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Too late. DCA's CSAC loan can't put the genie back in the bottle.

When a private business is facing red ink, owners are faced with tough decisions. Do I raise prices on the products I'm selling? Do I fire some of my employees? How much spending do I have to cut? The decisions can impact the lives of hard-working employees who have given everything they could to help keep a company alive and thriving. Loans are tough to get when there's a credit freeze and they're even tougher to acquire when the economy stinks and your credit rating isn't so hot.

When a state government is broke, they also face painful choices. They can fire employees. They can raise taxes. They can cut spending. Somebody's going to feel pain on some level. Even if a request is made for a Federal loan or grant to pay for a project like high-speed rail, someone has to pick up the tab. It's the taxpayers, stupid.

So, leave it to the [Department of Consumer Affairs](#) to come up with a scenario for one of their agencies (the [California State Athletic Commission](#)) when it's broke. How about a taxpayer-financed, interest-free, collateral-free transfer of funds from the state of California's General Fund to DCA? How about such a loan being processed through different DCA bureaus so that it's harder for the general public to keep track of where the money is coming from? Welcome to the financial mess that CSAC has found itself in for July of 2012.

As a private citizen, you go try getting a loan from a bank with the kind of credit rating that the state of California has... and not only that, try to get an interest-free loan where you don't have to put up any collateral whatsoever. Good luck on that proposition.

It's always fascinating to listen to the Department of Consumer Affairs lecture about how the athletic commission is supposed to be a self-sufficient regulatory body. After all, there's some truth to that. CSAC, when they were on their own accord in the 1990s, was self-sufficient. However, thanks to the Department of Consumer Affairs and CSAC's budget getting attached to the General Fund & DCA accounting, we now have the kind of mess on our hands that never should have happened in the first place. It's DCA that rubber stamps budget figures for the athletic commission. It's DCA's legal department, rather than independent counsel for the athletic commission, that advises & instructs board members on what decisions are best to make. The absurdity of DCA lecturing anyone about fiscal responsibility is crazy.

Consider the following — if you are an agency under DCA control and you are in debt, DCA steps in and gets a loan from the state's General Fund to cover the mess up. Now, imagine you are an agency under DCA that actually is fiscally responsible and is in the black for revenues. Instead of keeping the cash in reserve in case of future financial problems, these agencies occasionally end up loaning out their surpluses to the state's

General Fund so that a DCA board that is in debt can get a loan from the GF. It's the kind of classic bureaucratic taxpayer-funded shell game that drives voters nuts. It's also a game that DCA has played brilliantly for so many years and hasn't have to face much public scrutiny over.

[As discussed with Jordan Breen last week on Sherdog Radio](#), the reason why the DCA/CSAC civil war scandal is such a challenging story to report in terms of capturing reader interest is because many of the names mentioned are faceless bean-counters that the public simply doesn't know about. However, when I name drop government lifers like Denise Brown, Awet Kidane, Anita Scuri, Doreathea Johnson, and Karen Chappelle, I do it for a reason. These are people in positions of political power in which they control the purse strings of taxpayer cash. Because DCA doesn't let the California State Athletic Commission act as an independent, self-sufficient body, they are the ones who have set themselves up for scandal after scandal in terms of their various political dealings. When fight fans complain about how it is possible that there is such bad officiating, judging, and refereeing of fights, the answer is simple – rotten apples get booked by bad bureaucrats in state governments. If you want to know why an athletic commission like California's often gets filled up with political lifers who have little or no experience with combat sports, then take a look at how the Department of Consumer Affairs operates. [As elaborated on Jordan Breen's radio program](#) and [also in this post](#), the Department of Consumer Affairs micromanages and interferes with the business of the California State Athletic Commission because the regulatory body is a dumping & transfer station for them to help their various political buddies in the state government. Got a budget cut coming at the Board of Pharmacy? Shift some of those workers over to CSAC. Need to get rid of someone at CSAC to save their state career? Ship them over to the [Pest Control Board](#).

