

UNITED STATES OLYMPIC COMMITTEE

IN THE MATTER OF	)	
	)	REPORT
	)	AND
	)	RECOMMENDATION
	)	
USA JUDO'S PROBATION	)	June 21, 2016

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I. BACKGROUND

1. On December 1, 2015, the Hearing Panel issued its Report, Decision and Recommendation (“Decision”), which found that USA Judo (“USAJ”) was not meeting its National Governing Body (“NGB”) requirements and obligations as set forth in the Ted Stevens Olympic and Amateur Sports Act (the “Act”) and Section 10 of the USOC Bylaws. The Hearing Panel recommended that the USOC Board of Directors:

- a. adopt the Hearing Panel’s finding regarding USAJ’s non-compliance;
- b. place USAJ on probation for a period of six (6) months; and,
- c. adopt the Hearing Panel’s recommendations regarding compliance issues that USAJ must address in order to fulfill its obligations as an NGB.

2. Additionally, the Hearing Panel advised the USOC Board that if USAJ were placed on probation, it would, pursuant to Section 10.20 of the USOC Bylaws, retain continuing jurisdiction over this matter and after six (6) months report back to the USOC Board on USAJ’s progress in coming into compliance.

3. On December 15, 2015, the USOC Board found USAJ out of compliance and adopted the other recommendations contained in the Hearing Panel’s December 1 Decision.

4. As six months have now transpired, the Hearing Panel makes this Report to the USOC Board.

5. For the reasons set out in this Report, the Hearing Panel recommends extending USAJ's probationary period for another six (6) months.

## II. REPORT AND COMMENTS

### A. Cooperation

6. Since being placed on probation, USAJ has been cooperative in providing information concerning its efforts to come into compliance. It has provided the Hearing Panel with reports on a 45-day basis and has worked with and provided information to both the USOC Membership Working Group and the USOC Audit Division.

7. USAJ provided written reports to the Hearing Panel on January 15, March 1, April 15 and June 1, 2016.

8. USAJ also met with representatives of the USOC Membership Working Group and the USOC Audit Division on a number of occasions. These meetings proved productive, both allowing USAJ to raise concerns and ask questions regarding governance, management and financial issues, but also allowing the USOC Membership Working Group and the USOC Audit Division to provide support and advice to USAJ on those issues.

### B. Compliance Steps

9. USAJ also has taken a number of steps to address the compliance issues identified in the Hearing Panel's Decision.

10. The USAJ Board and Audit Committee have assumed oversight of USAJ's finances. USAJ has also commenced utilizing cash flow projections and budget to actual reports enabling the Board, Audit Committee and staff, to better monitor USAJ's financial situation.

11. USAJ has improved its financial position. Income from membership dues has exceeded expectations. Judo's account payables and other liabilities have continued to decrease.<sup>1</sup>

12. USAJ has secured a company credit card and utilizes it to pay corporate expenses.

13. USAJ has paid funds that had been promised to Paralympic athletes.

14. USAJ has formed a new organization, USA Judo Foundation, which will assume control of the remaining foundation money transferred from the American Judo Fund. Necessary permits and tax numbers have been secured.

15. USAJ submitted its 2013 and 2014 financial audits conducted by USAJ's outside auditor dated September 19, 2014, and January 12, 2016, respectively, to the USOC Audit Division. The 2015 audit has not yet been concluded. Additionally, USOC Audit performed a follow-up review of Judo's progress in implementing audit recommendations. The audit reports included thirty-three recommendations in the areas of segregation of duties, accounting policies and procedures, deficit in unrestricted net assets, governance, inventory, cost of goods sold, evaluation of compensation, cash, accounts payable, expenses, payroll, and expense reports and reimbursements. All but one of the recommendations have either been implemented or are in process.

16. USAJ has taken action to address recent vacancies in its leadership. Five Board positions will expire and must be filled. Also, the term for USAJ's President has expired and a new President must be elected. USAJ's Nominating and Governance Committee is in the

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<sup>1</sup> This is in part due to transferring of the American Judo Foundation's assets to USAJ. These funds have been used to pay off its payables and other liabilities. Although this may work in the short term, it is not a sound long range financial practice. Generally, Foundation funds are restricted so that only income is distributed, and the principal of the fund remains intact. This protects these funds so that an income source is available for future years.

process of finalizing election procedures. Elections are scheduled for the end of October 2016. Additionally, USAJ's CEO announced that he was leaving USAJ. As a result, USAJ hired an executive search firm and has commenced a search for a new CEO. It is expected that this position will be filled shortly after conclusion of the 2016 Olympic Games, if not before.

