Arts	RFK/Armory Signage and Wayfinding Designs	56,317	9,895	66,212
John R. Kirlin, Inc.	Install Supplemental Cooling System for RFK SFX	121,140	18,381	139,521.00
Hickcok Warner Fox	Architects for SFX Sponsor and Lounge Renovations	66,184	995	67,179
E-Technologies	Electrical Contractor for SFX Sponsor and Lounge Renovations	110,920		110,920
CCC Inc.	Carpeting	93,078		93,078
Adsystem Inc.	Office Furniture & Repair	103,654	18,438	122,092
H&R Services	Janitorial Services		60,731	60,731
TOTAL				\$1,269,159.85

Source: DCSEC Financial Systems

DCSEC Procurement Regulations Failed to Set Forth A Procedure for the Award of Consulting Services Contracts

The Auditor found that DCSEC management awarded consulting services contracts totaling \$931,151 in some instances on a sole source, noncompetitive basis while in other instances without obtaining the Board's prior approval. Management was able to award the consulting services contracts on a sole source, noncompetitive basis or without obtaining prior Board approval as a result of deficiencies in the system of checks and balances, deficiencies in DCSEC's procurement regulations, and a culture of management secrecy as reflected, in part, by management's deliberate circumvention of DCSEC's by-law requiring prior Board approval of contracts exceeding \$50,000. In many instances, management claimed that these contracts did not have to comply with DCSEC's procurement rules and

regulations, or were awarded as small purchases based on management's assertion that the costs would not exceed the \$50,000 threshold requiring Board approval. These contracts included a \$160,000 contract awarded to Bavasi Sports Partners, LLP under which a \$10,000 per month retainer fee was paid without the submission of minimal documentation of work performed each month, and a \$377,361 contract awarded to Brotman Winter Fried Communications under which a \$5,000 per month retainer fee plus expenses were paid. Table III presents consulting services contracts awarded by DCSEC management on a sole source, noncompetitive basis or without prior Board approval during fiscal years 2001 through 2003, as of January 31st.

TABLE III

**Consulting Contracts Awarded by DCSEC On a Sole Source,
Noncompetitive Basis or Without Prior Board Approval:
Fiscal Years 2001 through 2003, as of January 31, 2003**

Vendor	Services Provided	FY 01 Expenditures	FY 02 Expenditures	FY 03 Expenditures (as of January 31, 2003)	Total
Five Star Parking	Parking Consulting	\$10,000			\$10,000
MarParc	Parking Consulting	\$34,223			\$34,223
Bavasi Sports Partners, LLP	Baseball Consulting		\$110,000 (\$10,000 per month retainer)	\$50,000	\$160,000
Brotman- Winter-Fried Communications	Public Relations		\$71,099 (\$5,000 per month retainer, plus expenses)	\$306,262	\$377,361
Allsport Productions, Inc.	Event Consulting		\$27,924 (\$5,000 a month retainer plus expenses)	\$10,000	\$37,924
Stephen C. Yaros	Fright House Marketing		\$30,908 (\$10,000 a month plus expenses over a three month period)	\$11,523	\$42,431

Robert Lee Jones, LLC	Facility Development Consulting (Kenilworth Park)		\$24,500 (\$3,500 a month retainer)	\$13,000	\$37,500
City Security	Security Consulting		\$93,300	\$16,390	\$109,690
B-Rob Enterprises	Consulting services related to paving of Grand Prix race track		\$34,740 (\$140 per hour)		\$34,370
Tony Burnett	Facilities Management Consulting		\$16,000 (\$4,000 per month)		\$16,000
Enlightened Inc.	IT Consulting Services			\$71,652	\$71,652
TOTAL					\$931,151

Source: DCSEC invoices and contract agreements

Management failed to disclose to the Board the cost of consulting service contracts exceeding \$50,000 awarded to Bavasi Sports Partners, LLP; Brotman, Winter, Fried Communications; City Security; and Enlightened Inc. on a sole source, noncompetitive basis.

Although the acquisition of expert and consulting services are not addressed in DCSEC's procurement regulations, District procurement regulations set forth in 27 DCMR, Chapter 19, entitled "Contracts for Services," provide guidance on the procurement of expert and consulting services. Specifically, 27 DCMR Chapter 19, Section 1901.2, states that the contracting officer shall determine in writing that contracting for expert or consulting services rather than the use of District employees is in the best interest of the District for one or more of the following reasons: (a) the use of a contract for services is substantially more economical, feasible, or necessary due to unusual emergency circumstances; (b) the services are needed for short periods only or are needed in connection with a specific project that is to be completed within a specified period; or (c) the services are difficult to obtain due to scarcity of skilled personnel or because the services are of a highly specialized nature.

Given the nature of its business, DCSEC may, in some cases, require consulting services for specific short-term projects and events or because the services required are of a highly specialized nature. However, the deficiencies in DCSEC's procurement regulations allow DCSEC management to routinely award consulting services contracts on a sole source, noncompetitive basis without meeting any prescribed standards. For example, the Executive Director of DCSEC executed a letter contract

with Bavasi Sports Partners, LLP to provide baseball consulting services as an exemption under 19 DCMR, Chapter 28, Section 2800.4. The Auditor could not find any basis for this exemption in the Sports Commission Law or DCSEC's procurement regulations. This contractor was paid a \$10,000 per month retainer to provide baseball consulting services. Although this contract was expected to exceed \$100,000, the Auditor found that the contract was not approved by the Board until almost one year and \$110,000 in payments later. The contract for Bavasi Sports Partners, LLP was signed by DCSEC's Executive Director on October 25, 2001. According to minutes from the Board meeting held on November 14, 2002, the Board Chairperson stated that this contract had been previously approved in an executive session of the Board held on September 25, 2001, but the Board's approval was inadvertently omitted from the minutes. The Auditor requested minutes from all Board executive sessions, however, we were informed that DCSEC does not prepare minutes of Board executive sessions. Thus, there is no record to support the Chairperson's assertion that this contract was approved by the Board in executive session on September 25, 2001, or at any other time. Further, official actions of the Board must take place in a public meeting not in executive session.

In addition to the consulting contract with Bavasi Sports Partners, LLP, the Auditor found that DCSEC management entered into retainer agreements with other consultants. Although DCSEC and District procurement regulations fail to set forth a policy and procedures which govern the use and administration of professional and consulting service retainer agreements, the Federal Acquisition Regulations state the following with regard to retainer agreements and retainer fees under retainer agreements:

- (b) Retainer fees, to be allowable, must be supported by evidence that—
 - (1) The services covered by the retainer agreement are necessary and customary;
 - (2) The level of past services justifies the amount of the retainer fees (if no services were rendered, fees are not automatically unallowable);
 - (3) The retainer fee is reasonable in comparison with maintaining an in-house capability to perform the covered services, when factors such as cost and level of expertise are considered; and
 - (4) The actual services performed are documented in accordance with paragraph (f) of this subsection. [Auditor's Emphasis]
- (f) Fees for services rendered shall be allowable only when supported by evidence of the nature and scope of service furnished...[Auditor's Emphasis] However, retainer agreements generally are not based on specific statements of work. Evidence necessary to determine that work performed is proper and does not violate law or regulation shall include—

- (1) Details of all agreements (e.g., work requirements, rate of compensation, and nature and amount of other expenses, if any) with the individuals or organizations providing the services and details of actual service performed;
- (2) Invoices or billings submitted by consultants, including sufficient detail as to the time expended and nature of the actual services provided; and
- (3) Consultants' work products and related documents, such as trip reports indicating persons visited and subjects discussed, minutes of meetings, and collateral memoranda and reports.

The Auditor found that DCSEC's Executive Director authorized payments to Bavasi Sports Partners on the basis of e-mails which did not include any evidence of actual work performed or any other evidence to support Bavasi's requests for payment. There was no supporting documentation from which a determination could be made as to the propriety and legitimacy of the contractor's claim for payment; whether the claims for payment were based on work performed; and, if so, whether the work performed was within the scope of the agreement. The sole source noncompetitive award of this agreement, the failure to obtain the Board's prior approval of this contract, the oral nature of the services, and the lack of sufficient documentation to support payments made to the contractor raises questions regarding the reasonableness and legitimacy of the payments and whether the payments were provided for purposes related to the agreement.

DCSEC Management Violated Procurement Regulations in the Award of Sole Source Contracts

During fiscal years 2001 through 2003, as of January 31st, DCSEC's management awarded six sole source contracts which violated DCSEC's procurement regulations regarding the appropriate use of this procurement method.⁴

In accordance with 19 DCMR Chapter 28, Section 2805.1:

The Commission may award sole source contracts where there is a reasonable basis to conclude that the Commission's needs can only be satisfied by the goods, services, or construction proposed to be procured when the proposed sole source contract is the only source capable of providing required goods, services, or construction.

In accordance with 19 DCMR, Chapter 28, Section 2805.5, for each sole source procurement, the Board must receive a prior written determination of findings statement prepared by management stating that the minimum needs of the Commission can only be met on a sole source basis and that the proposed sole source is the only source capable of providing the required goods, services, or

⁴ The sole source contract awarded to Contemporary Services Corporation did not violate DCSEC procurement regulations.

construction. Further, 19 DCMR, Chapter 28, Section 2805.6 states that the determination of findings statement must contain the following:

- # a description of the Commission's requirement, including estimated cost;
- # an explanation of the unique nature of the procurement;
- # an explanation of the contractor's unique qualifications;
- # a determination that the costs to the Commission will be fair and reasonable; and
- # a description of the market survey conducted, list of potential sources contacted, or explanation for why such a survey or list was not possible.

Further, 19 DCMR, Chapter 28, Section 2805.3 states that sole source procurements cannot be justified solely on the basis of any of the following:

- # lack of time, unless there is a legitimate emergency or when the delays have been determined by the Commission to be excusable;
- # the desire for a particular name brand when others of equal nature are available; or
- # convenience alone.

For five sole source contracts, DCSEC's management failed to provide written determination of findings statements to the Board describing the cost of the procurement, its unique nature, the unique qualifications of the contractor, and a market survey for the goods and services desired as required by Title 19 DCMR, Chapter 28 Section 2805.6. For one contract, DCSEC relied on the representations of a contractor as justification for the sole source award rather than conducting its own independent analysis. The six sole source contracts are presented in Table IV.

TABLE IV

**DCSEC Sole Source Procurements:
Fiscal Years 2001 through 2003, as of January 31, 2003**

Contract	Services Provided	Date Issued	Amount	Justification for Sole Source	
Sudden Impact Entertainment Group	The design, development, and production of Fright House	5/17/01	\$1,170,000	#	no written justification included in contract support documentation
Duraturf	Field Turf	Various	\$120,000	# #	no written justification included in contract support documentation. no evidence of Board approval
Andco	RFK Graphics	5/14/01	\$315,555	#	no written justification provided to the Board and included in contract documentation.
Warren Graves	Consulting Services	9/1/99	\$104,998	# #	no written justification included in documentation no evidence of Board approval
National Events	RFK Sound System Upgrade	3/30/01	\$220,560	# # #	written justification did not contain an estimated cost of procurement, unique qualifications of contractor, or market rates; justification based on recommendation from another contractor providing technology services to DCSEC; no evidence of Board Approval.
Daktronics ⁵	Scoreboard/Video Board Maintenance	4/7/00	\$1,759,771	#	no written justification included in documentation

Source: DCSEC contract files

In the absence of documentation justifying the sole source award of these contracts, there is no assurance that these contractors were not given preferential treatment, that the goods or services were obtained from the only source available, that the goods or services were reasonably priced, and were necessary.

⁵DCSEC officials assert that the Daktronics contract was awarded competitively pursuant to an RFP process and that they received bids from more than one firm. However, DCSEC was unable to produce any supporting documentation either in the form of responses from other firms, or its internal scoring sheets for the Auditors review to support this assertion.

RECOMMENDATIONS

1. With regard to the employee serving in the capacity of chief financial officer, in-house legal counsel, and contracting officer, the Board of Directors should immediately ensure that these three functions are not administered under any circumstances by the same employee. The Board of Directors, through its Personnel Committee, should use a competitive recruitment and selection process to identify qualified, competent candidates who possess an adequate mix of governmental and private sector expertise appropriate to the requirements of DCSEC's legal, financial, and procurement operations.
2. The DCSEC Board of Directors and management comply with District laws requiring the submission of Sports and Entertainment Commission contracts in excess of \$1,000,000 to the Council of the District of Columbia for review and approval. Contracts that DCSEC classifies as event services are not exempt from this requirement.
3. DCSEC's Board of Directors, through the Contracting and Procurement Committee, revise current procurement regulations to address deficiencies related to small purchases, competitive bidding, and sole source procurements, including specific provisions to govern contracts for consulting and expert services and the use of retainer agreements and retainer fees.
4. DCSEC's Board of Directors, through the Contracting and Procurement Committee, hold the Executive Director accountable for the development of more comprehensive procurement procedures governing small purchases, including implementing a requirement for a minimum of three quotes for all small purchases above a specific dollar threshold to ensure fair and competitive procurement practices.
5. DCSEC's Board of Directors, through the Committee on Contracting and Procurement, identify specific requirements for and documentation to be maintained by management in the solicitation and evaluation of proposals submitted through the competitive bidding process.

6. DCSEC's Board of Directors must exercise more extensive and effective oversight of DCSEC's procurement and contracting activities; establish policies and procedures that ensure the Board's scrutiny and approval of contracts exceeding \$50,000 before management awards such contracts; and require management's strict adherence to requirements under DCSEC's procurement regulations with regard to the award of sole source contracts.