All of the decisions made by the Department of Consumer Affairs have an impact on the regulatory practices that are implemented by the athletic commission at fight shows and at public meetings. Because the state of affairs for combat sports business in California is substandard right now, every decision made by DCA should absolutely be scrutinized & publicized.

At the June 26th El Monte, California hearing where DCA sent a dozen officials to try to terminate George Dodd's career as Executive Director, Dodd stated at the hearing that one of the reasons revenues were being drained from CSAC is because the regulatory body has been paying off prior loans. This is the kind of admission that DCA does not want the public to fixate on. It's easy for the public to not know about this when DCA refuses to put the audio or video from the El Monte hearing online. They're pulling the same farcical stunt in regards to releasing the multimedia from their June 30th 9 AM meeting in Sacramento.

You know, [the fake emergency meeting](#) that was classified as a standard meeting. The meeting where less than 16 hours of advance notice was given to the public. DCA can try to re-write history in the minutes by claiming that they cited emergency meeting codes at the hearing itself, but they failed to properly classify the meeting as an emergency meeting in the formal agenda notification. [As we found out on Friday night](#), it appears that there was a very good reason that DCA was not thrilled about details of the June 30th hearing being publicized.

DCA is advising CSAC on getting a new loan.

The absurdity of political fixers from DCA advising CSAC on getting a loan after [they sent the commission an insolvency letter](#) in which they outlined some root causes for the athletic commission's financial troubles is execrable. It's even worse when some of those reasons outlined indicate that DCA knows about ongoing fraud of taxpayer money and won't arrest or fire anyone over it. In addition, [we outlined in our June 16th budget analysis of the last four years of CSAC business affairs](#) what was happening with all the revenues that were coming in. When you have DCA legal advising CSAC on which full-time state employees could or should be used and you send those individuals all across the state for fight bookings on the taxpayer's dime, then of course in-state travel costs and inspector salary costs are going to explode. Full-time state employees get paid time-and-a-half overtime wages while working as inspectors for CSAC. Not only do they get time-and-a-half pay, they also get their airplane tickets and rental car bills paid for (along with their meals). For some full-time state employees, being an inspector can be one rewarding joyride on the backs of the state's taxpayers.

And, yet, despite all of this data being readily available, what is DCA's natural inclination? To cover up the mess by getting a loan from the state's General Fund in order to try to mask the athletic commission's problems. It's a financially abhorrent & irresponsible act and, politically-speaking, it's an incredibly stupid way to try to deflect attention from CSAC's issues. You're just inviting more trouble by going this route.

If you have the time and the stomach to go through a couple of hundred pages of Bureau of State Audit reports about all the malfeasance & corruption at CSAC (along with mismanagement of the boxer's pension fund), you can read them here in three parts: [part one](#), [part two](#), and [part three](#).

Which is why we decided to take a look at DCA's behavior in regards to financial decisions with CSAC over the last decade. What we discovered in our research reveals a lot about how DCA operates and how their old tricks will not work so well this time around.

CSAC before and after Armando Garcia

When we first started investigating the California State Athletic Commission a couple of months ago, [we ran into an illuminating article in The Los Angeles Times](#) dated August 25th, 2004. The article laid out how DCA, CSAC, & California Deputy AG Karen Chappelle signed off on giving producers of the boxing reality TV shows *The Next Great Champ* and *The Contender* millions of dollars in tax breaks and permission to not immediately disclose the results of contests that were taped for those respective shows. The LA Times report immediately created a public relations nightmare for DCA that sent everyone into 'no comment' land.

To put these actions into proper context, MMA regulation was not in place in California at the time. Rob Lynch was the Executive Director of CSAC in 2000 when California had the chance to implement the Unified Rules. However, DCA didn't implement them and New Jersey embraced the Unified Rules to get proper regulation rolling.

