

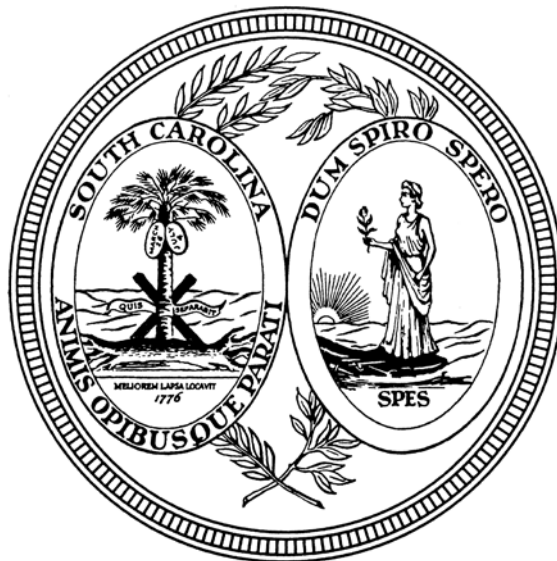


SOUTH CAROLINA GENERAL ASSEMBLY

Legislative Audit Council

December 2012

A MANAGEMENT REVIEW OF PATRIOTS POINT DEVELOPMENT AUTHORITY



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Legislative Audit Council

**A MANAGEMENT REVIEW
OF PATRIOTS POINT
DEVELOPMENT AUTHORITY**

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Introduction and Background

Audit Objectives

The former President Pro Tempore of the South Carolina Senate requested a management and performance review of Patriots Point Development Authority (PPDA). Our audit objectives were to:

- Explain the background, history, and current structure of the Patriots Point Development Authority (PPDA).
- Determine if PPDA has an adequate business plan to address how to increase revenue streams and cover maintenance costs.
- Identify current/future programs/methods in place from which PPDA generates revenue.
- Review PPDA's plan to repay the remainder of the approximately \$9 million loan from the state for repairs to the U.S.S. Laffey.
- Determine PPDA's plans for development of its land.
- Report current and projected revenue streams associated with the agency's land.
- Estimate the current and future costs for PPDA to maintain its vessels and determine if PPDA has a long-term maintenance plan, including funding mechanisms, for its vessels.
- Determine if PPDA is in compliance with the U.S. Navy's requirements for maintenance of the agency's vessels.
- Report on Patriots Point Development Authority's fundraising efforts, including the efforts of the associated foundations.
- Review human resources issues at PPDA, including staff size and expertise, evaluations, and compensation.
- Determine if Patriots Point Development Authority and its board comply with the Freedom of Information Act requirements and other state laws.
- Report on the agency's use of consultants and contractors to determine if these procurements are handled properly, in accordance with state law, and are the best use of the agency's resources.
- Review Patriots Point Development Authority's operations of the gift shop, ticket sales, and parking.
- Review Patriots Point Development Authority's procedures concerning procurement cards, state cell phones, and artifact inventory.
- Report on the current status of the plans to spend over \$3 million for a new parking lot.

Scope and Methodology

The period of this review was generally from FY 10-11 through FY 11-12, with consideration of earlier or more recent periods when relevant. We obtained information from a variety of sources, including:

- PPDA revenue, expenditure, and annual reports.
- PPDA lease agreements.
- Federal and state laws and regulations.
- Information from ship museums in other states.
- Interviews with staff from PPDA and interested parties.
- Human resources files.
- Contracts for goods or services procured by PPDA.
- Agency policies and procedures.
- U.S. Navy inspection reports.

Criteria used to measure performance included federal laws, state laws, regulations, U.S. Navy inspections, and agency policies. We reviewed at least four nonstatistical samples regarding human resources, events, and procurement cards, the results of which cannot be applied to the whole population. These samples are described in the audit report. The use of computerized data was not central to our audit objectives in that it was primarily used to identify files for review. We reviewed internal controls of systems in several areas, including gift shop inventory. Our findings are detailed in the report.

We conducted this performance audit in accordance with generally accepted government auditing standards with the exception of the general standard concerning quality control. Due to LAC budget reductions, funding was not available for a timely external quality control review. In our opinion, this omission had no effect on the result of this audit.

Those generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Overview of PPDA

The Patriots Point Development Authority (PPDA) is a state agency established in 1973 by S.C. Code §51-13-710. PPDA is located in the town of Mount Pleasant on the Charleston Harbor.

PPDA functions as a naval museum for:

- Overseeing the maintenance of the U.S.S. Yorktown, an aircraft carrier given to PPDA by the United States Navy in 1975.
- Overseeing the maintenance of the U.S.S. Laffey, a destroyer, and the U.S.S. Clamagore, a submarine. The Yorktown, Laffey, and Clamagore are currently open to the public with paid admission.
- Developing, leasing, or selling the approximately 450 acres granted by the state of South Carolina for the purpose of fulfilling PPDA's mission.