DCSEC'S RECORDKEEPING PRACTICES WERE INSUFFICIENT

DCSEC's record keeping practices were grossly insufficient. In reviewing DCSEC's contract files, credit card records, disbursement records and various other documentation supporting procurement, travel, hospitality and other operational expenses, the Auditor found that:

- # files were incomplete and not organized in any discernible order;
- # key contract information was not consolidated in a single file or in some logical order; and
- # documentation for procurement and credit card transactions including travel, entertainment and hospitality expenses was missing or inadequate.

The Auditor found that DCSEC failed to implement an adequate effective record keeping system.

RECOMMENDATION

DCSEC's Board of Directors hold the Executive Director accountable for the development and implementation of an adequate effective record keeping system for the maintenance of contract files, credit card records, disbursement records, and various other documents that support all operational expenses.

DCSEC'S MANAGEMENT ENGAGED IN EXCESSIVE AND/OR UNNECESSARY SPENDING DURING FISCAL YEARS 2000 THROUGH 2003, AS OF JANUARY 31, 2003

The Auditor found that during fiscal years 2000 through 2003, as of January 31, 2003, DCSEC management engaged in spending that appeared to be excessive and/or unnecessary, given DCSEC's

unsound financial position. The Auditor identified \$1.1 million of expenditures made during the audit period that appeared excessive and/or unnecessary in the following categories:

- \$682,759 in expenditures for outside legal services;
- \$ 62,689 in expenditures for employee travel;
- \$ 43,217 in expenditures for entertainment and hospitality;
- \$355,500 in disbursements for sponsorships and contributions.

As noted in the Auditor's report on governance and oversight, DCSEC expenditures significantly outpaced revenues during fiscal years 1999 through 2002 and, as a result, the Commission experienced significant operating deficits in each of those fiscal years. The Auditor found that DCSEC's Board failed to ensure appropriate oversight of management's financial management and spending practices. Further, the Auditor found that DCSEC management developed and submitted to the District faulty budgets that reflected management's inadequate response to a trend of expenditures exceeding budget and actual revenue collections. The Executive Director of DCSEC made financial commitments on behalf of DCSEC without adequately assessing the potential overall financial risk and impact on the Commission. In his stewardship of DCSEC, the Executive Director did not: (1) regularly monitor budget, revenue, and expenditure patterns; (2) investigate variances between budget, revenues, and expenditures; and (3) take appropriate timely corrective actions. As the disparity between budget, revenues, and expenditures grew more pronounced, management's response was not to trim spending and raise revenues. Instead, management made the injudicious decision to raid DCSEC's investment funds, also referred to as reserve funds, and maintained a pattern of spending that could not be sustained by DCSEC's existing revenue generating capacity.

DCSEC Outside Legal Expenditures

During fiscal years 1999 through 2003, as of January 31st, DCSEC incurred \$682,759 in expenditures for legal services provided by law firms. As shown, total legal expenditures increased from \$141,573 in fiscal year 2000 to \$357,111, or by 152%, through fiscal year 2002. Outside legal services were used in a significant number of instances to address issues such as Freedom of Information Act (FOIA) requests and matters involving other District agencies or the D.C. Council. Further analysis indicates that the majority of time billed by the law firms related to the following:

- providing services associated with lawsuits and discrimination complaints filed against DCSEC by former DCSEC employees;
- responding to FOIA requests;
- responding to DC Council inquiries and preparing memoranda to the Council;
- reviewing event-related contracts and agreements with vendors and sports teams;
- providing legal advice regarding DCSEC initiatives (e.g., baseball, National Grand Prix); and
- researching legislation pertaining to DCSEC.

The Auditor found no evidence of an analysis performed by DCSEC management to determine whether it would be more cost effective to employ a full-time optimally sized legal staff and contract out some kinds of legal work, to use the legal expertise of other District agencies such as the Corporation Counsel on a temporary or short-term basis, or to contract out all legal work. Further, the Auditor found no guidelines, criteria, or procedures developed by management to control the type of legal work contracted out, to contain the cost of outside legal services acquired, and to ensure the quality of services rendered. There was no policy that work was to be contracted out only when necessary or only for certain kinds of legal work. Table V presents payments made to law firms during the period under review.

TABLE V
DCSEC Legal Expenditures:
Fiscal Years 2000-2003, as of January 31, 2003

Vendor	FY 2000 Payments	FY 2001 Payments	FY 2002 Payments	FY 2003 Payments	TOTAL
Covington & Burling	\$24,662	\$63,113	\$340,763	\$89,661	\$518,199
Hogan & Hartson	\$116,911	\$11,324	—	—	\$128,235
Patton & Boggs	—	—	\$14,269	—	\$14,269
Crispen & Brenner, PLLC.	—	\$19,977	\$2,079	—	\$22,056
TOTAL	\$141,573	\$94,414	\$357,111	\$89,661	\$682,759

Source: DCSEC invoices for legal services

The Auditor found that DCSEC management injudiciously used outside law firms at expensive hourly rates to handle matters that should have been handled more economically by DCSEC's in-house resources. For example, the Auditor observed one instance in which a lead attorney billing at \$475 per hour, charged DCSEC \$1,187 for attending a Board meeting. Also during fiscal year 2002, the Auditor estimates that the law firm of Covington & Burling billed DCSEC approximately \$63,369 to respond to FOIA requests received from the Washington Post. The Auditor found the use of outside attorneys to perform tasks such as compiling data in response to FOIA requests, researching District laws, researching DCSEC's ability to exempt contracts under District procurement regulations, and preparing memoranda to staff regarding duties related to DCSEC events, an uneconomical use of scarce DCSEC financial resources.

In addition to the functions identified above, the DCSEC CFO estimates that Covington & Burling billed DCSEC \$120,000 for issues related to bringing baseball to Washington, DC, and approximately \$120,000 on issues related to the National Grand Prix.

The Auditor found that the vast majority of expenditures for legal services incurred by DCSEC related to FOIA requests, major league baseball, and the National Grand Prix. These disbursements represented 85% of total DCSEC legal expenditures for 2002. The failure of DCSEC's executive leadership to develop and effectively utilize in-house legal staff and to judiciously select the type of work referred to outside counsel has resulted in a 152% increase in legal expenditures between fiscal years 2000 through 2002.

Employee Travel Expenditures

The Auditor's review of expenditure data revealed that DCSEC managers incurred expenditures totaling \$62,689 for employee travel. (See Appendix I) According to DCSEC internal policy, all employee travel must be pre-approved in writing by the Executive Director, CFO, or the Armory Manager. Additionally, all employees requesting out-of-town travel must complete a Travel Request Form and include an explanation for travel along with the estimated cost, including transportation, lodging, transfers, registration, meals, and any other items.

The Auditor's analysis of DCSEC travel-related expenditures revealed that management failed to exercise sound judgment in the approval of employee travel, especially during fiscal year 2000 when approximately one-half of travel expenditures were incurred. During this period, the Board's Chairperson also functioned as DCSEC's Executive Director. The Auditor identified travel expenditures that appeared to be questionable and/or excessive. For example, DCSEC paid travel costs

totaling \$3,653 for several DCSEC employees to attend the National Basketball Association Allstar game in San Francisco, California. In this instance, there was no discernible relationship between DCSEC's mission and the expenses incurred for these employees to attend the Allstar Basketball Game, particularly when the District of Columbia already had a professional basketball franchise playing in a venue not owned or operated by DCSEC.

DCSEC also paid for the stadium manager and his wife to travel to Honolulu, Hawaii to attend a stadium managers' conference. DCSEC's CFO failed to provide any documentation from which it could be determined whether the stadium manager reimbursed DCSEC for his wife's travel expenses totaling \$861.20. In the absence of adequate documentation that reimbursement was made, the Auditor concludes that the stadium manager never made reimbursement and therefore is responsible for repaying this expenditure to DCSEC.

Entertainment and Hospitality Expenditures

DCSEC paid \$43,217 in entertainment and hospitality expenditures. In many cases, the Auditor was unable to determine whether entertainment and hospitality expenditures were directly related to official DCSEC business. In a significant number of instances, there was no supporting documentation available to support expenditures, thus the Auditor could not determine the relationship of the expenditures to the performance of official DCSEC business or whether public funds were used to pay for legally permissible expenses. For example, DCSEC was billed for and paid \$1,648 to B&B Washington Caterer for food provided to DCSEC, however, the invoice was not available for review. Without this documentation, the Auditor could not determine whether the expenditure was related to a DCSEC business function. Thus, given the absence of documentation to support these and at least \$5,402.14 in expenditures presented in Appendix I, the presumption is that these were not legitimate expenditures in support of DCSEC's mission.

Disbursements were also made to vendors for parties and receptions that were not adequately justified in writing as related to DCSEC's mission. In some cases, charges appeared to be related to official DCSEC business, however, in most cases no nexus could be made. Appendix I presents a detailed listing of all entertainment, travel, and hospitality expenditures that were paid by DCSEC during fiscal years 1999 through 2003, as of January 31st.

DCSEC Sponsorships and Contributions

During fiscal years 2000 through 2003, as of January 31st, DCSEC management sponsored or made contributions to approximately 11 events totaling \$355,500. (See Appendix II) The Auditor found

that disbursements for sponsorships and contributions were made during a period in which overspending and significant operating deficits were incurred.

Although it appears that in most cases the events sponsored or organizations receiving contributions from DCSEC appeared consistent with its mission, DCSEC's Executive Director and Chief Financial Officer failed to make prudent, sound financial decisions by expending funds for such purposes during a time of fiscal instability.

During fiscal year 2002, DCSEC contributed \$10,000 to an event sponsored by the United States Olympic Committee and \$10,000 to the United States Soccer Foundation, \$40,000 for sponsorship of the BB&T Classic basketball game, and \$25,000 to the Chesapeake Region 2012 Coalition to assist the region's efforts to host the 2012 Summer Olympic Games. These sponsorships and contributions were made during a period in which the organization incurred an operating deficit of \$4 million.

RECOMMENDATIONS

1. DCSEC management immediately terminate all agreements with private law firms in that these agreements were based on a noncompetitive procurement process that lacked integrity and created the appearance of preferential treatment.
2. DCSEC's Board of Directors and Executive Director conduct a study to determine whether it is cost effective to employ an optimally sized full-time legal staff, use the legal resources of other District agencies such as the Office of the Corporation Counsel on a short-term or temporary basis, contract out only specified types of legal work, or contract out all legal work to a private law firm based upon the use of a competitive procurement process. In the meantime, when DCSEC lacks the requisite legal resources or expertise in-house, it should seek to utilize the legal expertise of the District's Office of the Corporation Counsel, under a cost reimbursement arrangement, on a temporary or short-term basis before it procures outside legal counsel.
3. In procuring legal services, DCSEC must use a competitive procurement process that is fair, open, and well-documented. Further, the competitive process used must ensure that quality legal services are obtained at a reasonable price.
4. DCSEC's Board of Directors and Executive Director prepare written guidelines, approved by a majority of the Board of Directors, which set forth:
 - (a) the criteria for deciding whether to seek outside legal counsel; and
 - (b) criteria and procedures regarding the type of legal work to be obtained from

outside legal counsel, the specific agency official authorized to request legal services from a legal services contractor, cost control measures, and monitoring the quality of services rendered.

5. DCSEC's Executive Director exercise effective management control over the authorization of travel at DCSEC's expense to ensure that it is necessary, economically priced, fully documented, and directly related to DCSEC's core mission.
6. DCSEC's Board of Directors establish a policy regarding the expenditure of DCSEC funds by the Executive Director and any other DCSEC employee for entertainment and hospitality expenses. The policy should, at a minimum, include a requirement for a written justification to be submitted to and approved by a majority of the Board of Directors prior to the obligation of DCSEC funds to pay the expense. The failure to comply with this policy and procedure should result in the accountable employee being held personally liable for reimbursing the expenditure to DCSEC.
7. DCSEC's Board of Directors and Executive Director should discontinue the practice of sponsoring events and making contributions for various projects until the organization's financial position improves. Further, the Board of Directors should consider establishing a policy and procedures which govern the use of DCSEC funds to make contributions to or sponsor events presented by other organizations, when such activities fall outside of DCSEC's grant award process.

DCSEC SPENT \$14,533 TO SEND THE MAYOR AND DCSEC STAFF TO THE MAJOR LEAGUE BASEBALL GAME IN ATLANTA DURING FISCAL YEAR 2000

DCSEC's Board Chairperson authorized the expenditure of \$14,533 to send the Mayor of the District of Columbia, the Mayor's wife, two Board members, and five DCSEC staff members to the Major League Baseball All Star Game in Atlanta, Georgia during July 2000. According to DCSEC management, the purpose of this trip was to help promote bringing major league baseball back to the District of Columbia. The Auditor is concerned that there is no reasonable basis upon which it can be determined whether this expenditure materially benefitted the District's efforts to obtain a major league baseball team, or that the expenditure was beneficial to DCSEC's mission. Further, there is reason to question the necessity and reasonableness of underwriting the cost of five DCSEC employees' expenses for this activity, as well as the legitimacy of paying the expenses of the Mayor's wife, which are not the financial obligation of the District government or DCSEC. The travel expenses of the Mayor's wife

are the personal obligation of the Mayor or the Mayor's wife. Further, DCSEC's use of public funds to pay for first class travel for the Mayor and his wife is a violation of public policy in that taxpayer funds may only be used to pay coach fare for legitimate government travel. Table VIII identifies expenditures incurred by DCSEC for the trip.