Several months after the LA Times report about the tax breaks for the reality boxing TV shows, Rob Lynch was replaced as Executive Director at CSAC. [On March 8th, 2005, Armando Garcia was fast-tracked to the position.](#) It was around this time that [MMA regulation was getting approved](#) in California and a debate soon raged on over whether or not PRIDE rules should be implemented. The ability of promoters to promote MMA events using a ring instead of a cage along with consideration for 10-5-5 minute rounds was on the table. For MMA fans, this feels like ancient history when, in fact, it was only seven years ago.

Within a couple of months of Armando Garcia's tenure, a curious transaction was made by the Department of Consumer Affairs. Through the state's General Fund via the Bureau of Automotive Repair's Vehicle Inspection and Repair Fund, CSAC was issued a loan for \$320,000 USD that was to be repaid over two years. In other words, CSAC had debt before Armando came into power and DCA decided to try to fix whatever mess was going on at the time. Juxtapose that with DCA, just months before, approving millions of dollars of tax breaks for TV show producers that could have contributed significant revenue to CSAC. As noted in the LA Times article, the reason DCA blinked and gave in on the requests is because of fear that *Next Great Champ* and *The Contender* would not be filmed in California.

How did I discover DCA's \$320,000 loan for CSAC? I discovered [an April 2009 spreadsheet](#) that highlighted revenues for the Vehicle Inspection and Repair Fund. Take a look at what was listed as transfers from other funds:

**0421 - BAR Vehicle Inspection and Repair Fund
Analysis of Fund Condition**

Prepared 4/2/2009

(Dollars in Thousands)

2009-10 Governor's Budget					
	2005-06	2006-07	2007-08	2008-09	Proposed 2009-10
BEGINNING BALANCE	\$ 46,263	\$ 53,333	\$ 62,133	\$ 70,365	\$ 31,582
Prior Year Adjustment	\$ 2,737	\$ 9,547	\$ 14,605	\$ -	\$ -
Adjusted Beginning Balance	\$ 49,000	\$ 62,880	\$ 76,738	\$ 70,365	\$ 31,582
REVENUES AND TRANSFERS					
Revenues:					
Other regulatory fees	\$ 1,672	\$ 1,698	\$ 1,699	\$ 1,668	\$ 1,701
Other regulatory licenses and permits	\$ 99,961	\$ 100,617	\$ 99,736	\$ 102,028	\$ 103,335
Renewal fees	\$ 7,450	\$ 7,400	\$ 7,389	\$ 7,379	\$ 7,527
Delinquent fees	\$ 284	\$ 251	\$ 258	\$ 268	\$ 273
Sales of documents	\$ 56	\$ 42	\$ 30	\$ 36	\$ 37
Miscellaneous services to the public	\$ 16	\$ 39	\$ 8	\$ 20	\$ 21
Income from surplus money investments	\$ 2,361	\$ 3,708	\$ 3,297	\$ 1,492	\$ 797
Interest Income from interfund loans	\$ 10	\$ 4	\$ -	\$ 55	\$ -
Sale of fixed assets	\$ -	\$ -	\$ 24	\$ -	\$ -
Escheat of unclaimed checks and warrants	\$ 8	\$ 7	\$ 11	\$ 8	\$ 8
Miscellaneous revenues	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7
Totals, Revenues	\$ 111,825	\$ 113,773	\$ 112,459	\$ 112,961	\$ 113,706
Transfers from Other Funds					
Athletic Commission loan repayment per Item 1111-011-0421, BA of 2004	\$ 160	\$ 160	\$ -	\$ -	\$ -
Teale Data Center (CS 15.00, Bud Act of 2005)	\$ -	\$ -	\$ -	\$ -	\$ -
Naturopathic loan repayment per SC 14.00, BA of 2004	\$ 92	\$ -	\$ -	\$ -	\$ -
Fiduciary Bureau Loan repayment per CS 14.00, BA of 2006	\$ -	\$ -	\$ -	\$ 1,110	\$ -

It states that for Fiscal Years 2005-2006 (July 1st, 2005 – June 30th, 2006) & 2006-2007 (July 1st, 2006 – June 30th, 2007), CSAC paid VIRF two installments of \$160,000 USD each to pay back the \$320,000 USD loan. The transaction number, **1111-011-0421**, was linked to the Budget Act of 2004. On page 93 of the BA 2004-2005 finalized report, here's how the loan entry is displayed:

Item

- Notwithstanding Section 14.00 of this act, the Director of Finance may authorize a loan of up to \$320,000 from the Vehicle Inspection and Repair Fund to the State Athletic Commission. This loan shall be repaid by June 30, 2007.