S.C. Code §51-13-760 states that the purposes of PPDA include:

- To develop and improve the Patriots Point area to provide a place of education and recreation to foster among the people pride and patriotism in our nation and its heritage.
- To establish a National Naval Museum of ships, naval and maritime equipment, artifacts, books, manuscripts, art and historical materials for the education and enjoyment of the people of our nation and to instill in them a knowledge of our naval and maritime history; and of the importance of sea power to our economy and defense.
- To foster and stimulate national and international travel to and participation in the development of Patriots Point, by acquiring, constructing, equipping, and maintaining museum buildings, seaquariums and laboratories, public exhibits and entertainment facilities, historical monuments and sites; and providing lodging and accommodations for travelers by land or water to Patriots Point.

PPDA is governed by a board of nine individuals. The members of the board are appointed as follows:

- Three members are appointed by the Governor.
- One board member is appointed by the Governor upon the joint recommendation of the Chairman of the House Ways and Means Committee and the Speaker of the House.
- One member is appointed by the Governor upon the joint recommendation of the Chairman of the Senate Finance Committee and the President Pro Tempore of the Senate.

- One member is appointed by the Governor upon the recommendation of the President Pro Tempore of the Senate.
- One member is appointed by the Governor upon the recommendation of the Speaker of the House of Representatives.
- One member is appointed by the Governor upon the recommendation of the Adjutant General.
- The mayor of Mount Pleasant also serves on the board as an ex officio member.

The members of the board serve four-year terms. The board appoints an executive director who oversees the day-to-day operations of Patriots Point. As of FY 11-12, Patriots Point employed a staff of 74. South Carolina law gives PPDA the power to sue and be sued and to make contracts. PPDA is also given the authority to borrow money and to accept funds from individuals and from state, federal, or other sources.

Fleet

Patriots Point has a fleet of three vessels, numerous aircraft, and other military-related exhibits, including:

- U.S.S. Yorktown (CV-10) is an aircraft carrier that was commissioned in 1943. It was named for the Yorktown (CV-5) that was sunk in 1942 at the Battle of Midway. The Yorktown received 11 battle stars during World War II. The Yorktown served in the United States Navy until being decommissioned in 1970. In 1975, the Yorktown was towed to Patriots Point.
- U.S.S. Laffey (DD-724) is a destroyer that was commissioned in 1944. It was named for the Laffey (DD-459), which was sunk at the Naval Battle of Guadalcanal in 1942. The Laffey earned five battle stars during World War II and earned the nickname “The Ship That Would Not Die” for surviving numerous kamikaze attacks. The Laffey was decommissioned in 1975 and became part of Patriots Point in 1981.
- U.S.S. Clamagore is a class GUPPY III submarine that was built in 1945. It served during the Cold War and was decommissioned in 1975. It became part of Patriots Point in 1981 and is the only GUPPY III submarine preserved in the United States.
- Several aircraft are located inside the Yorktown’s hangar bay and on its flight deck. These aircraft include World War II era fighters and bombers, jets, and helicopters.
- The Congressional Medal of Honor Museum is located aboard the Yorktown and contains exhibits commemorating recipients of the Medal of Honor throughout history.

Land Use

PPDA has leased and developed its land for a variety of purposes. Its land is used for the following:

Hotel and Resort

Patriots Point has leased 35.6 acres for use as the Charleston Harbor Resort & Marina.

College of Charleston

Patriots Point has leased 34 acres to the College of Charleston for athletic facilities, including a baseball stadium, a softball stadium, a soccer stadium, and a tennis center.

Golf Course

Patriots Point has leased 197 acres for use as a golf course, which is known as Patriots Point Links.

Cold War Memorial

3.27 acres of Patriots Point land is used as the Cold War Memorial, which commemorates the men who served in naval submarines from 1947 to 1989.

Conservation Easement

21 acres of Patriots Point have been set aside as a conservation easement.

Source of Funds

Patriots Point receives funding from a variety of sources, including admissions, lease revenue, parking, gift shop, overnight camping, vending, and event rentals. The agency does not receive any state appropriations. State law requires that all earnings and interest accrued on accounts held by PPDA must be retained and expended by PPDA to carry out its purpose and mission.

Table 1.1: Revenues and Expenditures FY 10-11 – FY 12-13

YEAR	REVENUES	EXPENDITURES*
FY 10-11	\$8,958,947	\$8,698,699
FY 11-12	\$9,451,500	\$8,943,000
FY 12-13**	\$9,664,000	\$11,195,046

* Expenditures include depreciation expenses.

** Projected.

Source: PPDA

PPDA officials have expressed confidence that its current revenue and expense projections will allow PPDA to meet its regular operational expenses. However, PPDA has a large amount of deferred, capital maintenance for its vessels. It will be difficult for PPDA's current revenue streams to pay for these capital maintenance obligations.

In 2009, PPDA received a \$9.2 million loan from the state in order to repair the hull of the U.S.S. Laffey. Also, PPDA initially received \$393,000 in non-recurring funds for the establishment of a National Flight Academy in the FY 12-13 appropriations act. However, lower than expected revenue projections forced the Budget and Control Board to rescind that funding.

PPDA also receives funds from private organizations and individuals. PPDA received \$1,942 in donations and grants in FY 11-12. In its FY 12-13 budget, PPDA estimates that it will receive \$42,000 in donations and grants.