TABLE VIII
DCSEC Expenses Associated with the
Major League Baseball All Star Game

Item	Amount	Comments
Airfare	\$5,538	All tickets purchased were for coach seats, with the exception of Mayor and First Lady who flew first class.
Lodging	\$2,811	9 room nights at a rate of \$274 per night plus 14% rate of taxes
Game Tickets	\$1,116	Payment for tickets made out to the Campaign to reelect Bill Campbell
Game Tickets	\$600	Payment for tickets made out to Major League Baseball
Advertising Expense	\$3,468	
Employee Advance	\$1,000	Advance paid to DCSEC employees for expenses associated with the trip to Atlanta
TOTAL	\$14,533	

Source: DCSEC

The most significant expenditure for the trip was airfare of \$5,538. Of that total, \$2,632 was used to purchase two first class tickets for the Mayor and his wife to fly to Atlanta. The price of each first class ticket was \$819 greater than the price of coach seats purchased for DCSEC Board members and staff to travel to the same destination.

The Auditor also found that DCSEC made a payment of \$1,116 to the Campaign to Re-Elect Bill Campbell and indicated on the check request that the payment was a reimbursement for tickets to the Major League Baseball All Star Game. However, the Auditor's review of DCSEC disbursements revealed that during fiscal year 2000, DCSEC also purchased tickets for the Major League All Star Game for \$600. Thus, DCSEC's assertion that the payment to the campaign was a reimbursement for tickets appears to be a misstatement of fact.

DCSEC MANAGEMENT FAILED TO ADOPT POLICIES AND PROCEDURES GOVERNING THE USE OF CREDIT CARDS

The Auditor found that DCSEC's Executive Director failed to adopt, implement, and enforce policies and procedures governing accountability for the use of corporate credit cards issued to DCSEC's Executive Director, CFO, Armory Manager, and Facilities Manager for operating expenditures. In discussions with DCSEC's CFO, the CFO noted that although credit cards had been issued, DCSEC had not implemented official policies and procedures governing their use. This is but another example of poor management practices that exposed DCSEC finances to misuse and mismanagement.

During fiscal years 2001 through 2003, as of January 31st, the Auditor found bank card payments totaling approximately \$81,339.42. Table IX presents expenditures that were charged to the credit cards assigned to DCSEC officials during fiscal years 2001 to 2003, as of January 31, 2003.

TABLE IX

**D.C. Sports and Entertainment Commission
Credit Card Expenditures:
Fiscal Years 2001 through 2003, as of January 31, 2003**

Credit Card Charges	FY 2001	FY 2002	FY 2003	Total
Hotel	\$5,064.49	\$4,944..91	\$8,038.73	\$14,736.33
Airfare	4,428.25	10,436.20		9,388.21
Conference Fees	900.00	850.00		900
Food & Beverage	453.46	2,746.67	393.06	2,198.93
Entertainment	660.00	75.90		660
Car Rental	248.22	5,110.59	640.39	3,085.22
Fuel: Gas	21.00	27.02	132.08	153.08
Telephone	3,535.85	7,210.21		10,746.06
Clothing			197.28	197.28
Rail Fare: Amtrak	188.00	1,103.00		1,097
Membership Fees	290.00			290
Software			271.28	271.28
Limo Services	103.50		755.00	858

Direct TV Subscription	1,493.66			1,493.66
Equipment Rental			2,527.24	2,527.24
Miscellaneous	53.52	13,342.29	5,097.62	13,477.30
Total	\$17,439.95	\$45,846.79	\$18,052.68	\$81,339.42

Source: DCSEC Disbursement Files

DCSEC Corporate Credit Cards Were Used to Make Purchases That Appeared to Be Personal

The Auditor found that \$1,648.35 of the \$81,339.42 in credit card expenditures were related to charges that appeared to be personal purchases made by DCSEC's Executive Director and Armory Manager during fiscal years 2001 through 2003, as of January 31, 2003.

According to information reviewed by the Auditor, reimbursements totaling \$829.67 were made to cover some of the personal expenses of the Armory Manager. However, the Auditor notes that given the personal nature of these expenses, they should not have been charged to DCSEC's credit cards or paid by DCSEC. The expenses were not necessary in the execution of official duties related to DCSEC and therefore should not have been charged to a DCSEC issued credit card. The DCSEC Executive Director's failure to establish effective internal controls and to issue written guidelines governing the appropriate use of the credit cards by employees under his supervision created an environment in which the use of DCSEC funds to pay for personal expenses appeared to be an acceptable practice. Table X presents a sample of purchases that appeared to be of a personal nature that were made by DCSEC officials using DCSEC credit cards.

Table X

Personal Purchases Charged to DCSEC Corporate Credit Cards: Fiscal Years 1999 through 2002

Cardholder Name	Vendor	Transaction Description	Transaction Date	Amount
Ollie D. Harper	Syms at Williamsville NY	Big & Tall Dress Shirts	11/3/02	\$91.48
Ollie D. Harper	Athletic X Press at Phoenix AZ	Clothing	9/24/02	\$54.02
Ollie D. Harper	Burlington Coat Factory at Amherst NY	Cloth: Prior Balance Payment	11/3/02	\$51.78

Robert D. Goldwater	Flights of Fancy	Toys	12/21/01	\$718.68
Anthony Burnett	SMA	Registration Fee for Spouse	1/8/02	\$100
Ollie D. Harper	Safeway	Food	4/8/02	\$15.53
Ollie D. Harper	Pizza Bolis	Food & Beverage	4/9/02	\$75.90
Ollie D. Harper	Amoco	Gas	4/11/02	\$27.02
Ollie D. Harper	Lowe's	unknown	4/13/02	(\$8.75)
Ollie D. Harper	Hevener Tire	unknown	4/12/02	\$10.00
Ollie D. Harper	Lowe's	unknown	4/12/02	\$33.53
Ollie D. Harper	Winn Dixie	Food	4/11/02	\$53.44
Ollie D. Harper	Applebee's	Food	4/12/02	\$56.87
Ollie D. Harper	Flower 'N' Fern	unknown	4/16/02	\$62.85
Ollie D. Harper	US Airways	Airfare	4/23/02	\$234
Ollie D. Harper	US Mint	unknown	7/20/02	\$72
Total Personal Expenses				\$1,648.35

Source: DCSEC Bank Card Records

Undocumented Corporate Credit Card Charges

Credit card bills were submitted to DCSEC's Chief Financial Officer and approved for payment by DCSEC's controller. At least \$11,372.07 in credit card payments were made without supporting documentation explaining the purpose of each expenditure and its relationship to DCSEC. The Auditor found that of the \$11,372.07, DCSEC's Chief Financial Officer's credit card was used to cover \$2,141.81 in expenditures that lacked supporting documentation. Additionally, the Auditor found that DCSEC's Executive Director made approximately \$8,938.38 in expenditures with his DCSEC credit card that lacked supporting documentation. DCSEC's Armory Manager made approximately \$291.37 in expenditures with his DCSEC credit card that were paid by DCSEC finance officials without supporting documentation.

DCSEC's Board of Directors failed to establish sufficient management and accounting controls to ensure the accountability of the Executive Director's financial activities relative to expenditures charged to the credit card assigned to him. As a result, expenditures charged to the Executive Director's card were not adequately monitored, failed to receive any meaningful scrutiny as to appropriateness of the charge, and a significant number of transactions were not supported by adequate, if any, documentation. For example, the Auditor identified two charges of \$330 each at a nightclub. During the time of our fieldwork, there were no receipts or other documentation in DCSEC's files indicating the business purpose of the charges and no documentation to suggest the Executive Director reimbursed

DCSEC for the charges. The Auditor's analysis indicated that the transactions were two cash advances charged to the Executive Director's corporate credit card. Following the release of the draft report, the Executive Director provided documentation supporting the charges and his subsequent reimbursement to DCSEC 16 months after the charges were made.

There is no evidence that the Executive Director informed DCSEC's Board of Directors of the acquisition of credit cards in DCSEC's name. Had the Board been informed of this action, it would have been the obligation of the Board to establish a policy and procedures to govern and monitor the Executive Director's use of the card assigned to him.

In the absence of Board level scrutiny of the Executive Director's use of the credit card and the poor accountability practices allowed by top management, there was no effective system of checks and balances in place to ferret out inappropriate charges and ensure their reimbursement to DCSEC.

Appendix III presents all undocumented and personal charges or charges that were made by unauthorized card users identified by the Auditor during the period under review.

RECOMMENDATIONS

1. DCSEC's Executive Director and former Facilities Manager immediately reimburse DCSEC for personal expenditures charged to the corporate credit card totaling \$818.68. If these reimbursements are not made within 15 days of the date of this final report, the amounts should be deducted from each manager's salary payments until fully repaid.
2. DCSEC's Executive Director immediately cancel all corporate credit cards issued in DCSEC's name, or the names of its employees if DCSEC is ultimately responsible for paying the bills, and provide the Auditor with evidence of the cancellation within 15 days of the date of this report.
3. Each manager responsible for expenditures that are not supported by adequate or any documentation must repay these expenditures to DCSEC within 60 days of the date of this report, unless adequate original supporting documentation can be provided. If these officials fail to provide adequate original documentation to support each expenditure and fail or refuse to repay these charges to DCSEC, the Auditor will refer this matter to appropriate law enforcement authority for further investigation and the Office of Corporation Counsel to initiate the appropriate civil action to recover these funds. At

a minimum, the Executive Director must substantiate or repay \$8,938.89; the Armory Manager must substantiate or repay \$291.37; and the Chief Financial Officer must substantiate or repay \$2,141.81.

4. DCSEC's Board of Directors establish a specific policy and process regarding the criteria that must be used to determine the necessity for corporate credit cards to be issued in DCSEC's name, in addition to the criteria that will be used to determine which DCSEC employees will be assigned credit cards; expenditure limits for each card; the types of purchases that cards may be used to make; regular specific reports that must be filed with the Board concerning expenditures made with all credit cards issued to DCSEC employees including the Executive Director; a requirement that the Executive Director develop complete policies and procedures regarding credit card usage that must be adhered by DCSEC employees under his management control; and specific accountability measures that will be applied by the Board for any failure of the Executive Director to comply with the Board's policy and procedures.
5. The DCSEC official who authorized the disbursement of \$2,315 for the purchase of first class air fare for the Mayor and his spouse must reimburse DCSEC for this improper expenditure of public funds.
6. The DCSEC official who authorized the disbursement of \$1,116 to the campaign to Re-elect Bill Campbell reimburse DCSEC for this improper expenditure of public funds.

CONCLUSION

The District of Columbia Sports and Entertainment Commission (DCSEC) Board and management failed to ensure prudent financial decision making, compliance with laws and regulations, and the implementation of adequate and effective internal controls over its contracting, procurement, and spending practices.

The Auditor's review of DCSEC's accounts and operations revealed that spending outpaced revenues during fiscal years 1999 through 2002. Between fiscal years 1999 and 2002, DCSEC's revenues grew an average of 49% while expenditures increased by approximately 80%. As a result, DCSEC ended the past four fiscal years with combined total operating losses of \$9.8 million. The losses were fueled by significant increases in spending on outside services, professional services, insurance, advertising and promotions, and development. According to DCSEC management officials, the increased spending reflected DCSEC's commitment to attract major league baseball to the District, its

bid for the 2012 Olympics, and various other events. Numerous professional services contracts were negotiated to further these commitments as well as to support other events. Additionally, DCSEC's management incurred significant travel and entertainment expenses, and funded several unplanned capital projects during this period including repaving of Parking Lots 6 and 7 in connection with the Grand Prix auto race.

An examination of DCSEC's procurement of goods and services during fiscal years 1999 through 2003, as of January 31st, revealed that a lack of effective Board and management oversight, inadequate or nonexistent internal controls, in addition to a flawed procurement and contracting process facilitated circumvention of applicable laws, regulations and rules; costly noncompetitive procurement practices; and a lack of management accountability. The Auditor found that management awarded contracts without Board knowledge, scrutiny, or prior approval. The Auditor also found the following deficiencies with regard to DCSEC's procurement activities: (1) the DCSEC Chief Financial Officer also acted as the Commission's in-house legal counsel and contracting officer for certain transactions; (2) DCSEC's management executed a contract above \$1 million without obtaining prior approval from the Council of the District of Columbia; (3) the competitive bidding process used by DCSEC management did not appear to promote fair and open competition; (4) \$1.3 million in contracts in excess of \$50,000 were awarded without prior Board approval; (5) \$931,151 in contracts for consulting services were awarded on a sole source noncompetitive basis or without prior Board scrutiny and approval; and (6) sole source contracts were awarded without adequate, documented justification or support.

DCSEC's recordkeeping system and practices were grossly insufficient. In reviewing DCSEC's contract files, credit card records, disbursement records and various other documentation supporting procurement, travel, hospitality and other operational expenses the Auditor found that: (1) files were incomplete and not organized in any discernible order; (2) key contract information was not consolidated in a single file or in some logical order; and (3) documentation for procurement and credit card transactions including travel, entertainment and hospitality expenses was missing or inadequate.

The Auditor found that during fiscal years 2000 through 2003, as of January 31, 2003, DCSEC management engaged in spending that appeared to be excessive and/or unnecessary, given DCSEC's unsound financial position. The Auditor identified expenditures totaling \$1.1 million during the audit period that appeared excessive and/or unnecessary including: (1) \$682,759 in expenditures for outside legal services; (2) \$62,689 in expenditures for employee travel; (3) \$ 43,217 in expenditures for entertainment and hospitality; and (4) \$355,500 in disbursements for sponsorships and contributions. The Auditor found that DCSEC's Board failed to ensure appropriate oversight of management's financial management and spending practices. Further, the Executive Director of DCSEC made

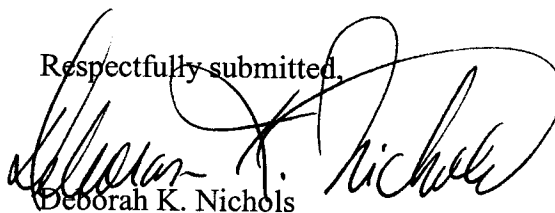
financial commitments on behalf of DCSEC without adequately assessing the potential overall financial risk and impact on the Commission. In his stewardship of DCSEC, the Executive Director did not: (1) regularly monitor budget, revenue, and expenditure patterns; (2) investigate variances between budget, revenues, and expenditures; and (3) take appropriate timely corrective actions. As the disparity between budget, revenues, and expenditures grew more pronounced, management's response was not to trim spending and raise revenues. Instead, management made the injudicious decision to raid DCSEC's investment funds and maintain a pattern of undisciplined spending.