Then, I matched up **1111-011-0421** with the [Department of Finance's 2009 General Fund's Loans obligation report](#). The transaction number links a \$100M USD loan from VIRF to the Department of Consumer Affairs.

Outstanding Loans to the General Fund
June 30, 2008 Balances
As Projected in the 2009-10 Governor's Budget
(whole dollars)

Attachment I

Org	Department	Item Number	Fund #	Fund Name	Authority	Outstanding Loan Balance as of June 30, 2008	Actual or Projected Loan Repayment Date
1111	Consumer Affairs	1111-011-0421	0421	Vehicle Inspection & Repair Fund	Budget Act of 2002	\$100,000,000	none specified

With DCA preparing a loan for the CSAC in July 2012, by hook or by crook there will be some evidence of the financial transaction somewhere and it will be an inviting transaction to look at for the purposes of auditing.

When Armando Garcia took over as Executive Director of CSAC, his badge of honor was that he was able to generate \$2M USD in revenue each year for the commission. With MMA regulation implemented, there was a dramatic increase in the number of shows that CSAC was regulating. The cash cow was in full swing. Armando was heavy-handed and made plenty of enemies but DCA had to love the fact that he was generating money for them at a high level.

\$2M USD sounds awfully dreamy today when compared to the revenue plummeting for CSAC to \$1.3M in FY 2011-2012. DCA's estimates for FY 2012-2013 indicate a similar level of revenue, if not worse.

Why a CSAC loan in July 2012 will not cover up incompetence & corruption

Whatever the loan amount is from the state's General Fund to DCA to cover up the mess with the athletic commission, it cannot prevent the fact that the genie is out of the bottle. If someone like me can look at opaque numbers on a spreadsheet and figure out what was going on — too much money being spent on inspector salaries & in-state travel costs — there should be no excuses for those who are getting paid to watch these kinds of transactions. . Of course, what the sheets never said is that it was full-time state employees getting time-and-a-half plus benefits for their joyrides. It also doesn't hide the fact that, [in their own insolvency letter sent to CSAC on May 31st](#), DCA admitted that they knew fraud of taxpayer money was going on because of some clowns billing the state extra hours and flying around the state from show to show. Rather than having someone get arrested or fired, DCA just merely chalked up the suggestion in their insolvency letter to CSAC as a suggestion for 'additional savings.'

Also not hidden is the fact that DCA held a 9 AM meeting on June 30th to start the process for a new CSAC loan on the last day of Fiscal Year 2011-2012. July 1st was the start of Fiscal Year 2012-2013. Huh.

However, this is not just the only reason why the current mess between DCA & CSAC will not disappear any time soon. There's plenty of reasons why the political class in the Sacramento offices should be very worried right now.

1. The public is smartening up to what's going on

This wasn't supposed to happen. No one was supposed to know just what kind of shape the California State Athletic Commission is in. Sure, staffers posted agenda items online and went through the mundane exercise of barely following the legal requirements for public notification about commission activities. What the bureaucrats didn't count on is that you would be paying attention to what they are actually up to. They didn't count on the fact that you would follow the money trail. And much to the surprise of the

Department of Consumer Affairs, they never imagined that you would read about their political power grabs and why such a low-importance unit like CSAC is so heavily micromanaged.