17. USAJ has also delivered on its projections of having six athletes qualify for the 2016 Olympic Games (three of the athletes are currently ranked 1st, 4th, and 7th on the World ranking list). Additionally, four athletes have qualified for the 2016 Paralympic Games.

### C. Continuing Issues

18. Although progress has been made by USAJ, the Hearing Panel finds that there are still matters to be addressed. Further, the Hearing Panel believes that extending the probationary period will serve the best interest of USAJ going forward.

19. USAJ still has financial issues to address. These include raising revenue to meet expenses, without having to siphon off foundation funds. Additionally, USAJ needs to further evaluate its expenditures to ensure that it can stay within its budget.

20. It is still unclear whether USAJ has a sound long term financial plan. Although USAJ states that it is on a positive path to long term financial well-being, time will tell. Also, USAJ needs to deal with its current debt so that this does not create a burden on USAJ in the future. USAJ must show that it has the financial ability to achieve its long term goals.

21. USAJ must address the outstanding audit recommendation identified in the Audit Division's June 7, 2016, follow-up review. That recommendation required the segregation of key financial personnel duties. The Finance Director currently has authority over all financial transactions, including among other things receiving checks and cash, approving purchases, reviewing credit card statements, preparing bank deposits, issuing invoices, preparing bank

reconciliations, signing checks and administering the accounting system. Although there are some review processes in place, these functions should be properly segregated to improve internal controls and protect USAJ's assets. At a minimum, if the Finance Director is going to continue in this broad role, she should not have check signing authority.

22. Also, the USOC Audit Division identified a number of matters in its June 7, 2016, follow-up that USAJ has partially addressed or that are in-process, meaning that progress has been made toward implementing the recommendation, but that the recommendation has not been fully implemented. These matters need to be addressed.

23. Although USAJ has indicated that an independent accountant has been hired to assist the Financial Director, the Hearing Panel is unconvinced that USAJ is utilizing this person to the full extent needed. It is important that USAJ have professional accounting advice and oversight to ensure that proper financial controls are in place and that proper accounting practices are implemented. This will provide confidence to the organization that financial reports are accurate, understandable and can be relied upon.

24. Additional review is needed to ensure that USAJ is following its ethics and conflict procedures. Although USAJ created a Conflict of Interest Review Committee, it is vital that this Committee not only ensure that all employees and Board submit conflict statements, but that those statements are reviewed.

25. Finally, with the hiring of a new CEO, it is important to allow that individual time to assess USAJ's managerial and financial issues and to address them as necessary. The probationary period will allow the USOC Membership Working Group and the USOC Audit Division an opportunity to assist in that process.

D. Request and Continuing Oversight

26. In order to further assess USAJ's compliance, and to address the issues raised in this Report, the Hearing Panel requests that USAJ do the following:

- (a) continue to provide monthly financial reports to the USOC Audit Division;
- (b) address the audit recommendation that is "not implemented" as reported on the June 7, 2016, follow-up review;
- (c) fully implement the audit recommendations determined to be "in process" on the June 7, 2016, follow-up review;
- (d) confirm that the Financial Director is supported by an accountant to ensure financial reports are accurate;
- (e) provide a budget for 2017 prior to the end of the year;
- (f) confirm that the Conflict of Interest Review Committee has received and reviewed 2016 conflict statements from all employees and Board members and that a plan is in place for 2017;
- (g) report on the election process scheduled for this fall and confirm that the election was conducted and that new Board members have been seated;
- (h) report on the election of USAJ's new President;
- (i) inform the Hearing Panel when a new CEO is hired and have that person participate in an "on-boarding" session administered by the Chief of the USOC NGB Organizational Development Division.

27. The Hearing Panel will retain continuing jurisdiction over this matter and after six months report back to the USOC Board on USAJ's progress in coming into compliance.

III. RECOMMENDATION

28. Accordingly, the Hearing Panel recommends that the USOC Board extend USAJ's probationary period for an additional six months.

Dated this 21st day of June, 2016.



Max Cobb, Chair

Steve Mesler, Panel Member

James Gillenwater, Panel Member