DCSEC's executive leadership authorized the expenditure of \$14,533 to send the Mayor of the District of Columbia, the Mayor's wife, two DCSEC Board members, and five DCSEC staff members to the Major League Baseball All Star Game in Atlanta, Georgia during July 2000. According to DCSEC management, the purpose of this trip was to help promote bringing major league baseball back to the District of Columbia. The Auditor is concerned that there is no reasonable basis upon which it can be determined whether this expenditure materially benefitted the District's efforts to obtain a major league baseball team, or that the expenditure was beneficial to DCSEC's mission. Further, there is reason to question the necessity and reasonableness of underwriting the cost of five DCSEC employees' expenses for this activity, as well as the legitimacy of paying the expenses of the Mayor's wife, which are not the financial obligation of the District government or DCSEC.

Finally, the Auditor found that DCSEC's Executive Director failed to adopt, implement, and enforce policies and procedures governing accountability for the use of corporate credit cards issued to DCSEC's Executive Director, CFO, Armory Manager, and Facilities Manager for operating expenditures. During fiscal years 2001 through 2003, as of January 31st, the Auditor found credit card payments totaling approximately \$81,339.42. The Auditor found that of the \$81,339.42 in credit card expenditures, \$1,648.35 were related to charges that appeared to be personal purchases made by DCSEC's Executive Director and Armory Manager during fiscal years 2001 through 2003, as of January 31, 2003. At least \$11,372.07 in credit card payments were made without supporting documentation explaining the purpose of each expenditure and its relationship to DCSEC.

DCSEC must implement strong internal controls over its contracting, procurement, and spending, and exercise effective management control over expenditures to ensure the financial viability of the Commission in the future.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Deborah K. Nichols", written over a horizontal line.

Deborah K. Nichols

District of Columbia Auditor

APPENDICES

APPENDIX I

DCSEC Travel Expenditures

Individual Traveling	Travel Mode	Travel Dates	Amount	Purpose
Troy Scott		12/30/1999	\$1,500	Airfare for INTIX Conference in Albuquerque, NM
Kenneth Brown		12/16/1999	\$200	Airfare to attend the Heritage Bowl Game in Atlanta
Kenneth Brown		11/1/1999	\$1,994.22	\$1395 of total payment for Kenneth Brown to attend the Strategic Research Conference in NYC
Neville Waters		10/18/1999	\$1,300	Travel advance for Sports and Media Technology Conference 99
Neville Waters		10/18/1999	\$1,200	Travel advance for trip to Colorado Springs to US Olympic Congress
Mayor Anthony Williams, Diane Williams, John Richardson, William Hall, Warren Graves, Scott Burrell, and Kenneth Brown		7/5/2000	\$4,683	Payment for airfare to Atlanta for MLB All-Star Game
Mayor Anthony Williams, Diane Williams, John Richardson, William Hall, Warren Graves, Scott Burrell, and Kenneth Brown		7/7/2000	\$2,811	Payment for hotel rooms @274/night for delegation to the MLB all star game in Atlanta
Neville Waters		5/18/2000	\$920.42	Travel to Los Angeles to attend MOBE XVI Spring 2000 Marketing and Tech Symposium from 4/1/-4/4

Neville Waters		2/15/2000	\$267.53	Travel to NYC for MLB: heage Entertainment WWF
		9/12/2000	\$409	Travel for employee to supervise installation of forum floor at a stadium in Columbus, OH
Neville Waters		9/12/2000	\$248	Roundtrip airfare to attend MBOE fall 2000 symposium in Chicago
Kenneth Brown		8/9/2000	\$355	Airfare to Orlando on 8/10/00 for meeting/conference
Neville Waters		2/7/2000	\$2,000	Travel advance for trip to San Francisco for NBA all star game
Kenneth Brown		2/10/2000	\$550	Airfare for trip to San Francisco for the NBA all star game
Tony Burnett and Kenneth Brown		2/1/2000	\$2,476	Travel for T. Burnett and wife to Houston and then the Honolulu, and travel for K. Brown to Atlanta and hotel expenses. Note indicates that T. Burnett would refund DCSEC for wife's expenses. No travel vouchers for any of the expenses
Kenneth Brown		2/8/2000	\$1,103	Airfare for K. Brown to the NBA all star game in San Francisco

Neville Waters		3/24/2000	\$2,000	Travel to Los Angeles to the MOBE XBI Spring 2000 Mktg & Tech Symposium and trip from LA to San Jose to meet with Cirque De Soleil Representatives
Kenneth Brown		3/24/2000	\$1,000	Travel advance for trip to Los Angeles to the Marketing Opportunities in Black Entertainment Symposium in Los Angeles
Neville Waters		3/24/2000	\$238	travel to Los Angeles to the MOBE XBI Spring 2000 Mktg & Tech Symp and trip from LA to San Jose to meet with Cirque De Soleil Representatives
Neville Waters and Kenneth Brown		3/14/2000	\$752	Travel to Los Angeles
Warren Graves		7/10/2000	\$500	Travel advance for trip to Atlanta for MLB all star game
Kenneth Brown (?)		7/13/2000	\$425	Aifare to NYC to meet with executive for epic records to discuss holding an NBA all star party at the Armory and to go to a reception for the mickey mantle foundation
Neville Waters and Eric Drury		7/7/2000	\$855	travel to Atlanta for MLB All Star Game
Scott Burrell		6/13/2000	\$893	Travel to Detroit to meet with Grand Prix promoters and to see Grand Prix of Detroit
Kenneth Brown		5/22/2000	\$1,000	Travel advance for BCA annual convention in Atlanta

Kenneth Brown		5/11/2000	\$1,157	Payment for airfare for K. Brown to NYC, Atlanta, and Minn for various meetings and conferences and airfare for neville waters for trip to Minn for Rainbow Push national sports conference
Total			\$30,837	
Neville Waters		10/23/2000	\$1,500	Travel advance for Teams 2000 conference/music festival in new Orleans and Texas, 10/25/00-10/28/00. Additionally travel on 10/2/00-10/4/00 to Chicago for MBOE fall 2000 symposium.
Neville Waters		10/3/2000	\$425	Airfare for travel to Sony Records and NBA entertainment meeting/conference on 10/5/00
Troy Scott		4/2/2001	\$598.52	Travel to Orlando to observe ALMS 12 hours of Sebring and to meet with race promoters and series executives
Tony Burnett		2/13/2001	\$1,455	Expenditures related to trip to Orlando for Annual Stadium Managers Conference
Scott Burrell		3/26/2001	\$878.85	Travel for S. Burrell to Orlando to observe ALMS 12 hours of Sebring and to meet with race promoters and series executives
Kenneth Brown		5/22/2001	\$460.58	Airfare and rental car for conference in Dallas, no specific information on what conference and no travel request documentation.
Kenneth Brown		5/22/2001	\$1,000	request for check for travel advance for hotel and meals, however, no specific mention of what conference or for what purpose.

Troy Scott and Anthony Burnett		5/1/2001	\$982	Airline ticket to New Orleans for pre site visit related to NSYNC concert
Scott Burrell			\$1,355.32	Travel to LA to attend Grand Prix of Long Beach and meet with officials from Dover Downs Entertainment, Grand Prix Association , and DC emergency management and special event staff regarding motor sport event in the District.
Robert D. Goldwater	Continental Airlines	06/25/01	\$168.75	Roundtrip airfare from Miami to Orlando, FL for
Robert D. Goldwater	United Airlines	06/25/01	1,069.25	No invoice
Robert D. Goldwater	Continental Airlines	06/26/01	295.75	Round trip airfare from Orlando, FL to Newark, NJ
Robert D. Goldwater	Alaska Air	06/28/01	416.75	Roundtrip airfare from Las Vegas to Seattle/Takoma
Kenneth Brown	Delta Air	06/27/01	256.00	Roundtrip airfare from Wash Dulles to San Orlando, FL. Travel charged to Scott Burrell's card.
Jeffrey Hunter	America West Air	06/13/01	1,077.00	Roundtrip airfare from BWI to San Francisco. Travel charged to Anthony Burnett's card.
Anthony Burnett	US Airways	06/21/01	329.50	Roundtrip airfare from BWI to Los Angeles. IAAM Conference August 3-7, 2001.
Troy Scott	US Airways	06/21/01	329.50	Roundtrip airfare from BWI to Los Angeles. IAAM Conference August 3-7, 2001.
Robert Goldwater	American Airlines	07/14/01	272.75	No invoice

Kenneth Brown	Delta Airlines	08/21/01	173.00	Round trip airfare from DC to Orlando, FL. Travel charged to Scott Burrell's card.
Robert D. Goldwater	Amtrak	08/13/01	188.00	Round trip Amtrak fare from DC to Philadelphia. X Games sport event
Robert D. Goldwater	Hertz rent-a-car	08/07/01	248.22	Rental car 8/2/01 to 8/7/01
Subtotal FY 01			\$13,480.00	
Robert D. Goldwater	Delta Air	10/02/01	889.00	No invoice
Robert D. Goldwater	Delta Air	10/03/01	43.50	No invoice
Robert D. Goldwater	Delta Air	10/03/01	93.00	No invoice
Troy Scott	Delta Air	11/09/01	434.00	Round trip airfare from B.W.I. to San Diego. Travel charged to Anthony Burnett's card.
Robert D. Goldwater	Delta Air	12/27/01	242.76	Round trip airfare from Atlanta, GA to B.W.I.
Anthony Burnett	Delta Air	01/03/02	211.50	Round trip airfare from B.W.I. to Tuscon, AZ. Stadium Managers Seminar.
Velita Burnett	Delta Air	01/03/02	211.50	Round trip airfare from B.W.I. to Tuscon, AZ.
Cheryl Land	Delta Air	01/11/02	271.50	Round trip airfare from B.W.I. to Atlanta, GA.
Robert D. Goldwater	United Air	12/02/01	397.20	Round trip airfare from B.W.I. to Los Angeles.
Ollie Harper	US Airways	01/05/02	48.00	No invoice.

Ollie Harper	US Airways	01/04/02	100.00	No invoice
Lawrence Wittenberg	United Air	09/05/01	1,563.50	Round trip airfare from Los Angeles
Robert D. Goldwater	US Airways	09/07/01	394.50	Round trip airfare
Robert D. Goldwater	Delta Air	02/11/02	205.50	No invoice. Laguardia, NY to DC
Ollie Harper	Delta Air	07/11/02	236.00	Round trip airfare
Robert D. Goldwater	United Air	02/11/02	1,213.00	No invoice. One way fare from DC to Salt Lake City. IAAM conference.
Robert D. Goldwater	JetBlue	02/11/02	209.00	One way fare from Salt Lake City to NY
Kenneth Brown	Midwest Air	06/14/02	582.50	Round trip air fare DC to Marquette. Travel charged to Scott Burrell's card.
Kenneth Brown	United Air	07/16/02	258.00	Round trip airfare from DC to Chicago. Travel charged to Scott Burrell's card.
Robert D. Goldwater	United Air	03/01/02	1,065.00	Round trip airfare from B.W.I. to Los Angeles, CA.
Robert D. Goldwater	US Airways	01/31/02	193.75	No invoice
Kenny Brown	US Airways	04/10/02	288.50	Round trip airfare from DC to Indianapolis. Travel charged to Scott Burrell's card.
Jeffrey Hunter	US Airways	06/07/02	496.50	Round trip from B.W.I. to NY. Travel charged to Scott Burrell's card

Kenneth Brown	Midwest Air	05/24/02	312.50	Airfare from DC to Marquette
Ollie Harper	US Airways	04/23/02	234.00	No invoice. Reimbursed by Ollie Harper.
Robert D. Goldwater	Amtrak	10/02/01	123.00	No invoice
Robert D. Goldwater	Amtrak	10/31/01	344.00	Round trip rail fare from DC to NY
Scott A. Burrell & James McPartlin	Amtrak	11/02/01	250.00	Outbound rail fare from Dc to NY SIEC meeting regarding fright house event.
Scott A. Burrell	Amtrak	11/03/01	123.00	Rail fare from NY to DC meeting regarding fright house event.
Ollie Harper	Amtrak	01/19/02	69.00	No invoice
Robert D. Goldwater	Amtrak	02/01/02	145.00	Rail fare from NY to DC. National Music Center meeting.
Ollie Harper	Amtrak	06/21/02	49.00	No invoice. Reimbursed by Ollie Harper.
Robert D. Goldwater	Hertz rent-a-car	01/04/02	174.87	Rental car
Robert D. Goldwater	Hertz rent-a-car	01/13/02	80.00	Rental car
Robert D. Goldwater	Hertz rent-a-car	01/26/02	202.40	Rental car
Anthony Burnett	Enterprise	01/30/02	75.38	Rental car
Robert D. Goldwater	Hertz rent-a-car	11/30/01	201.30	Rental car
Robert D. Goldwater	Hertz rent-a-car	12/15/01	253.00	Rental car
Robert D. Goldwater	Hertz rent-a-car	12/22/01	56.79	Rental car
Robert D. Goldwater	Hertz rent-a-car	12/28/01	230.21	Rental car