Now that people are starting to investigate DCA's behavior, suddenly they don't like the tables being turned on them. You mean the state's taxpayers and fight fans might actually care about competence when it comes to regulation of MMA & boxing events? The state employees don't get this because they aren't actual fight fans. They don't live and breathe combat sports. They don't get worked up when judges screw up and give Tim Bradley a win over Manny Pacquiao. They don't get worked up like Dana White does when you have questionable referee stoppages. For the bosses in Sacramento, the athletic commission is simply a transactional body for taxpayer cash. They are simply money changers. Nothing more, nothing less. So, when there is incompetence in terms of regulating shows and who gets what assignments for what shows based on political favors and full-time employment status with the state, the bureaucrats look at the masses in amazement and wonder why anyone gets so worked up about any of this.

It's the ignorance & arrogance of those at DCA & CSAC that has led them into being in the wilderness, a place where they are out of touch with reality.

2. DCA has pissed off the wrong people

If there's one principle that the Sacramento power brokers understand, it's the sugar daddy principle. When you control the purse strings, you control & dictate the behavior of those who owe you.

Which is why there is great irony when DCA often looks at those who invest money in combat sports as marks who should owe Sacramento a favor. The attitude of *'hey, we're giving you our permission so you can run a show in the state and then we can collect money from you for doing so'* is a double-edged sword. When the good times are rolling and you have a lot of promoters willing to pony up cash, you can be a snob. When the revenues start to decline steeply and you are running out of allies that are willing to put up cash to do business in your domain, however, then it's time to step back and consider why the business climate stinks.

Because California is such a big state, there will always be occasional A-level shows that take place. However, the amount of A-level shows and even B-level shows in the state is dropping because the regulatory climate & inefficiencies at work have created a climate where the promoters have had enough. They'll go to Nevada, Texas, or Florida to run shows instead. Events will go overseas, too. Promoters want no part of getting caught in the crossfire between DCA & CSAC. It was quite a statement promoters made at the June 26th El Monte hearing when they thought that George Dodd was the lesser of two evils in comparison to DCA.

Instead of reconciling differences and making the appropriate changes to fix a broken business & political climate, the Department of Consumer Affairs treats companies & individuals who have the most money at stake in the California combat sports landscape with the least amount of respect. Promoters are incredibly suspicious of what is happening in Sacramento right now. The belief on the ground is that if the [Senate's Business and Professions committee](#) won't sunset CSAC, DCA will. If DCA sunsets CSAC, it would either mean the end of regulated boxing & MMA shows in the state or it would mean that DCA would take over regulatory duties and make the entire process secret with no transparency.

Think of it this way: DCA privately taking over regulation of California combat sports would give you an agency with [the efficiency of the GSA](#), the [charisma of a DMV](#), and [the compassion of the TSA](#).

3. The state of California has never been in worse financial shape

The state is broke. [California has one of, if not, the worst credit ratings](#) of any American state. Do you think Denise Brown or Awet Kidane, two head honchos at DCA, want to spend any time fielding questions from either The San Francisco Chronicle or The Sacramento Bee about why they think CSAC should be loaned money from the state's General Fund because DCA won't fire or arrest people who they suspect are guilty of fraud?

DCA won't go after individuals who are full-time state employees enjoying 4-figure junkets to go to fight shows while flying all over the state and riding the roads in Cadillac Escalades... but they sure don't mind illegally threatening Executive Director George Dodd with personal liability for CSAC debt.

Given the documentation that is publicly available about why CSAC is broke, let's see DCA go on the record and try to defend loaning taxpayer money to CSAC.

4. The track record of the government lifers at DCA & CSAC

When you've been employed in the state government since the days of Richard Nixon, Gerald Ford, and Jimmy Carter, you know you have been around the block a time or two. You also know that there are many skeletons in your closet waiting to be exposed. Just because the government lifers may be faceless to the general public doesn't mean that these individuals have invisible track records. You can't work in DCA's legal department like Anita Scuri & Doreathea Johnson have for decades without leaving massive paper & electronic informational trails behind. DCA legal has had their hands in so many cookie jars for decades. The power brokers at DCA legal know this, too. You can try to rewrite history and hope that nobody is paying attention to the moves you have made in the past. Times have changed.