An independent 501(c)(3) non-profit fundraising organization called the Patriots Point Naval and Maritime Museum Foundation raised \$248,330 in FY 10-11. However, a small portion of that amount goes directly to PPDA. In addition to this foundation, there is also the Yorktown Association, the Laffey Association, and the Clamagore Veterans Association. PPDA receives support for its submarine, the U.S.S. Clamagore, from the Clamagore Veterans association. That organization has raised approximately \$32,000 in an effort to preserve the U.S.S. Clamagore.

Revenue and Fundraising

We were asked to determine if Patriots Point Development Authority has an adequate business plan and to discuss the agency's revenue. We report on PPDA's business plan and summarize each of the major and minor revenue streams for the agency and make recommendations on how each can be maximized to increase profits for the agency.

Business Plan

We were asked to determine if PPDA has an adequate business plan. The agency has written a comprehensive three-year plan, but it does not completely address maintenance costs for the vessels entrusted to the agency.

The plan is also augmented by detailed committee plans for board members and a set of departmental work plans for staff at the agency. Work plans are created annually and evaluated twice each year. The agency relies solely on funds from on-site activities and leasehold revenues to cover the expenses of running the Patriots Point Naval and Maritime Museum and to maintain the three vessels donated to the State of South Carolina by the U.S. Navy.

These agency expenses fall into three basic categories:

- The expenses for day-to-day operations.
- The cost of deferred maintenance and repairs of the vessels and artifacts that make up the museum at Patriots Point.
- The needed funds to escrow for the three vessels to cover scheduled maintenance costs.

While Patriots Point Development Authority generates enough funds to cover its operating expenses, it is suffering from two financial shortfalls. The agency can cover neither the expenses needed for current critical repairs to the three vessels in its fleet, nor can it allocate to savings the needed funds to escrow for scheduled future maintenance. Without funding from an outside source, such as federal or state government, the agency cannot bring the vessels into a sustainable condition.

While financial strides have been made in the last two years at PPDA, expenses are increasing faster than revenue in the FY 12-13 budget.

Agency management states that Patriots Point Development Authority cannot generate sufficient revenue from its income-producing programs to fund 90% of anticipated deferred vessel restoration costs. Nor can PPDA generate sufficient revenue from traditional income-producing programs to construct major landside capital facilities. However, PPDA has consistently been able generate enough revenue to cover all of its operating expenses. PPDA gets no appropriation funding from the state of South Carolina or the federal government.

Deferred Maintenance and Vessel Repair

Scheduled maintenance on the vessels at Patriots Point has been deferred for years leaving each vessel in need of urgent repair. In 2009, the U.S.S. Laffey required immediate repairs costing \$12,393,480, of which \$9.2 million was funded by an emergency loan from the state. The ship is now in a position to stay in good repair should the agency escrow funds to cover scheduled maintenance for the ship for the future. However, PPDA is considering reefing the U.S.S. Clamagore as \$3.5 million is needed to repair the submarine and PPDA says it does not have the funds for repair. Finally, the U.S.S. Yorktown has numerous critical repair issues that are estimated to cost tens of millions of dollars. The August 2012 capital improvement plan for PPDA lists \$87,480,000 in needed funds to cover repairs, renovations, and improvements both to the vessels and to the campus at Patriots Point. Of those items, \$58,750,000 are immediate shore, pier, and vessel repair items.

Funds for Future Maintenance

PPDA must set funds aside each year to cover large maintenance and repair needs as they come due on each of the three vessels. These vessels are historic military artifacts and they are in salt water. They are going to need periodic dry-docking for hull repairs and other maintenance. Because these are large scale, multi-million dollar expenses, the agency cannot cover the costs in any given fiscal year, but will have to set aside funds each year. In the FY 12-13 budget, the agency allocated \$100,000 for this expense. While this is an important recognition by the agency of the need to allocate funds for these expenses, it is well below the amortized amount needed for the next dry-docking of just the U.S.S. Laffey.

Planned Savings for Recurring Maintenance

The agency's goal is to increase general agency revenue so that PPDA can designate all leasehold revenue to capital repairs and improvements at the agency. In order to achieve this goal, general agency revenue has to increase to cover the operating expenses of the agency. The short-term goal is to shift half of this leasehold revenue to the capital repairs account by the end of the FY 13-14, which should average \$723,891 per year.

The three-year plan focuses on increasing both branding and marketing to increase interest and return visitors to the area. All plans to increase revenue combined are projected to raise an additional \$1,465,000 of gross revenue per year. However, needed escrows for scheduled maintenance and repairs are estimated to be between \$3 million and \$5 million per year. Even if all the leasehold revenue were used for vessel maintenance and repair, there is still a significant shortfall ranging between \$1,552,219 to \$3,552,219 per year. PPDA management believes it can cover the annual amounts needed to address long-term maintenance on the vessels if there is one less vessel in the fleet at Patriots Point. The vessel, which is currently considered expendable, is the U.S.S. Clamagore.

If each of these vessels were maintained in accordance with her scheduled maintenance, the dry-dock repair costs and time are greatly reduced from those currently facing the agency. The total costs for the U.S.S. Laffey for dry-docking, repairs, and pier work for her return cost the agency approximately \$12.4 million.