Robert D. Goldwater	Hertz rent-a-car	10/13/01	236.96	Rental car
Robert D. Goldwater	Hertz rent-a-car	10/27/01	503.25	Rental car for grand prix event
Scott Burrell	Hertz rent-a-car	10/10/01	182.45	Rental car
Robert D. Goldwater	Hertz rent-a-car	02/01/02	151.80	Rent car 01/29/02 through 02/01/02
Robert D. Goldwater	Hertz rent-a-car	02/16/02	233.16	Rent car 02/13/02 through 02/16/02
Robert D. Goldwater	Hertz rent-a-car	02/22/02	151.99	Rent car 02/19/02 through 02/22/02
Robert D. Goldwater	Hertz rent-a-car	05/22/02	48.12	Rent car 05/21/02 through 05/22/02
Kevin Mahoney	Budget rac-ryder	03/28/02	93.15	Rent car charged to Anthony Burnett's card.
Ollie Harper	Enterprise	07/28/02	60.49	Rental car
Robert D. Goldwater	Hertz rent-a-car	03/09/02	44.38	Rent car 03/08/02 to 03/09/02
Robert D. Goldwater	Hertz rent-a-car	04/05/02	556.60	Rent car 03/25/02 to 04/05/02
Robert D. Goldwater	Hertz rent-a-car	04/07/02	62.97	Rent car 04/05/02 to 04/07/02
Robert D. Goldwater	Hertz rent-a-car	04/12/02	202.40	Rent car 04/09/02 to 04/12/02
Robert D. Goldwater	Hertz rent-a-car	04/30/02	303.60	No invoice
Robert D. Goldwater	Hertz rent-a-car	03/08/02	304.03	Rent car 03/02/02 to 03/08/02
Robert D. Goldwater	Hertz rent-a-car	03/23/02	701.29	Rent car 03/09/02 to 03/23/02
Cheryl L. Land		1/16/2002	\$800	INTIX conference in Atlanta travel advance

James E. McPartlin		7/18/2002	\$524	Reimbursement for J. Hunter travel and Fed ex cost--no indication of purpose of travel
Subtotal FY 2002			\$17,731.80	
Ollie Harper	Enterprise	11/19/02	324.45	Rent car for WS trip
Ollie Harper	Avis	09/25/02	315.94	Rent car 09/21/02 to 09/25/02 Phoenix AZ.
Subtotal FY 2003			640.39	
Total Travel Expenses Charged to DCSEC Credit Cards			<u>\$62,689</u>	

Source: DCSEC Credit Card Statements

DCSEC Entertainment and Hospitality Expenditures

Vendor	Fiscal Year	Amount	Purpose
B&B Washington's Caterer	2000	\$1,358	Undetermined
Fed Ex	2000	44.00	Undetermined
B&B Washington's Caterer	2000	993.99	Undetermined ice and hot dogs
B&B Washington's Caterer	2000	230.00	Undetermined ice and hot dogs
B&B Washington's Caterer	2000	644.00	Undetermined ice and hot dogs- 3 orders
B&B Washington's Caterer	2000	993.00	Undetermined ice and hot dogs- 4 orders
Campaign to Re-elect Bill Campbell	2000	1,116.00	Reimbursement for MLB 2000 All-Star Game Tickets
B&B Washington's Caterer	2000	594.00	Soccer-ice and hot dogs; 3 orders made
Major League Baseball	2000	900.00	Tickets for MLB All-Star Game
Washington Sports and Entertainment	2000	6,160.00	Purchase of Wizards tickets; four seats for 20 games
Total FY 2000		\$13,033.00	
Capital City Brewing	2001	32.75	Food, taxes & tip, Bobby Goldwater
Gordon Biersch Restaurant	2001	27.05	Food, taxes & tip, Bobby Goldwater
The Palm Restaurant	2001	56.90	Food, taxes & tip, Bobby Goldwater
The Palm Restaurant	2001	95.13	Food, taxes & tip, Bobby Goldwater
America @ Washington DC Restaurant	2001	34.92	Food & Beverage, Bobby Goldwater
Capital City Brewing	2001	37.85	Food & Beverage, Bobby Goldwater
Manhattan Wonton @Beverly Hills	2001	62.95	Food & Beverage, Bobby Goldwater
Peninsula Beverly Hills	2001	51.70	Food & Beverage, Bobby Goldwater

Westin Hotels @LA	2001	31.45	Food & Beverage, Bobby Goldwater
Wyndham Checkers Hotel	2001	22.75	Food & Beverage, Bobby Goldwater
Magnolia Coach	2001	103.50	Limo Services, Robert Goldwater
Chevron	2001	21.00	Fuel, Robert Goldwater
Shareeza Peterson	2001	1,263.12	Car and truck damage
R&R Catering	2001	269.00	Catering for Community Meeting
R&R Catering	2001	274.25	CPR Training
R&R Catering	2001	2,092.50	DC Freedom pre-game reception
R&R Catering	2001	3,190.00	DC United pre-game reception
R&R Catering	2001	2,353.00	Festive Holiday Party
R&R Catering	2001	500.00	Lunch for media reception (World Cup)
MCI (Levy Restaurant)	2001	10,199.74	Olympic reception
R&R Catering	2001	239.00	Catering for 20
Henry's Soul Café	2001	137.50	Lunch for 25
DCSEC Box Office	2001	241.89	Reimbursement for event staff training
Champion	2001	242.60	Retirement plaques for Mary F. Wilhoite
DCSEC	2001	1,576.00	Tickets for DC United Opener
Bob Aylward	2001	470.00	Tickets to 2001 MLB All Star Game
Lamb Awards & Engraving Company	2001	3,425.00	Trophies for city title game
Total FY 2001		\$27,051.55	
B Smith's @ Union Station	2002	\$65.65	Food & Beverage, Bobby Goldwater
Bull Feathers	2002	65.32	Food & Beverage, Bobby Goldwater
Bull Feathers	2002	27.49	Food & Beverage, Bobby Goldwater

Chop House	2002	83.21	Food & Beverage, Bobby Goldwater
Ciao Bella	2002	63.00	Food, beverage, tips, Scott Burrell
DC Coast Restaurant		185.54	Food & Beverage, Bobby Goldwater
Four Season Hotels	2002	45.60	Food & Beverage, Bobby Goldwater
Georgia Browns	2002	54.53	No invoice, Bobby Goldwater
Georgia Browns	2002	91.48	Food & Beverage, Bobby Goldwater
Grand Hyatt Hotels	2002	33.20	Food & Beverage, Bobby Goldwater
Hawk & Dove Restaurant	2002	22.86	Food & Beverage, Bobby Goldwater
Hawk & Dove Restaurant	2002	29.63	Food & Beverage, Bobby Goldwater
Hawk & Dove Restaurant	2002	38.06	Food & Beverage, Bobby Goldwater
Hawk & Dove Restaurant	2002	25.34	Food & Beverage, Bobby Goldwater
Hilton Twiggs Restaurant	2002	31.92	Food & Beverage, Bobby Goldwater
Houston's Restaurant	2002	81.22	Food & Beverage, Bobby Goldwater
Hyatt Hotels	2002	29.70	Food & Beverage, Ollie Harper
Hyatt Hotels	2002	28.30	Food & Beverage, Bobby Goldwater
Luigino	2002	63.60	Food & Beverage, Bobby Goldwater
Marriott	2002	31.75	Food & Beverage, Bobby Goldwater
McCormick & Schmick	2002	50.29	Food & Beverage, Bobby Goldwater
Renaissance Mayflower	2002	129.44	Food & Beverage, Bobby Goldwater
Sheraton Hotels	2002	34.80	Food & Beverage, Scott Burrell
Ten Penh Restaurant	2002	40.48	Food & Beverage, Bobby Goldwater
B. Smith @ Union Station	2002	93.40	Food & Beverage, Bobby Goldwater
Capital City Brewing	2002	25.30	Food & Beverage, Bobby Goldwater

Chop House	2002	29.52	Food & Beverage, Bobby Goldwater
Daily's	2002	31.17	Food & Beverage, Ollie Harper
DC Coast Restaurant	2002	293.47	No invoice, Bobby Goldwater
Georgia Brown	2002	58.33	Food & Beverage, Bobby Goldwater
Georgia Brown	2002	75.17	Food & Beverage, Bobby Goldwater
Hawk & Dove	2002	26.49	Food & Beverage, Bobby Goldwater
Total FY 2002		\$1,985.26	
Pizza Italian	2003	99.00	Pizza, Ollie Harper
Marriott (Metro Center)	2003	68.15	No invoice or receipt, Ollie Harper
JW Marriott @Washington, DC	2003	63.00	No invoice or receipt, Ollie Harper
Applebees	2003	24.86	Ollie Harper
Applebees	2003	36.21	Ollie Harper
Denny's	2003	9.70	Ollie Harper
Denny's	2003	11.71	Ollie Harper
Outback	2003	24.00	Ollie Harper
Shoney's	2003	24.88	Ollie Harper
T.G.I. Friday's	2003	24.37	Ollie Harper
Safeway	2003	7.18	Breakfast for staff, Ollie Harper
SLS Executive Sedan Service	2003	755.00	Limousine Services, Ollie Harper
Total FY 2003		\$1,148.06	
Total FY 00-03		\$43,217.86	

Source: DCSEC disbursements, credit card statements for BB&T

APPENDIX II**DCSEC Event Sponsored Activities
Fiscal Year 2001 through 2003**

Event	Amount	Fiscal Year	Description
The DC Office of Planning	\$200,000	2000	Anacostia waterfront revitalization program contribution
The Gazelle Group	\$2,500	2000	Sponsor of Black Coaches Association game between Georgia Tech and Virginia Tech in Blacksburg, VA.
United Negro College Fund	\$5,000	2000	Sponsor of Sportball event
Black Coaches Association	\$5,000	2000	Sponsor of Luncheon at annual convention
Amateur Athletic Union	\$10,000	2000	Sponsorship of Awards Luncheon in connection with 2006 AAU Junior Olympic Games
Children's Charity Foundation	\$40,000	2002	Sponsor of BB&T Classic Basketball Game
American University	\$8,000	2002	Sponsor of soccer and volleyball tournament
U.S. Soccer Foundation	\$10,000	2002	Sponsor of a table for the Celebration of a Decade of U.S. soccer.
Chesapeake Region 2012 Coalition	\$25,000	2002	Part of a \$100,000 commitment to the Olympic bid effort
United States Olympic Committee	\$10,000	2002	Pledge for event held at the Marriott Wardman Park Hotel.
Children's Charity Foundation	\$40,000	2003	Sponsor of BB&T Classic Basketball Game
TOTAL	\$355,500		

Source: DCSEC Disbursement Records

APPENDIX III

Undocumented Charges to Corporate Credit Card Not Supported With an Invoice or Valid Receipt

FY 2001

Cardholder	Vendor	Fiscal Year 2001	Comments/ Purpose
Scott A. Burrell	Delta Air	256.00	Round trip airfare from Washington Dulles to Orlando, FL for Kenneth Brown. No invoice
Robert D. Goldwater	United Air	1,069.25	No invoice
Scott A. Burrell	Agent Fee	20.00	Round trip airfare from Washington Dulles to Orlando, FL. No invoice
Robert D. Goldwater	FEDEX	16.02	No invoice
Robert D. Goldwater	FEDEX	15.50	No invoice
Robert D. Goldwater	FEDEX	22.00	No invoice
Robert D. Goldwater	Wyndham Checkers Hotel	22.76	No invoice, food & beverage.
Robert D. Goldwater	IAAM	290.00	No invoice, membership dues.
Total FY 2001		\$1,711.53	

FY 2002

Cardholder	Vendor	Fiscal Year 2002	Comments/ Purpose
Robert D. Goldwater	Delta Air	43.50	Airfare for Goldwater
Robert D. Goldwater	Delta Air	93.00	Airfare for Goldwater
Robert D. Goldwater	Delta Air	242.76	Round trip from Atlanta, GA to BWI for Goldwater.
Robert D. Goldwater	United Air	1,563.00	Round trip airfare from Los Angeles to DC for Lawrence Wittenberg
Robert D. Goldwater	Delta Air	205.50	Larguardia, NY to DC for Goldwater
Robert D. Goldwater	United Air	1,213.00	One way fare from DC to Salt Lake City for Goldwater
Robert D. Goldwater	US Airways	193.75	Airfare
Scott A. Burrell	US Airways	6.99	No invoice
Robert D. Goldwater	Georgia Browns	54.53	Food & beverage, no invoice.
Robert D. Goldwater	AMTRAK	123.00	Rail fare, no invoice.
Robert D. Goldwater	Hertz Rent A Car	236.96	Rental car, no invoice.
Robert D. Goldwater	Hertz Rent A Car	303.60	Rental car, no invoice.
Robert D. Goldwater	Hampton Inns @ GA	115.26	Lodge: room charge, no invoice or receipt.
Robert D. Goldwater	Pollstar Promoters	150.00	Subscription, no invoice.
Robert D. Goldwater	Sports Business	199.00	Subscription, no invoice.
Robert D. Goldwater	Washington Business	87.77	Subscription, no invoice.