The Department of Consumer Affairs is a monstrously large behemoth in the California political scene. You don't survive at DCA without being cutthroat in nature and turning on other people to acquire political power. Everyone's past transgressions eventually come back to haunt them in one way or another. These are the power brokers that are manipulating the California combat sports scene because they want power and money. It's not about promoting the health or safety of fighters. It's not about promoting responsible business behavior. It's about sinecures and graft. The problem? When the money well starts to run dry and there's only scraps left to mooch, suddenly the honor amongst thieves goes out the window.

All one needs to do is [take a look at the professional & political history](#) of those at DCA to understand just exactly how much they have invested in the survival of their taxpayer-funded careers.

Self-styled power brokers like California deputy Attorney General Karen Chappelle have made plenty of professional decisions that will have future consequences.

5. Lawsuits

Because of the long track records of individuals who have made decisions at DCA & CSAC for so many years, they are wide open for lawsuits. It's a lot easier to run away from the media than it is to run away from deposition.

If you are looking for any major reason as to why DCA's political game with CSAC will backfire, the legal angle is your answer. [There is already one lawsuit](#) filed against DCA & CSAC over age discrimination & retaliation by CSAC inspector Dwayne Woodard. In the lawsuit, one of the suggested remedies is termination of employment for those involved in the alleged wrongdoing.

The idea of Karen Chappelle, Anita Scuri, and Doreathea Johnson under deposition could prove to be a disaster for DCA. If people at DCA & CSAC have already been turning on each other over what has happened with the athletic commission's finances, one can only imagine the hell that will break loose once skilled lawyers start grilling & filing the bureaucrats.

In my opinion, they are ripe for multiple lawsuits. Once the lawsuits enter the deposition stage(s), the fun and games will be over. Throw in potential requests for FOIA (Freedom of Information Act) & audits and suddenly DCA will quickly run out of plausible defenses as to why CSAC should be loaned taxpayer money from the state's General Fund to cover up corruption & incompetence. DCA dug their own grave [by claiming in the insolvency letter](#) that they know about ongoing fraud of taxpayer funds at CSAC.

Pandora's Box has been opened. DCA trying to cover up the stench from CSAC with a taxpayer loan isn't going to mask any secrets this time around.

- [Investigation: The future of combat sports in California](#) (May 6th, 2012)
- [Investigation: How did \(then\) 80 year old scandal-plagued politician John Frierson get an important job promotion?](#) (May 9th, 2012)
- [The politics of MMA's testosterone push & California's coming collapse](#) (June 7th, 2012)
- [California State Athletic Commission on a path towards insolvency, could get shut down](#) (June 10th, 2012)
- [PDF report now online – Blame game: DCA, CSAC civil war \(emergency 6/26 meeting set by DCA\)](#) (June 16th, 2012)
- [DCA/CSAC civil war: Taxpayers & promoters get a raw deal in California](#) (June 19th, 2012)
- [DCA outlines potential CSAC fraud; Dodd out as Executive Director](#) (June 22nd, 2012)
- [Amidst DCA/CSAC civil war chaos, a second CSAC member \(Brian Edwards\) is gone](#) (June 24th, 2012)
- [Source – George Dodd prepared for showdown w/ DCA on Tuesday](#) (June 24th, 2012)
- [DCA, CSAC face retaliation & age discrimination lawsuit](#) (June 25th, 2012)
- [Explaining the motives of the DCA/CSAC civil war](#) (June 26th, 2012)
- [Civil war: CSAC keeps George Dodd \(against DCA wishes\)](#) (June 26th, 2012)
- [How the CSAC fought DCA's power grab](#) (June 28th, 2012)
- [DCA's illegal Saturday morning CSAC meeting](#) (June 29th, 2012)
- [Explaining why DCA's Saturday CSAC hearing was illegal](#) (June 30th, 2012)
- [DCA's new spin on illegal CSAC hearing doesn't cut it](#) (July 2nd, 2012)
- [Incredible – DCA advising CSAC on getting a loan](#) (July 6th, 2012)