There are two different maintenance plans for the U.S.S. Laffey. The agency plan, last updated June 2010, calls for minor dry-dockings in 2020 and 2030, at an estimated cost of \$750,000 and \$1,250,000, respectively. Then there is a major dry-docking planned in 2040 estimated to cost as much as \$7,000,000. Under this plan, the agency is calling for annual savings of \$300,000 per year to meet these costs. The second plan, written by the marine surveyor who supervised the last dry-docking of the U.S.S. Laffey, calls for dry-docking the ship at 15-year intervals to recoat the hull at an estimated cost of \$520,000. Under this plan, the agency needs to save \$52,505 per year to cover these re-coatings every 15 years.

If the agency chooses the first plan, the total cost to the agency over 30 years is estimated to be \$9 million. If PPDA chooses the second plan, the agency is estimated to spend \$1,575,150 over 30 years. This would be a savings of \$10,824,850 over the amount incurred for the last dry-docking.

The current repair estimates for the U.S.S. Clamagore are approximately \$3.5 million, which is significantly less than what was required for the U.S.S. Laffey. Since the agency does not have a cost schedule or a maintenance plan for the U.S.S. Clamagore, we used the current repair estimate of \$3.5 million to be recurring every 12 years, which creates the need to escrow approximately \$300,000 per year to cover all repairs for the submarine.

Even if PPDA restricts all leasehold revenue for vessel maintenance, the shortfall of \$1.5 to \$3.5 million annually would not be eliminated by reefing the U.S.S. Clamagore, which should cost less than \$300,000 per year. According to agency staff, the U.S.S. Clamagore is the second biggest attraction at PPDA. Since this is the last submarine of its kind, the agency should consider preserving her as part of our nation's naval history.

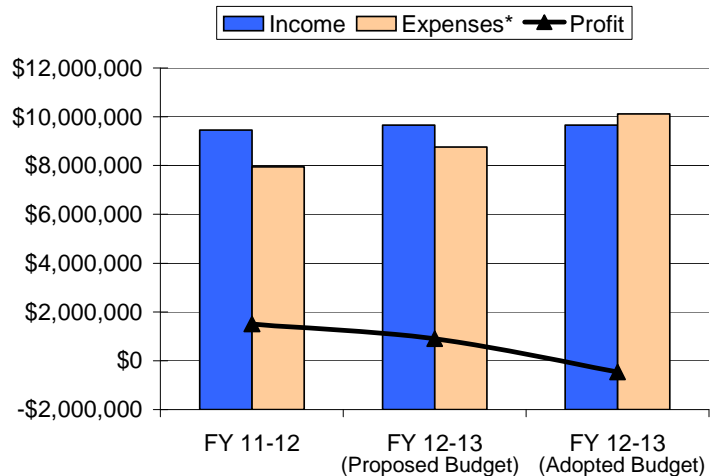
To cover these ongoing maintenance escrow costs, PPDA should increase the current revenue streams already in place and create new ones to generate the additional funds needed each year. This will take time, and, based on our review, the current administration is working to accomplish this goal.

Detailed Analysis of Revenue and Expenses Between FY 11-12 and FY 12-13

In FY 11-12, the agency had total reserve funds of \$4,249,500. These funds are needed to cover capital repairs and improvements. However, the adopted budget for FY 12-13 shows a net loss of \$451,448, which also must be paid from these reserve funds.

In FY 11-12, PPDA generated \$9,451,500 in revenue and incurred \$7,943,000 in expenses, which netted a \$1,508,500 profit for the agency available for capital expenses. In the new budget for FY 12-13, as proposed, the agency projected revenues of \$9,664,000 and expenses of \$8,763,448, which would show only a \$900,552 net profit available for capital expenditures. However, the budget that was adopted by PPDA's board increased marketing appropriations by \$200,000 and neglected to show the capital improvements (totaling \$1,152,000) adopted in the expenses for the agency. When those are added into the other costs, the total expenses rise to \$10,115,448, creating a net loss to the agency of \$451,448. This results in a reduction in profit from FY 11-12 by 129.93%. PPDA must generate a significant profit from operations each year to cover the costs of maintenance for each of the three vessels.

**Graph 2.1: FY 11-12 – FY 12-13
Fiscal Planning**



*Expenses shown without depreciation costs.

Source: PPDA

Vessel Repair Plans

Agency management plans to cover the backlog of deferred maintenance on its vessels include:

- The creation of a feasible land plan to earn revenue to cover a 25-year bond.
- Development of the 18th fairway of the golf course which is on the harbor and has a view of Fort Sumter.
- Increase in ticket sales for the museum. Current plans call for an increase in ticket sales by 40,000 per year. Upgrading the exhibits and effective marketing are key to increasing ticket sales.

The agency has valid ideas to increase revenue which should be used to shift funds into escrow to cover future repairs to the vessels. PPDA should look for funding sources beyond the agency to assist with the cost of bringing the vessels back into satisfactory condition.

Vessel Repair Costs

The agency estimates the cost to cover all of the agency's needed capital improvements could range from \$87,480,000 to \$110,000,000.