Robert D. Goldwater	D/M RFK Stadium	332.50	No invoice
Robert D. Goldwater	MCI Center	70.00	No invoice
Robert D. Goldwater	MCI Center	280.00	No invoice
Robert D. Goldwater	Flights of Fancy	141.63	Toys, no invoice.
Anthony Burnett	Dereggi Com Peters	10.00	No invoice
Robert D. Goldwater	National Association of Sport Comm.	700.00	No invoice
Robert D. Goldwater	Natonal Sports Marketing	500.00	No invoice
Robert D. Goldwater	Safeway	123.46	No invoice
Robert D. Goldwater	The Board of Trade	125.00	No invoice
Robert D. Goldwater	UJA Fed of NY	300.00	No invoice
Scott A. Burrell	Compaq Consumer	20.58	No invoice
Robert D. Goldwater	GTE	25.28	No invoice
Robert D. Goldwater	GTEAIR	8.98	No invoice
Robert D. Goldwater	GTEAIR	31.45	No invoice
Robert D. Goldwater	GTEAIR	40.43	No invoice
Total FY 2002		\$7,540.93	

FY 2003, as of December 31, 2002

Cardholder	Vendor	Amount	Comments/Purpose
Scott A. Burrell	Ramada Limited at DC	91.52	No invoice or receipt
Scott A. Burrell	JW Marriott	400.52	Unauthorized card user, room and telephone charge for Harris Lynton
Scott A. Burrell	Howard Johnson	445.40	Hotel stay for an unauthorized individual, 9 days. Invoice missing.
Scott A. Burrell	Howard Johnson	445.40	Hotel stay for an unauthorized individual, 9 days. Invoice missing.
Scott A. Burrell	Howard Johnson	445.40	Hotel stay for any unauthorized individual, 9 days. Invoice missing.
Ollie Harper	Marriott @ Crystal City	291.37	Room charge, no invoice or receipt
Total FY 2003 through December 2002		\$2,119.61	
Total		11,372.07	

Source: DCSEC Credit Card Statements

**Meeting of the Board of Directors
D.C. Sports & Entertainment Commission
RFK Stadium - Media Room
September 25, 2001**

Board of Directors

John L. Richardson, Chair
Bill Lucy
Bill Hall
John Ross and Kimberly Ryan for District CFO Natwar Ghandi
Neal Albert

Commission Staff

Bobby Goldwater, President and Executive Director
Tony Burnett, Director of Operations and Stadium Manager
Scott Burrell, Chief Financial Officer
Warren Graves, Director of Governmental Affairs
Tiffany Simms, Executive Assistant

Minutes

The approval of the minutes from the July 26, 2001 meeting are subject to Bill Hall's review at a later time as well as the addition of Linda Greenan's insert.

Chairman's Comments

Mr. Richardson apologized for the rescheduling of the original board meeting date but felt it was necessary due to the tragic events of September 11, 2001. The agenda for that meeting will be addressed in another meeting planned for early October. He commented that he is in possession of the proxies of those not in attendance, as well as making note that the Board will enter into executive session to handle the issues relevant to the end of the fiscal year. Reference was made to the success of BikeDC, an event held on the RFK campus on September 23, 2001.

Response to September 11 Tragedies

Mr. Goldwater announced the loss of two D.C. United games as a result of the attacks on September 11th along with the postponement of the Fright House Halloween event at the Armory. He added to that by commenting that in response to the attacks there will be a benefit soccer doubleheader on November 3rd to aid in raising money for charity. Furthermore, there are also plans to organize a benefit concert for October 21 at RFK Stadium to assist in the relief effort. He adds that the Commission is in a position to raise

money and the spirits of Washingtonians. Hoop-It-Up was also cancelled but Mr. Goldwater assured everyone that the event would return next year, in addition, the Armory schedule has been adjusted.

Mr. Goldwater indicated that security would do a better job of checking bags, limiting parking under the Stadium, and possibly using search dogs for the benefit events. The Fright House will be postponed until next year due to the September 11th tragedies because there was no proper way to promote the event for this year. The Commission will attempt to rent out the sets to recoup some of its investment.

Financial Update

Mr. Burrell commented that the new accounting system went live on September 1st, and when fully operational will track costs much better. He also noted that reports would be generated beginning in October or November.

John Richardson posed the question of when would the first report be dispersed. Mr. Burrell indicated those reports for the current year would be available by the end of November. Mr. Goldwater thanked John Ross for his support of the implementation of the new accounting system and commends Jim McPartlin of DCSEC and Scott Burrell on the progress of the new system.

Mr. Richardson asked if there had been an expenditure of more than \$50,000 since the last meeting. Mr. Burrell responded by saying there had been no such expense outside of what has been previously approved by the Board in earlier meetings.

Outside General Counsel

Mr. Richardson introduced the issue of retaining outside counsel by commenting that although Mr. Burrell has assisted in various legal matters, there needs to be a better system when confronted with major issues. He added by saying there had been a search for a law firm that was willing to provide free or discounted time and services and the only firm willing to provide that was Covington & Burling. Mr. Richardson proposed that the Commission enter into an agreement with the firm.

Neal Albert asked if the fee schedule was still being arranged, Mr. Richardson answered that the major issues would be full charge, but other routine services would be discounted.

Mr. Ross stated that he is supportive of the retention of Covington & Burling as the Commission's legal representation but is concerned with whether the Commission has followed the procurement guidelines. Mr. Hall voiced his feelings that an RFP should be drafted. Mr. Richardson responded that as long as the Board approved the motion then it was appropriate. Bill Lucy inquired if we [the Commission] could market one proposal to others, Mr. Richardson answered by saying that he anticipated little or no interest from other firms. Mr. Ross stated that he was concerned that the Commission would be

leaving themselves open down the road by not doing an RFP. Mr. Richardson later stated that an RFP would be prepared for counsel retention.

Meeting adjourned to Executive Session

AGENCY COMMENTS

AGENCY COMMENTS

On September 11, 2003, the Office of the District of Columbia Auditor submitted this report in draft for review and comment to the D.C. Sports and Entertainment Commission's Board of Directors (DCSEC), Executive Director, and the District of Columbia's Chief Financial Officer (CFO).

An exit conference was held on September 25, 2003, with the Interim Chairman of DCSEC's Board of Directors, the Executive Director, and the Chief Financial Officer. On October 3, 2003, the Auditor held another conference with DCSEC's Executive Director and CFO to further discuss several matters including the submission of additional documentation not available during the fieldwork phase of the audit. Written comments to the draft report were initially received on October 3, 2003. As a result of DCSEC's submission of additional information, the draft report was revised where appropriate and reissued on October 10, 2003. Comments were received from DCSEC on October 14, 2003 and October 16, 2003. The District's CFO also submitted comments to the draft report on October 15, 2003. All comments are appended in their entirety to this final report.



October 3, 2003

Ms. Deborah K. Nichols
District of Columbia Auditor
717 14th Street, NW
Suite 900
Washington, D.C. 20005

Dear Ms. Nichols:

The attached has been prepared for your review by the Commission's Office of the CFO and is submitted in reply to your draft report of September 11, 2003: "District of Columbia Sports and Entertainment Commission's Contracting, Procurement and Spending Practices Characterized by Mismanagement, Noncompliance and Inadequate Controls."

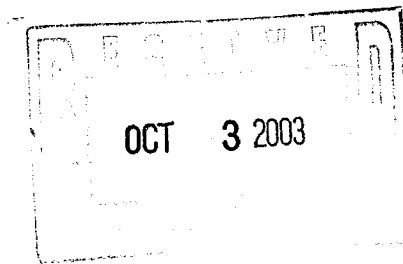
We look forward to scheduling a meeting at your earliest convenience to go over the discussion document, any material that was provided to your staff earlier this week and the draft of the Commission's responses to the draft report's recommendations.

Sincerely,



John J. Mahoney
Interim Chairman

cc: B. Goldwater
S. Burrell



DC Auditor's Draft Report-
Sports Entertainment Commission. Contracting and Procurement & Spending Practices

Recommendation	Area/Function	Commission Response	Full Recommendation
		DRAFT	
1 Council approval for contracts over \$1 million	Contracting - limits and oversight	DCSEC will follow Council law. Implementation Committee will put procedures in place. See accompanying letter.	The DCSEC Board of Directors and management comply with District laws requiring the submission of Sports and Entertainment Commission contracts in excess of \$1,000,000 to the Council of the District of Columbia for review and approval.
2 DCSEC CFO, Counsel and contracting officer should not be same person	General - Staff expertise	Personnel Committee will make recommendations to the Board.	With regard to the employee serving in the capacity of chief financial officer, in-house legal counsel, and contracting officer, the Board of Directors should immediately ensure that these three functions are not administered under any circumstances by the same employee. The Board of Directors, through its Personnel Committee, should use a competitive recruitment and selection process to identify qualified, competent candidates who possess an adequate mix of governmental and private sector expertise appropriate to the requirements of DCSEC's legal, financial, and procurement operations.
3 Revise procurement regulations	Procurement - rules and regulations	Contracts & Procurement Committee will work from current By-Laws to refine regulations and develop a policy document to bring into conformance with standard contracting and procurement procedures.	DCSEC's Board of Directors, though the Contracting and Procurement Committee, revise current procurement regulations to address deficiencies related to small purchases, competitive bidding, and sole source procurements, including specific provisions to govern contracts for consulting and expert services and the use of retainer agreements and retainer fees.
4 Hold executive director accountable for development of procurement guidelines	Procurement - rules and regulations and executive director accountability	Contracts & Procurement Committee will develop rules and regulations to ensure fair and competitive procurement practices as they relate to small purchases.	DCSEC's Board of Directors, through the Contracting and Procurement Committee, hold the executive director accountable for the development of more comprehensive procurement procedures governing small purchases, including implementing a requirement for a minimum of three quotes for all small purchases above a specific dollar threshold to ensure fair and competitive procurement practices.

**DC Auditor's Draft Report-
Sports Entertainment Commission. Contracting and Procurement & Spending Practices**

Recommendation	Area/Function	Commission Response	Full Recommendation
		DRAFT	
5 Board identify procurement documentation	Procurement - rules and regulations	Contracts & Procurement Committee will draft procurement policies and procedures ensuring adequate Board oversight and documentation.	DCSEC's Board of Directors, through the Committee on Contracting and Procurement, identify specific requirements for and documentation to be maintained by management in the solicitation and evaluation of proposals submitted through the competitive bidding process.
6 Board oversight of procurement and contracting	Procurement - board oversight	Contracts & Procurement Committee will develop and implement procedures for enforcing current requirement ensuring Board approval.	DCSEC's Board of Directors must exercise more extensive and effective oversight of DCSEC's procurement and contracting activities; establish policies and procedures that ensure the Board's scrutiny and approval of contracts exceeding \$50,000 before management awards such contracts; and require management's strict adherence to requirements under DCSEC's procurement regulations with regard to the award of sole source contracts.
7 Terminate non-competitive contracts with law firms	Contracting - lawyers	It is DCSEC's belief that the private law firm was selected in a competitive process. See accompanying letter.	DCSEC management immediately terminate all agreements with private law firms in that these agreements were based on a noncompetitive procurement process that lacked integrity and created the appearance of preferential treatment.
8 Board and executive director determine best mechanism for legal assistance	Contracting - best lawyers	Will study and meet with Corporation Counsel.	DCSEC's Board of Directors and executive director conduct a study to determine whether it is cost effective to employ an optimally sized full-time legal staff, use the legal resource of other District agencies such as the Office of Corporation Counsel on a short-term or temporary basis, contract out only specified types of legal work, or contract out all legal work to a private law firm based upon the use of a competitive procurement process. In the meantime, when DCSEC lacks the requisite legal resources of expertise in-house, it should seek to utilize the legal expertise of the District's Office of the Corporation Counsel, under a cost reimbursement arrangement, on a temporary or short-term basis before it procures outside legal counsel.

**DC Auditor's Draft Report-
Sports Entertainment Commission. Contracting and Procurement & Spending Practices**

Recommendation	Area/Function	Commission Response	Full Recommendation
		DRAFT	
9 DCSEC must use competitive procurement	Contracting - lawyers and rules and regulations	Same as #7.	In procuring legal services, DCSEC must use a competitive procurement process that is fair, open, and well-documented. Further, the competitive process used must ensure that quality legal services are obtained at a reasonable price.
10 Board create guidelines for contracting with outside counsel	Contracting - lawyers and rules and regulations	Will incorporate into procurement policies and regulations ensuring adequate Board oversight.	DCSEC's Board of Directors and executive director prepare written guidelines, approved by a majority of the Board of Directors, which set forth; (a) the criteria for deciding whether to seek outside legal counsel; and (b) criteria and procedures regarding the type of legal work to be obtained from outside legal counsel, the specific agency official authorized to request legal services from a legal services contractor, cost control measures, and monitoring the quality of services rendered.
11 Executive director better manage travel	Spending - travel	Will be consistent with Board policy governing entertainment and hospitality expenses. See #12.	DCSEC's executive director exercise effective management control over the authorization of travel at DCSEC's expense to ensure that it is necessary, economically priced, fully documented, and directly related to DCSEC's core mission.
12 Board establish policy for entertainment and hospitality expenditures	Spending - rules and regulations	Implementation Committee will develop a policy ensuring adequate Board oversight.	DCSEC's Board of Directors establish a policy regarding the expenditure of DCSEC funds by the executive director and any other DCSEC employee for entertainment and hospitality expenses. The policy should, at a minimum, include a requirement for a written justification to be submitted to and approved by a majority of the Board of Directors prior to the obligation of DCSEC funds to pay the expense. The failure to comply with this policy and procedure should result in the accountable employee being held personally liable for reimbursing the expenditure to DCSEC.

