

A Management and Performance Audit of the South Carolina Patriots Point Development Authority

Members of the South Carolina General Assembly requested that we conduct a review of the South Carolina Patriots Point Development Authority (the Authority). This audit examines the Authority's development of the land and the management of its resources. We reviewed the processes followed by Patriots Point in developing its useable land and whether the revenues from all sources will be sufficient to support the Authority's operations. We examined the funds being budgeted and spent on capital improvements and maintenance of the Museum vessels. We made recommendations regarding personnel, purchasing, and inventory controls.

Development of the Land

The Authority has 343 acres of useable land which is divided into parcels. Parcels one and two are to be used primarily for future Museum expansion.

■ **Parcel Three** is 34 acres of land including the Charleston Harbor Hilton Resort, cottages, marina, retail space, and an office/residential complex. The Authority has entered into a 99-year lease to develop this land. Based on our review and an evaluation conducted by an outside consultant, it appears that the process followed by the Authority was adequate to ensure a reasonable return to the Authority.

If the land development projects are completed and perform as projected, the Authority should be able to meet its mission and earn a rate of return higher than if it had sold the land. However, under the lease approach, there is a risk that sufficient revenue may not be generated. The projected income from parcel three over the next ten years is approximately \$10 million.

Year	Parcel Three
1997	\$95,242
1998	\$361,687
1999	\$531,038
2000	\$921,150
2001	\$1,039,795
2002	\$1,077,613
2003	\$1,114,359
2004	\$1,155,158
2005	\$1,194,199
2006	\$1,241,859
2007	\$1,287,304
TOTAL PROJECTED INCOME	\$10,019,404

The development of parcel three is not yet complete, and could undergo significant change. In April 1998, the Authority was asked to approve the assignment of the lease to a new developer.

■ **Parcel Four** is a reserved area, the majority of which is under a conservation agreement with the South Carolina Department of Natural Resources. Since the land cannot be developed commercially, the Authority will receive no rental payments from this parcel.

■ **Parcel Five** is the Patriots Point Golf Links. In 1997, a new lease with the current developers was signed. Before approving the new lease, the Authority did not have the terms reviewed by an independent appraiser. Also, the lease does not contain a minimum rental provision. However, if the golf course performs as projected, it appears the revised lease for the golf course will provide a reasonable return.

■ **Parcel Six** will include a 35-acre athletic complex. The Authority entered into a lease in December 1996 with the College of Charleston for the complex which will consist of fields for baseball, softball, soccer, and nine tennis courts. Total rental payments to the Authority for this parcel are projected to be approximately \$1.7 million through the year 2007. Of the three parcels (three, five, and six) under development, the rate of return on parcel six is the lowest.

The Authority has not monitored the development as it should. Because of the complexity of the development, the risk of loss of revenue, and the previous history of problems, it is important that the state exercise its oversight responsibility. Since the Authority may have to request the state to appropriate funds to meet financial obligations that are not funded by income from the development, the Authority should report annually, in writing, to the Senate Finance Committee and to the House Ways and Means Committee on the status of the development of the land and Museum needs.

Maintenance Issues

Maintenance Backlog

It is difficult to accurately estimate the repairs needed to bring the ships to a reasonable state of repair. The only regularly scheduled inspection of the vessels by an outside source is conducted as a walk-through inspection.

The Authority has accumulated a serious maintenance backlog requiring that at least \$1.3 million be expended on the vessels within the next three years. This does not include permanent improvement projects which are projected to cost \$2.8 million over the next five years, preventative maintenance, or miscellaneous repair tasks. If the development of the land does not provide a reasonable return, the Authority may need to seek additional sources of revenue, which may potentially include state appropriations.

As currently managed, maintenance staff can provide annually only 30% of the hours required for maintenance list assignments and only 58% of the hours required for all tasks.

Permanent Improvements

The Authority did not establish a capital budget prior to FY 97-98, even though it had certified projects as active, and had them approved by the Budget and Control Board.

State law does not require that the Authority establish financial reserves for permanent improvement needs, or earmark a percentage of its revenues to fund capital improvements. As of February 1998, the Authority had expended less than 20% of the overall funds for these projects.

In order to meet estimated completion dates for active projects, the Authority should expend, over the next five years, \$870,677 more on projects than is budgeted.

However, even though the vessels have critical needs, the Authority plans instead to expend \$1.3 million during this period on land development projects, one of which has not been proposed to or approved by the Budget and Control Board.

Variance Between Capital Budget and Permanent Improvement Plan

Project	Project Completion	Project Cost	Budget Balance ²	Capital Budget Funds	Variance
Yorktown Flight Deck	06/01	\$1,000,000	\$887,720	\$400,000	\$487,720
Yorktown Exterior Hull Repainting	08/98	\$275,000	\$273,800	\$275,000	\$0
Yorktown Oil Removal ¹	08/98	\$250,000	\$250,000	\$100,000	\$150,000
Clamagore Decking and Support Repair	04/99	\$250,000	\$250,000	\$275,000	\$0
Yorktown Video System	02/98	\$50,000	\$39,455	\$20,000	\$19,455
Water and Sewage District System	06/99	\$73,000	\$63,503	\$0	\$63,503
Yorktown Anti-Theft System	06/99	\$150,000	\$150,000	\$0	\$150,000
TOTAL		\$2,048,000	\$1,914,478	\$1,070,000	\$870,678

1 This project is budgeted based on Santee Cooper's agreeing to take the oil. There is no formal agreement and estimated costs for contracting the service are \$400,000.

2 June 30, 1997.

Safety Issues

The Authority began the Yorktown flight deck replacement without a detailed structural analysis to ensure the structure is able to support the construction methods being used. In addition, the maintenance staff who are working on this project may not be properly licensed. The Authority should seek the assistance of the state engineer before continuing this restoration.