U.S.S. Laffey

This destroyer was sent to dry-dock, repaired, and returned to Patriots Point early in 2012. The ship is now in good condition and needs only to have funds escrowed yearly to meet her scheduled future maintenance. Only \$100,000 of the needed \$750,000 was budgeted in FY 12-13.

U.S.S. Clamagore

According to PPDA staff, the U.S.S. Clamagore is the second biggest attraction at Patriots Point. The submarine, however, is currently in a state of disrepair and may be in jeopardy of sinking. The operation's department at PPDA estimates \$3.5 million in dry-dock repairs for the boat. There is an outside fundraising effort by the submariners, but it is far short of meeting this cost. The Clamagore Association is attempting to have another hull survey completed. If the marine surveyors can agree that the vessel is safe from sinking for another two years, then PPDA will give the Clamagore Association more time to raise funds for repairs. However, the current year's work plans at the agency list reefing her as one of the special projects slated for completion this fiscal year. According to agency management, PPDA is proceeding with both timelines concurrently. While the submariners are fundraising, the agency will continue with the process of de-acquisition, which can be stopped at any time, if sufficient money is raised.

Notably, the capital reserve fund for the agency, as of September 2012, was \$4,249,500, which could cover the funds necessary to save the U.S.S. Clamagore. A portion of this fund, \$1.75 million, is designated as a hurricane contingency fund. However, if there is no storm damage incurred by the agency during this hurricane season, the U.S.S. Clamagore could be sent to dry-dock for repairs in November. Even though the estimated repairs would take up to \$1 million from the contingency fund, the agency could reduce current budgeted expenses and rebuild this fund by FY 13-14. PPDA management stated that this reserve fund could also be needed for emergency repairs, museum improvements, and special projects.

U.S.S. Yorktown

This aircraft carrier is the flagship of Patriot Point's fleet and has been managed by the agency since 1975. Because the ship has been at PPDA the longest, and is the largest of the three vessels, the estimates on repairs for the Yorktown are the most extensive and expensive. Currently, the agency estimates \$54.5 million is needed for repairs to the Yorktown and the requisite pier structure work that would need to be done for her return. These estimates do not include the cost of moving the aircraft carrier to dry-dock. This cost could be substantial since there is not a local option and the seaworthiness of the vessel is questionable.

Agency management stated that the ship would not have to go to dry-dock if a cofferdam were built at an estimated cost of \$25 million. That amount would be in addition to the \$54.5 million listed above. According to PPDA management, another alternative may be to rent a portable cofferdam from the U.S.S. North Carolina.

These figures are just estimates. Currently, PPDA is contracting for an environmental assessment, at a cost of \$379,978, to determine the costs to remove lead paint, other potential toxins, and the contaminants from the uncleaned storage tanks that the U.S. Navy flooded in order to sink the ship into the mud and permanently dock her at Patriots Point. Once that assessment is complete, the agency intends to conduct a structural assessment. Those two studies will tell the agency what is needed, how much it will cost, and the task priority for the Yorktown. According to an agency official, federal funds will be requested once there is an estimated cost. Also, at that point, the agency plans to begin fundraising for the repairs to the Yorktown.

We found that at least three other ship museums, the U.S.S. Alabama, the U.S.S. Missouri, and the U.S.S. Intrepid have received some type of federal assistance to address maintenance costs.

Cost of Reefing Vessels

Should the state decide to cease operations at Patriots Point, there would still be high costs to remove the vessels. The agency estimates \$40 to \$60 million would be needed to reef the U.S.S. Yorktown. The U.S.S. Clamagore would likely cost several million to reef as well. Finally, the U.S.S. Laffey, which is good repair, since approximately \$12.4 million was just spent on her, could easily find a new home. However, it is unlikely that another state would be willing to reimburse the state of South Carolina for those repairs.

Recommendations

-
1. Patriots Point Development Authority should increase the escrows to meet the costs for the scheduled future maintenance of the U.S.S. Laffey.
 2. Patriots Point should seek federal assistance for the cost of removing contaminants from the U.S.S. Yorktown, as well as reimbursement for the environmental assessment.

Major Income Streams

Patriots Point Development Authority has five major sources of revenue: admissions, an overnight youth camping program, gift shop sales, parking revenue, and income from long-term leases. PPDA also has minor recurring income streams.

Not included in stable revenue streams are the additional income that PPDA earns from signature events, such as the Ann-Margret fundraiser or The Midway Symposium. Even though these events bring in some revenue to Patriots Point, they cannot be included into the revenue streams to be counted on for future dollars to the authority because they are one-time events.

While PPDA has various sources of revenue, there are opportunities for generating more revenue. The agency needs to consider creating new revenue opportunities, as well as increasing the existing revenue streams, to earn adequate funds needed for recurring maintenance of the three primary vessels which comprise its museum.