**DC Auditor's Draft Report-
Sports Entertainment Commission. Contracting and Procurement & Spending Practices**

Recommendation	Area/Function	Commission Response	Full Recommendation
		DRAFT	
13 Board and executive director temporarily stop sponsoring and contributing to events. Board establish policy for this type of spending	Spending - reductions and rules and regulations	Implementation Committee will establish a policy to govern. Sponsorship contributions will be discontinued until a policy is in place. Prior to the establishment of such policy, the Executive Director will not authorize sponsorship contributions without Board approval.	DCSEC's Board of Directors and executive director should discontinue the practice of sponsoring events and making contributions for various projects until the organization's financial position improves. Further, the Board of Directors should consider establishing a policy and procedures which govern the use of DCSEC funds to make contributions to or sponsor events presented by other organizations, when such activities fall outside of DCSEC's grant award process.
14 Executive director and armory manager reimburse DCSEC for personal expenses	Spending - repayment	DCSEC believes repayment has been made. See accompanying letter.	DCSEC's executive director and armory manager immediately reimburse DCSEC for personal expenditures charged to the corporate credit card totaling \$2,308.35. If these reimbursements are not made within 15 days of the date of this final report, the amounts should be deducted from each manager's salary payments until fully repaid.
15 Executive Director cancel all corporate credit cards	Spending - reductions	Use of corporate credit cards will be suspended until implementation of same rules promogated by the District executive.	DCSEC's executive director immediately cancel all corporate credit cards issued in DCSEC's name, or the names of its employees if DCSEC is ultimately responsible for paying the bills, and provide the Auditor with evidence of the cancellation within 15 days of the date of this report.

DC Auditor's Draft Report-
Sports Entertainment Commission. Contracting and Procurement & Spending Practices

Recommendation	Area/Function	Commission Response	Full Recommendation
		DRAFT	
16 Managers reimburse DCSEC for undocumented expenses	Spending - repayment	If an expenditure is not acceptably documented or is determined to be inappropriate, repayment will be required.	Each manager responsible for expenditures that are not supported by adequate or any documentation must repay these expenditures to DCSEC within 60 days of the date of this report, unless adequate original supporting documentation can be provided. If these officials fail to provide adequate original documentation to support each expenditure and fail or refuse to repay these charges to DCSEC, the Auditor will refer this matter to appropriate law enforcement authority for further investigation and the Office of Corporation Counsel to initiate the appropriate civil action to recover these funds. At a minimum, the Executive Director must substantiate or repay \$13,793; the Armory Manager must substantiate or repay \$5,672.75, and the Chief Financial Officer must substantiate or repay \$1,593.29
17 Board create policy governing corporate credit cards	Spending - rules and regulations	Same as #15.	DCSEC's Board of Directors establish a specific policy and process regarding the criteria that must be used to determine the necessity for corporate credit cards to be issued in DCSEC's name, in addition to the criteria that will be used to determine which DCSEC employees will be assigned credit cards; expenditure limits for each card; the types of purchases that cards may be used to make; regular specific reports that must be filed with the Board concerning expenditures made with all credit cards issued to DCSEC employees including the executive director; a requirement that the executive director develop complete policies and procedures regarding credit card usage that must be adhered by DCSEC employees under his management control; and specific accountability measures that will be applied by the Board for any failure of the executive director to the executive director to comply with the Board's policy and procedures.
18 Mayor reimburse DCSEC for airfare	Spending - repayment		The Mayor reimburse DCSEC \$2,315 for the purchase of first class air fare for his spouse and first class airfare for himself.
19 Unnamed official reimburse DCSEC for campaign contribution	Spending - repayment	If this expenditure is determined to be inappropriate, repayment will be required.	The DCSEC official who authorized the disbursement of \$1,116 to the campaign to Re-elect Bill Campbell reimburse DCSEC for this improper expenditure of public funds.
20 Executive director and armory manager reimburse personal expenses	Spending - repayment	Same as #14.	The Executive Director and Armory Manager repay DCSEC \$2,308.35 for personal expenses charged to their DCSEC credit cards

**DC Auditor's Draft Report-
Sports Entertainment Commission. Contracting and Procurement & Spending Practices**

Recommendation	Area/Function	Commission Response	Full Recommendation
21 Change management team	General - Staff expertise	Referred to Personnel Committee.	In light of financial and procurement irregularities, questionable spending, deplorable financial condition of DCSEC, and poor management performance rendered to DCSEC by the current executive director, DCSEC's operations would substantially benefit from a new management team.

DRAFT

21 Change management team

General - Staff expertise

Referred to Personnel Committee.

In light of financial and procurement irregularities, questionable spending, deplorable financial condition of DCSEC, and poor management performance rendered to DCSEC by the current executive director, DCSEC's operations would substantially benefit from a new management team.

Note:

Implementation of the Auditor's recommendations, where indicated, will be accomplished no later than December 31, 2003, in order to provide an opportunity for a new chairman to participate in the discussion and development of such policies.

Sports and Entertainment Commission Achievements

In 1999, to permit us to retain the business we had and compete effectively for new business so that we could achieve our legislative goals, we adopted a strategy to use our accumulated retained earnings to improve our physical assets and upgrade the quality of our staff.

We recruited and hired highly qualified professionals with experience and expertise in the industry.

We improved the training, management and development of our existing staff.

We developed and implemented new management, financial and data transmission systems.

We upgraded all our physical assets (new paint, new signage, thorough cleaning, new scoreboards and videoboard, new sound system, new parking systems, new ticketing facilities, repaired parking lots) and improved our staff to assure a better fan experience and impress potential patrons and event partners.

We played a very prominent role in the leadership of the Washington bid for the 2012 Summer Olympics. We made the "final four" cities but were eliminated by one out of twenty votes cast for the final contenders. The USOC repeatedly noted that the capabilities of the Commission and the condition of its assets enhanced the Washington bid by establishing its credibility.

We continue to have a leadership role in the effort to bring Major League Baseball back to the District and the Washington market, which we believe has made the city the leading contender if Major League Baseball decides to relocate the Montreal Expos. Baseball representatives and others have repeatedly noted the professionalism of the Commission and improved condition of its assets as demonstrating the credibility necessary to be successful with MLB.

In 1999, Major League Soccer was so dissatisfied with the Commission and its assets that it had decided that D.C. United would leave Washington. Based on our changed strategy, new policies and new people, United decided to stay at RFK and we are currently exploring together the concept of building a new soccer stadium in Washington. Kevin Payne, the managing director of United's parent company, AEG, testified to this effect at a City Council hearing earlier this year.

In 1999, the WUSA, the new women's professional soccer league, was not inclined to plan to play its games in Washington. Because of the performance of the Commission, the Washington Freedom came to the city and RFK, has led its league in attendance twice in three years, won the 2003 WUSA championship and looks forward to remaining at RFK.

In 2001, the Commission attracted to RFK every touring concert act that played a stadium in our region. Tour promoters assure us that that achievement was due to the new strategy the Commission adopted and the newly enhanced professionalism of the Commission's staff. Among the acts that came to RFK were *NSYNC, Dave Matthews Band and the WHFStival.

The Commission has expanded its community outreach program and been able to support more and more District-based youth sports and entertainment programs and activities.

The Commission was a charter member of the Anacostia Waterfront Initiative and one of its first funding members. The Commission continues to have an active role in this program as well as other city-wide projects.

The Commission has led the effort to restore professional boxing to Washington.

Because of the improvements made at RFK, Washington has enhanced its stature as an internationally recognized soccer venue. Just this year alone, the Commission attracted to RFK the prestigious Barcelona-AC Milan match which drew over 45,000 fans in July and three doubleheader dates of the 2003 FIFA Women's World Cup including the USA national team's opening game in September.

The Commission has established a regular pattern of meeting with its neighbors to discuss upcoming events and other matters of mutual interest.

The Cadillac Grand Prix was, by most measures, a very successful sports and entertainment event. It generated approximately \$12 million in direct spending in the District at a time when the City was suffering significantly. It provided a prominent positive spike in hotel and restaurant patronage and attracted some 70,000 fans over the three-day event. Metro ridership increase significantly. The Commission earned \$450,000 in net revenue. The national and international television exposure over a summer weekend was extraordinary and distinguished Washington, the City, as an important site for important international events. While there were significant disappointments associated with the event, most notably the failure of the promoter to satisfy its contractual obligations with respect to noise control, the event demonstrated that the City and the Commission are fully capable of hosting major world-class events.

The Commission has established a close working relationship with the D.C. Public Schools and has been able to help the school system in many significant ways. The Commission has been the presenting sponsor of the annual City Title high school basketball games featuring the boys and girls champions of the D.C. Inter-Scholastic Athletic Association and the Washington Catholic Athletic Conference. The Commission has also made the Armory available, on a cost-free basis, for D.C. public school track meets. The Commission has also sponsored high school and youth soccer tournaments on RFK's auxiliary soccer fields.

The Commission has devoted a significant amount of time and attention promoting the Armory as a premier venue for sports and entertainment activities.

The Commission played an important role in securing the return to Washington of Sesame Street Live, the national touring children's show, and other family events.

The Commission produced The Fright House at the Armory, which was viewed as a very successful production, unfortunately offered at a very bad time — in the middle of the area-wide assault by the "Beltway Snipers." The originally planned debut for The Fright House in 2001 was postponed due to the tragic events of September 11.

Following the tragic events of September 11, the annual biking marathon, Bike DC, could not be conducted as originally planned. The Commission stepped in and played a prominent role in reestablishing that important event.

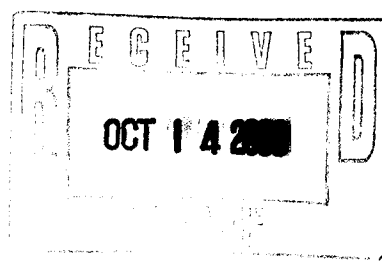
At or about the same time, the Commission was responsible for conceiving and being a partner in presenting the United We Stand benefit concert at RFK, which brought together many world-class performers, produced substantial sums of money for the relief organizations of the September 11 tragedy, and helped demonstrate to the world that the City was safe, secure and open for business.

The Commission has played a prominent leadership role in a new and different venture: to identify underutilized properties owned or available to the City which can be improved and made more useful with some financial assistance. The first project involves developing a plan for the establishment of a significant number of new recreational and athletic facilities at Kenilworth Park. This major initiative, created with the cooperation of the D.C. Department of Parks and Recreation and with the active assistance of the Mayor, Councilmember Kevin Chavous, the National Park Service and the local community, entails the construction of a new multi-million dollar facility to benefit soccer, baseball, softball and other recreational interests in the neighborhood and around the entire City.

The Commission has continued and enhanced the flea market and farmers' markets regularly held on the RFK campus.

The Commission has been able to provide more and better services for Feld Entertainment's Ringling Bros. and Barnum & Bailey Circus.

The Commission has improved markedly the food and beverage and parking experiences at its facilities by establishing higher standards of quality and service and insisting that these standards be satisfied for every event.



October 14, 2003

Ms. Deborah K. Nichols
District of Columbia Auditor
717 14th Street, NW
Suite 900
Washington, D.C. 20005

Dear Ms. Nichols:

The attached has been prepared and is submitted in reply to your draft report of September 11, 2003: "District of Columbia Sports and Entertainment Commission's Contracting, Procurement and Spending Practices Characterized by Mismanagement, Noncompliance and Inadequate Controls."

As Interim Chairman of the Board, I submit the following as additional comments applying more generally to both the audit report noted above and the earlier audit report: "District of Columbia Sports and Entertainment Commission's Executive Leadership Failed to Implement an Effective Governance Structure to Ensure Sound Financial Management Decisions, Management Accountability and Compliance with Applicable Laws and Regulations." Although my service as Interim Chairman followed the period covered in the audit report, I did serve as a member of the Board during a portion of that period. Accordingly, I believe my comments warrant your consideration. I also believe they may be useful to the Mayor and the DC Council, as they evaluate the current position of the Commission and develop policies to sustain it as an important component of the District's economic development efforts. Also, in order to obtain full and accurate information regarding the period prior to my joining the Board, a copy of the draft reports was shared with former Chairman John L. Richardson, who has also submitted comments that are attached for your consideration.

It is apparent from the draft reports that the management of the Commission, at least in certain instances, did not strictly observe all applicable contracting and procurement rules and regulations. Some of those instances were oversights; most involved efforts to expedite event-related matters of some urgency in a sports and entertainment marketplace not characterized by the same formality of governmental administrative procedure. In no instance was there an effort to circumvent applicable contracting and procurement rules as a means of directing Commission business to a particular contractor or vendor. As the attached shows, the audit findings and recommendations have been duly noted, and management procedures that relate to the documentation of contract and procurement actions have been, or are being, appropriately adjusted where necessary.



Ms. Deborah K. Nichols

The following comments are submitted to offer a more substantive appraisal of the Commission's operations than that provided in the audit reports.

The audit reports portray the decline in the Commission's investment balances as the result of "excessive spending" which, in turn, is attributed to a "failure of governance." It does this without considering at all the condition of the Commission's facilities in 2000 and the revenue constraints that have applied since the departure of the Redskins from RFK Stadium in 1997. The interpretation of events, then, is so simplistically drawn as to suggest no intent whatsoever to address the actual causes of the investment balance decline. Instead, the audit reports take the fact of the decline, justified or not, as a *prima facie* case for a "failure of governance."

I would submit that the Commission's investment balances declined not because its Board functioned as a whole without certain standing committees until 2002; not because a strategic plan document was not published (the goals of the Commission were clearly spelled out in the Executive Director's employment contract and have been articulated publicly on any number of occasions); not because there was no personnel manual (the Commission observed DC government personnel regulations); not because "a focus on baseball and the Olympics epitomized the failure of Board and management leadership" (both were mandates of the Williams' administration, not Commission obsessions); not because the Chairperson "operated autonomously" in hiring the Executive Director (a search committee of five Board members made the selection); and not because the management's record keeping procedures could be improved.

The point is simply this. Investment balances declined because the Commission could not generate sufficient revenues from available market opportunities to finance its current operations, necessary capital expenditures and its marketing and development responsibilities. To simply ascribe that decline to "deficit spending" is to stunningly miss the point. The lion's share of the reduction in investment balances (some \$11 million) was the result of capital expenditures for RFK Stadium and the Armory to (1) retain men's professional soccer in the District; (2) introduce women's professional soccer and attract other sports and entertainment events to the District; (3) support the city's bid for Major League Baseball and the 2012 Olympics; and (4) execute Commission event initiatives. The cash balances built up over the Redskins' years provided the only practical source of funding for that investment spending – without which RFK would have ceased to function as a viable venue for sports and entertainment in the District.