Asbestos was encountered during most of the 12 renovation projects worked on by Authority employees between 1995 and 1997; however, the Authority has not ensured that employees wear protective equipment or are licensed for asbestos removal as required by DHEC. We have contacted DHEC and the Department of Labor, Licensing, and Regulation regarding this issue.

Operating Revenues and Expenditures

Operating Revenues

We identified areas where the Authority may be able to increase revenues and save funds.

Interest on Accounts — The Authority could have collected approximately \$57,000 during FY 96-97 if it were allowed by state law to retain interest earned on its accounts.

Waiving Fees for Catered Events — In FY 96-97, the Authority lost over \$20,000 in revenue as a result of waiving the fees from catered events held on board the Yorktown. The Authority should discontinue waiving fees for catered events, or adopt a written policy stating when fees are to be waived. Following are examples of functions where fees were waived.

Date	Function	Income Lost
September 17, 1996	Fire Chiefs	\$848
October 8-10, 1996	5 Yorktown Association Events	\$7,938
October 15, 1996	Wachovia	\$516
October 16, 1996	East Cooper Business Council	\$200
November 5, 1996	Marine Corps Ball	\$1,000
November 14, 1996	The Citadel	\$1,200

Complimentary Passes and Promotional Items — Between March 1995 and December 1997, approximately \$3,600 worth of gift shop inventory was given away for promotional purposes. Also, the Authority does not have a written policy addressing the use of complimentary admission passes.

Fort Sumter Tours Revenue — The Authority will not receive any income from Fort Sumter Tours (FST) for the next 10 to 12 years. Under a 1985 agreement between FST and the Authority, the Authority is responsible for dredging that allows the FST tour boats to dock at the Authority's pier. The Authority has chosen to allow FST to pay for the dredging and deduct the cost from any income owed the Authority. The Authority, however, has not formally addressed, in writing, what records and documentation FST will provide the Authority concerning the dredging.

Patriots Point Naval and Maritime Museum Foundation

The Authority receives donations, made directly to the agency, that the director conveys to the foundation for deposit to foundation accounts. Conveying contributions to the foundation may not be proper, and has the effect of reducing the number of contributions which would be subject to state oversight, as well as reducing the interest income the Authority can earn.

It is questionable how foundation expenditures for employee food, parties, birthday cakes, cash awards, flowers for funerals, and cash for weddings and births directly assist in the accomplishment of the Authority's mission and whether contributors intend their support to be used in this manner.

Neither the Authority nor the Patriots Point Naval and Maritime Museum Foundation have actively pursued private or other funds.

Congressional Medal of Honor Office

The Authority has extended an agreement for financial support with the Congressional Medal of Honor Society (CMHS) without measuring the public benefit of the relationship. The state spent approximately \$412,790 over a five-year period on this office. The Authority is paying CMHS approximately \$3,000 more annually than it should, and does not maintain information necessary to evaluate this relationship.

Painting & Janitorial Services

Decisions to terminate painting and janitorial contracts and hire staff for these services have cost the Authority more. The painting and janitorial contracts were terminated in 1993 and 1996, respectively. The Authority hired temporary staff, and in 1997 converted the staff to permanent positions. Estimated costs for December 1997 through November 1998 are expected to cost the Authority 52% more for janitorial services and 276% more for painting services than in FY 96-97.

Purchasing Practices

The Authority should improve its purchasing practices and comply with state law in areas such as:

- Use of term contracts.
- Use of blanket purchase agreements.
- Competitive bidding.
- Ratification of unauthorized purchases.

In order to ensure that the purchasing practices outlined above are adequately addressed, the Budget and Control Board's Office of General Services should consider conducting a procurement audit of the Authority.

Equipment/Inventory Control

The Authority has not maintained adequate controls over its equipment or artifact inventories. The Authority also purchases federal surplus items, but has no written strategy for using the items. There is no short term cost-benefit analysis of this practice, and no inventory is maintained of the items obtained. Some items may be useless to the agency, but could be sold through the state surplus property office and provide a return to the state.

Travel and Memberships

Explanations of travel or organizational memberships are not required of Authority employees. No documentation was provided indicating the purpose for travel reimbursements totaling \$10,715, in our sample of FY 96-97 vouchers. The Authority also paid membership fees for the director for the Tailhook Association and the Fleet Reserve Association. We could not determine the relationship of these organizations to the mission of the Authority.

Personnel Administration

The Authority allows employees a 35% discount in the Museum gift shop; it is unclear if this is proper use of public funds. Also, the Authority has not complied with state human resources regulations by:

- Allowing temporary employees to work over a one-year period with no break in service.
- Failing to complete employee evaluations.
- Not ensuring that signed position descriptions outlining each employee's job duties is maintained in the personnel files.
- Neglecting to have the organizational chart filed with OHR.

A survey of employees and volunteers revealed that the Authority needs to improve internal communication. Also, we found that an employee provided paid consultant services to an eleemosynary corporation located on the premises of Patriots Point. The Authority should establish written policy governing employment outside of state government.

Authority Board

Given the diverse issues facing the Authority's board, adding expertise in the areas of museum operations, tourism, engineering, and real estate development could assist the board in better fulfilling its responsibilities.

This document summarizes our full report, *A Management and Performance Audit of the South Carolina Patriots Point Development Authority*. Results from the employee survey are also available under separate cover, or can be accessed on the Internet. Copies of all LAC audits are available free of charge. Audits published after January 1995 can be found at www.lpittr.state.sc.us/reports/lac.htm. New publications may not be immediately available on the Internet. If you have questions, contact George L. Schroeder, Director.