Table 2.2: Major Income Streams

REVENUE STREAM	FY 08-09	FY 09-10	FY 10-11	FY 11-12	4-YEAR AVERAGE	% OF TOTAL
Admissions*	\$3,020,498	\$3,051,383	\$3,393,395	\$3,580,179	\$3,261,364	36.64%
Camping	1,544,481	1,537,285	1,513,477	1,503,605	1,524,712	17.13%
Gift Shop**	1,673,802	1,641,011	1,647,295	1,630,524	1,648,158	18.52%
Leases	1,389,610	1,412,240	1,445,645	1,543,629	1,447,781	16.27%
Parking	300,917	317,306	498,198	530,042	411,616	4.62%
Minor Streams	788,117	532,791	499,850	604,363	606,280	6.81%
TOTAL***	\$8,717,425	\$8,492,016	\$8,997,860	\$9,392,342	\$8,899,911	100.00%

* Includes education, memberships, group sales, and gross revenue for helicopter rides.

** Includes cost of goods sold.

*** Totals do not include one-time revenue, such as special events.

Source: PPDA

Table 2.3: Minor Recurring Income Streams

REVENUE STREAM	FY 08-09	FY 09-10	FY 10-11	FY 11-12	4-YEAR AVERAGE
Food Services	\$284,934	\$250,166	\$261,134	\$264,860	\$265,274
Flight Simulator	81,679	84,882	72,999	67,020	76,645
Event Rental	69,409	77,597	88,905	183,105	104,754
Donations	40,637	14,393	8,803	1,942	16,444
Misc. Revenue	311,458	105,753	68,009	87,436	143,164
TOTAL *	\$788,117	\$532,791	\$499,850	\$604,363	\$606,280

*Totals do not include one-time revenue, such as special events.

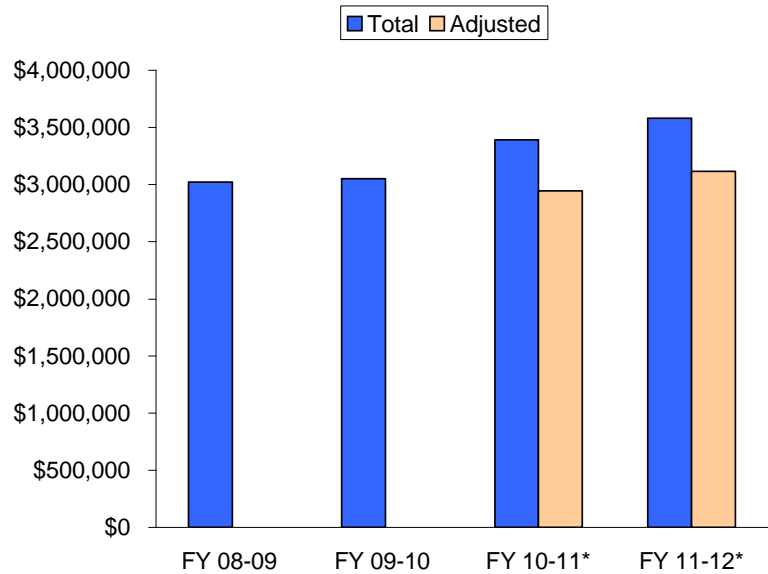
Source: PPDA

Admissions Revenue

The largest revenue source for the agency is generated from museum ticket admissions. Operating the Naval and Maritime Museum is a core mission for the agency. This stream of revenue has averaged \$3,261,364 over the last 4 years and accounts for 36.64 % of the total recurring agency revenue. Revenues in this area have increased significantly in the last 2 years, with an approximate \$500,000 increase in FY 11-12 over FY 09-10. However, ticket prices were raised during this timeframe which accounts for the majority of the increase in revenue from admissions. The actual number of paid admissions to the museum has remained fairly stable during the past 4 fiscal years, with only a 3.7% gain in tickets sold in FY 11-12 over FY 09-10.

The agency includes education revenues, memberships, helicopter ride revenue, and group sales into admissions for reporting purposes. The number of school children attending PPDA's education programs has also increased significantly in FY 11-12, which inflates the admissions revenue. Grouping several other sources of revenue under admissions gives an inaccurate report of the admissions income.

Chart 2.4: Total Admission Revenue from FY 08-09 to FY 11-12 with Adjustment for Ticket Price Increase



* FY 10-11 and FY 11-12 were adjusted to account for the ticket price increase which occurred during FY 10-11.

Source: PPDA

Recommendations

3. Patriots Point Development Authority should delineate each income stream for more accurate reporting.
4. Patriots Point Development Authority should generate a separate accounting for each revenue stream: groups sales, memberships, education, and admissions.

The Museum

The museum at Patriots Point is a combination of areas on both land and sea in addition to the vessels. One ticketed admission gains access to all three vessels — the U.S.S. Yorktown, the U.S.S. Laffey, and the U.S.S. Clamagore. Unlike other museums located in buildings, the vessels, themselves, are artifacts and a significant part of the museum campus. In addition are all the historic aircraft aboard the aircraft carrier, as well as a Vietnam Support Base and a Cold War submarine memorial, both located landside.

The museum services department has numerous duties:

- Creating and maintaining the exhibits and tour routes at Patriots Point.
- Managing artifact storage and inventory.
- Coordinating with the U.S. Navy in regard to items on loan to the agency.
- Coordinating and managing many of the volunteers who supply project labor.
- Maintaining and repairing aircraft, landside artillery exhibits, flight deck, the Vietnam Support Base, and the river patrol boat.