It would have been helpful in evaluating the operations of the Commission if the audit had made an effort to better understand and address the competitive

Ms. Deborah K. Nichols

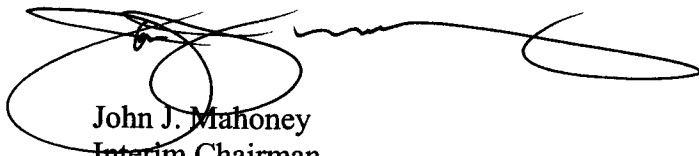
economics of the sports and entertainment marketplace. The audit might then have discovered that the well regarded Maryland Stadium Authority, which operates big-ticket, high-attendance stadiums for both Major League Baseball (Orioles) and the National Football League (Ravens) reported an FY2002 operating loss of \$7.1 million. In Maryland, that loss is apparently not regarded as egregious deficit spending, but rather as an acceptable subsidy cost for capturing the economic benefits of big league sports recreational spending in Baltimore.

What all the above suggests is that an audit report of broader perspective and more balanced judgment would have arrived at what is the crucial question – ie, given the facilities it operates and maintains in competition with more contemporary venues in the greater Washington market, and given the limitations of its current and predictable revenue streams, does it make sense to regard the Commission as a self-funding entity?

Clearly, the present financial position of the Commission raises important policy issues. They transcend simplistic charges of so-called deficit spending and a failure to seek supplemental Congressional appropriations. Maintaining a competitive sports and entertainment promotion capability in the District will require an evenhanded, informed consideration of marketplace realities, the Commission's future structure and the city's economic development objectives.

I regret that the draft audit report offers little help to the District's policy makers in those considerations.

Sincerely,

A handwritten signature in black ink, appearing to read "John J. Mahoney", with a large, sweeping flourish extending to the right.

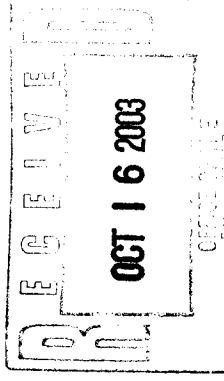
John J. Mahoney
Interim Chairman
D.C. Sports and Entertainment Commission

cc: Board of Directors
Robert D. Goldwater

Attachments

DC Auditor's Draft Report-
Sports & Entertainment Commission. Contracting and Procurement & Spending Practices

Recommendation	Area/Function	Commission Response	Full Recommendation
1 Council approval for contracts over \$1 million	Contracting - limits and oversight	DCSEC will follow Council law. Implementation Committee will put procedures in place.	The DCSEC Board of Directors and management comply with District laws requiring the submission of Sports and Entertainment Commission contracts in excess of \$1,000,000 to the Council of the District of Columbia for review and approval.
2 DCSEC CFO, Counsel and contracting officer should not be same person	General - Staff expertise	Personnel Committee will make recommendations to the Board.	With regard to the employee serving in the capacity of chief financial officer, in-house legal counsel, and contracting officer, the Board of Directors should immediately ensure that these three functions are not administered under any circumstances by the same employee. The Board of Directors, through its Personnel Committee, should use a competitive recruitment and selection process to identify qualified, competent candidates who possess an adequate mix of governmental and private sector expertise appropriate to the requirements of DCSEC's legal, financial, and procurement operations.
3 Revise procurement regulations	Procurement - rules and regulations	Contracts & Procurement Committee will work from current By-Laws to refine regulations and develop a policy document to bring into conformance with standard contracting and procurement procedures.	DCSEC's Board of Directors, through the Contracting and Procurement Committee, revise current procurement regulations to address deficiencies related to small purchases, competitive bidding, and sole source procurements, including specific provisions to govern contracts for consulting and expert services and the use of retainer agreements and retainer fees.
4 Hold executive director accountable for development of procurement guidelines	Procurement - rules and regulations and executive director accountability	Contracts & Procurement Committee will develop rules and regulations to ensure fair and competitive procurement practices as they relate to small purchases.	DCSEC's Board of Directors, through the Contracting and Procurement Committee, hold the executive director accountable for the development of more comprehensive procurement procedures governing small purchases, including implementing a requirement for a minimum of three quotes for all small purchases above a specific dollar threshold to ensure fair and competitive procurement practices.



**DC Auditor's Draft Report-
Sports & Entertainment Commission. Contracting and Procurement & Spending Practices**

Recommendation	Area/Function	Commission Response	Full Recommendation
5 Board identify procurement documentation	Procurement - rules and regulations	Contracts & Procurement Committee will draft procurement policies and procedures ensuring adequate Board oversight and documentation.	DCSEC's Board of Directors, through the Committee on Contracting and Procurement, identify specific requirements for and documentation to be maintained by management in the solicitation and evaluation of proposals submitted through the competitive bidding process.
6 Board oversight of procurement and contracting	Procurement - board oversight	Contracts & Procurement Committee will develop and implement procedures for enforcing current requirement ensuring Board approval.	DCSEC's Board of Directors must exercise more extensive and effective oversight of DCSEC's procurement and contracting activities; establish policies and procedures that ensure the Board's scrutiny and approval of contracts exceeding \$50,000 before management awards such contracts; and require management's strict adherence to requirements under DCSEC's procurement regulations with regard to the award of sole source contracts.
7 Terminate non-competitive contracts with law firms	Contracting - lawyers	It is DCSEC's belief that the private law firm was selected in a competitive process.	DCSEC management immediately terminate all agreements with private law firms in that these agreements were based on a noncompetitive procurement process that lacked integrity and created the appearance of preferential treatment.
8 Board and executive director determine best mechanism for legal assistance	Contracting - best lawyers	Will study and meet with Corporation Counsel.	DCSEC's Board of Directors and executive director conduct a study to determine whether it is cost effective to employ an optimally sized full-time legal staff, use the legal resource of other District agencies such as the Office of Corporation Counsel on a short-term or temporary basis, contract out only specified types of legal work, or contract out all legal work to a private law firm based upon the use of a competitive procurement process. In the meantime, when DCSEC lacks the requisite legal resources of expertise in-house, it should seek to utilize the legal expertise of the District's Office of the Corporation Counsel, under a cost reimbursement arrangement, on a temporary or short-term basis before it procures outside legal counsel.
9 DCSEC must use competitive procurement	Contracting - lawyers and rules and regulations	Same as #7.	In procuring legal services, DCSEC must use a competitive procurement process that is fair, open, and well-documented. Further, the competitive process used must ensure that quality legal services are obtained at a reasonable price.

**DC Auditor's Draft Report-
Sports & Entertainment Commission. Contracting and Procurement & Spending Practices**

Recommendation	Area/Function	Commission Response	Full Recommendation
10 Board create guidelines for contracting with outside counsel	Contracting - lawyers and rules and regulations	Will incorporate into procurement policies and regulations ensuring adequate Board oversight.	DCSEC's Board of Directors and executive director prepare written guidelines, approved by a majority of the Board of Directors, which set forth; (a) the criteria for deciding whether to seek outside legal counsel; and (b) criteria and procedures regarding the type of legal work to be obtained from outside legal counsel, the specific agency official authorized to request legal services from a legal services contractor, cost control measures, and monitoring the quality of services rendered.
11 Executive director better manage travel	Spending - travel	Will be consistent with Board policy governing entertainment and hospitality expenses. See #12.	DCSEC's executive director exercise effective management control over the authorization of travel at DCSEC's expense to ensure that it is necessary, economically priced, fully documented, and directly related to DCSEC's core mission.
12 Board establish policy for entertainment and hospitality expenditures	Spending - rules and regulations	Implementation Committee will develop a policy ensuring adequate Board oversight.	DCSEC's Board of Directors establish a policy regarding the expenditure of DCSEC funds by the executive director and any other DCSEC employee for entertainment and hospitality expenses. The policy should, at a minimum, include a requirement for a written justification to be submitted to and approved by a majority of the Board of Directors prior to the obligation of DCSEC funds to pay the expense. The failure to comply with this policy and procedure should result in the accountable employee being held personally liable for reimbursing the expenditure to DCSEC.
13 Board and executive director temporarily stop sponsoring and contributing to events. Board establish policy for this type of spending	Spending - reductions and rules and regulations	Implementation Committee will establish a policy to govern. Sponsorship contributions will be discontinued until a policy is in place. Prior to the establishment of such policy, the Executive Director will not authorize sponsorship contributions without Board approval.	DCSEC's Board of Directors and executive director should discontinue the practice of sponsoring events and making contributions for various projects until the organization's financial position improves. Further, the Board of Directors should consider establishing a policy and procedures which govern the use of DCSEC funds to make contributions to or sponsor events presented by other organizations, when such activities fall outside of DCSEC's grant award process.

DC Auditor's Draft Report-
Sports & Entertainment Commission. Contracting and Procurement & Spending Practices

Recommendation	Area/Function	Commission Response	Full Recommendation
14 Executive director and armory manager reimburse DCSEC for personal expenses	Spending - repayment	DCSEC believes repayments have been made.	DCSEC's executive director and armory manager immediately reimburse DCSEC for personal expenditures charged to the corporate credit card totaling \$1,648.35. If these reimbursements are not made within 15 days of the date of this final report, the amounts should be deducted from each manager's salary payments until fully repaid.
15 Executive Director cancel all corporate credit cards	Spending - reductions	Use of corporate credit cards will be suspended until implementation of same rules promogated by the District executive.	DCSEC's executive director immediately cancel all corporate credit cards issued in DCSEC's name, or the names of its employees if DCSEC is ultimately responsible for paying the bills, and provide the Auditor with evidence of the cancellation within 15 days of the date of this report.
16 Managers reimburse DCSEC for undocumented expenses	Spending - repayment	If an expenditure is not acceptably documented or is determined to be inappropriate, repayment will be required.	Each manager responsible for expenditures that are not supported by adequate or any documentation must repay these expenditures to DCSEC within 60 days of the date of this report, unless adequate original supporting documentation can be provided. If these officials fail to provide adequate original documentation to support each expenditure and fail or refuse to repay these charges to DCSEC, the Auditor will refer this matter to appropriate law enforcement authority for further investigation and the Office of Corporation Counsel to initiate the appropriate civil action to recover these funds. At a minimum, the Executive Director must substantiate or repay \$8,938.89; the Armory Manager must substantiate or repay \$291.37; and the Chief Financial Officer must substantiate or repay \$2,141.81.
17 Board create policy governing corporate credit cards	Spending - rules and regulations	Same as #15.	DCSEC's Board of Directors establish a specific policy and process regarding the criteria that must be used to determine the necessity for corporate credit cards to be issued in DCSEC's name, in addition to the criteria that will be used to determine which DCSEC employees will be assigned credit cards; expenditure limits for each card; the types of purchases that cards may be used to make; regular specific reports that must be filed with the Board concerning expenditures made with all credit cards issued to DCSEC employees including the executive director; a requirement that the executive director develop complete policies and procedures regarding credit card usage that must be adhered by DCSEC employees under his management control; and specific accountability measures that will be applied by the Board for any failure of the executive director to the executive director to comply with the Board's policy and procedures.

**DC Auditor's Draft Report-
Sports & Entertainment Commission. Contracting and Procurement & Spending Practices**

Recommendation	Area/Function	Commission Response	Full Recommendation
18 Unnamed official reimburse DCSEC for airfare	Spending - repayment	The Board will review.	The DCSEC official who authorized the disbursement of \$2,315 for the purchase of first class air fare for the Mayor and his spouse must reimburse DCSEC for this improper expenditure of public funds.
19 Unnamed official reimburse DCSEC for campaign contribution	Spending - repayment	If this expenditure is determined to be inappropriate, repayment will be required.	The DCSEC official who authorized the disbursement of \$1,116 to the campaign to Re-elect Bill Campbell reimburse DCSEC for this improper expenditure of public funds.
20 Change management team	General - Staff expertise	Referred to Personnel Committee.	In light of financial and procurement irregularities, questionable spending, deplorable financial condition of DCSEC, and poor management performance rendered to DCSEC by the current executive director, DCSEC's operations would substantially benefit from a new management team.

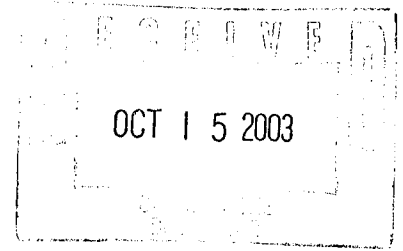
Note:

Implementation of the Auditor's recommendations, where indicated, will be accomplished no later than December 31, 2003, in order to provide an opportunity for a new chairman to participate in the discussion and development of such policies.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



Natwar M. Gandhi
Chief Financial Officer



October 14, 2003

Deborah K. Nichols
District of Columbia Auditor
Office of the District of Columbia Auditor
717 14th Street, NW, Suite 900
Washington, DC 20005

Dear Ms. Nichols:

Thank you for the opportunity to comment on the draft report entitled, "District of Columbia Sports and Entertainment Commission's Contracting, Procurement, and Spending Practices Characterized by Mismanagement, Noncompliance, and Inadequate Internal Controls." We have no comments on this draft report.

If you have any questions please do not hesitate to contact Ben Lorigo at 442-6433.

Sincerely,

A handwritten signature in black ink, appearing to be 'Natwar M. Gandhi', written over a large, stylized, looped signature line.

Natwar M. Gandhi
Chief Financial Officer

cc: John Ross, Chief of Operations, ORA
Ben Lorigo, Executive Director, OIO