In addition to museum and curatorial exhibit duties, the museum services department is responsible for many other miscellaneous services for other departments:

- Event setups for after-hour events increase overtime salary costs for this department. Even though the event coordinator charges renters for these costs, the museum services department is not credited and thus reduces effective labor costs.
- Marketing department utilizes this department's graphic artist which can delay museum needs.
- Other departments use museum services' staff for office moves and rebuilds and other construction projects not related to the museum.

PPDA does not adjust any of these labor costs internally, so the museum services department suffers a budget/labor cut as a result.

One of the major charges of the current administration is to upgrade museum exhibits and create a fresh, more interactive look to the museum. However, the museum department's resources are being heavily diminished by the event coordinator and the marketing department. In addition, this department is charged with many tasks that logically should fall under the operations department. With appropriate accounting and agency tasking, this department would have fuller use of its resources to adequately cover the agency director's charge regarding the exhibits.

Agency management recognizes a need for a business management or development position at PPDA. Even though PPDA is a state agency, most of the departments are charged with revenue generation. A business management position would have the responsibilities of increasing revenue streams in existing operations and creating new revenue-producing attractions.

The structure of the agency could be reorganized to move both the museum and a business development position directly under the director. Since all of the vessels at the agency are also artifacts and the major part of the museum experience, PPDA should consider placing operations under museum services.

The current three-year plan for the agency projects an increase in ticketed admissions by 10% above the numbers for FY 10-11, which will increase revenue by \$450,000. This figure is based on full-price adult admissions. For the same period, at an average admission price of \$15, to average out children ticket discounts, the growth potential, with a 20% gain, for this revenue stream is approximately \$669,000 annually by the end of the three-year period.

While interdepartmental sharing of resources is a way to save agency costs, it should be fairly reported for financial purposes. When departments at the agency utilize other departments' labor and resources on a regular basis, those expenses need to be internally adjusted in order to more accurately report each department's true expenses. Further, when the event rentals charge for extra services which involves other departments, those costs need to be credited to that department's budget. The exception to this would be the operations department, which is a support for all department and event operations.

Recommendations

5. Patriots Point Development Authority should more accurately report each department's expenses by internally crediting back income charged by one department to the department which is actually providing the resources.
6. Patriots Point Development Authority should consider establishing a business or commercial development director to work directly with the executive director and to help oversee profit generation in the commercial operations at the agency.

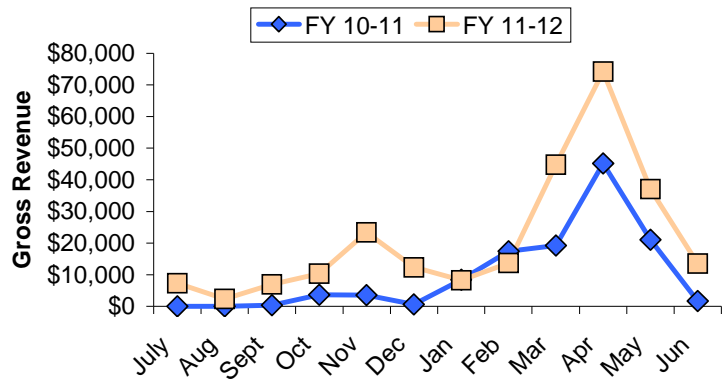
Education

The education department is at the core of the agency’s legislative mission and it is also a growing revenue stream. This department handles school field trips to the museum. In addition, the education department has a merit badge program to augment the scout camping program. Since this venture is grouped under general admissions’ revenue and largely booked by marketing, separate revenue was only available for the last 22 months when the current department head kept separate profit and loss records for that department. Even in that limited timeframe, the education department has seen a 109.95% increase in revenue for FY 11-12 over FY 10-11. Last fiscal year, this department generated a gross revenue of \$254,304.

The education department surveys every school group that comes to the museum. This department actively recruits students from across the state. Also, the agency is seeking grants to cover transportation for field trips as an incentive to bring children to the museum from other areas of the state.

Generally, the education programs are self-marketed. This department should receive a portion of the marketing budget for school outreach and/or be able to work directly with the agency marketing consultant to create some updated sales sheets for field trips and badge offerings. The scout badge program needs to be jointly developed by marketing with both the education and camping departments.

Chart 2.5: Education Revenue
FY 10-11 and FY 11-12



Most school field trips occur in the spring of each year and this is also the peak of the overnight camping program bookings.

Source: PPDA

The education department should work with the camping department to mandate that the primary excursion for campers be one of PPDA's own programs instead of off-site excursions. This would generate more revenue for the agency. At a minimum of \$5 per camper per excursion, this would increase the revenue to the agency by \$26,895. During our audit, the agency notified us that, as of November 1, 2012, the primary camping excursion would be in-house or with Fort Sumter tours.

Developing cub scout belt loop programs, girl scout badge programs, as well as hosting weekend scouting badge programs, could also generate more revenue for both the camping and education departments.

Recommendations

7. Patriots Point Development Authority should consider placing operations under museum services.
8. Patriots Point Development Authority should have the education department handle the bookings for school field trips.
9. Patriots Point Development Authority's education and camping departments need to jointly market the scout badge offerings at the agency.

Group Sales

Group sales is part of the marketing department, but is a combination of actual group tours and school group field trips. Education revenue is bundled into these revenue numbers even though the actual creation and capture of this revenue is handled by a different department. All group sales are mixed into admissions' revenue for financial reporting. Combining this revenue is creating a false indication of the financial worth of this department to PPDA.

Group sales showed a significant gain from FY 10-11 to FY 11-12. In FY 10-11, 26,522 people visited PPDA under the group rate which generated \$268,432 in revenue. In FY 11-12, this increased to 32,849 in attendance generating \$323,335 in revenue. Since this represents a 24% increase in attendance, but only a 21% increase in revenue, the indication is that children, who pay a lower admission fee than adults, account for the increase in numbers.

In fact, when total school group attendees are deducted out of the group sales numbers above, this nets an actual total of non-school group tour attendees booked by this department at 2,042 for FY 10-11 and 8,274 in FY 11-12.

We found no justification for having educational field trips and single/family memberships under the marketing department. Education is responsible for contacting and recruiting students and those groups should be under the purview of that department.

Since responsibility for memberships has been moved to another position at PPDA, the groups sales section has seen a reduction in duties. Further, removing the education numbers from this department and re-allocating to education (which is already marketing and tracking its attendees) reduces the duties of this position. Given this reduction in both responsibilities and time demands, this position might be better merged with event rentals as both feature booking issues and group coordinated efforts. In the alternative, this position could be combined with the admission sales staff for the agency.

Recommendations

10. Patriots Point Development Authority should only include group sales, such as tour groups, in the revenue stream for group sales. Revenue generated from school groups visiting Patriots Point for an educational field trip should be accounted to the education department.
11. Patriots Point Development Authority should reassign staff for group sales to the event coordinator or to work with the admissions ticketing staff.

Membership Program

The membership program at Patriots Point is not heavily marketed and saw a gross revenue of \$17,825 for FY 11-12, representing a total of 253 members. This program needs to be revised to include e-commerce options and to develop a core base of support (see p. 36).

This program was moved from the marketing department to the grants administrator during the course of our audit. However, this position already splits time between writing grants and working as an administrative assistant to the executive director. Allowing the ticketing staff to handle this program may be more efficient for the agency.

Recommendation

12. Patriots Point Development Authority should have sales of memberships as a separate income line item and should be delineated from the general admissions revenue stream.
-

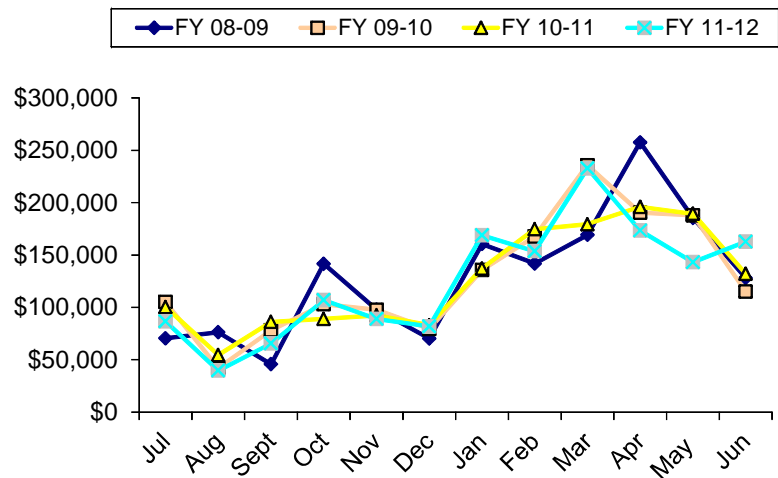
Camping

Revenue for the youth overnight camping program is second only to ticket sales. This program generates an average of 17.13% of the agency's recurring revenue with an average annual gross of \$1,524,712 over the last 4 years. The majority of these campers are cub scouts and boy scouts. However, there are also girl scouts, church youth groups, and ROTC students who participate in the program. This program also sees many repeat groups, from year to year and operates with two full-time employees; the other employees are part-time. This program is at full operating capacity for a portion of the spring months.

We conducted interviews with numerous other large ship museums across the country. While others also have established camping programs, such as the one at Patriots Point, none compare financially with the revenue generated by this department. Even the U.S.S. Midway (San Diego) and U.S.S. Intrepid (New York), which both report much larger attendance numbers, do not generate the revenue of PPDA's camping program. According to a PPDA official, the program at Patriots Point is able to draw campers from other areas of the country (with closer ship museums) for several reasons:

- The program at Patriots Point is less expensive.
- PPDA does not require booking one year in advance, as many museums do.
- Other museums have only one ship. Having more than one ship is a draw for the children. The submarine (U.S.S. Clamagore) is the second biggest attraction for campers. The Vietnam Support Base is also an attraction since the young campers enjoy climbing on the structures.

Chart 2.6: Camping Revenue
FY 08-09 – FY 11-12



The camping program was not advertised in FY 10-11.

Source: PPDA

Marketing of the Camping Program

Attendance numbers have been down for scouts (boy and cub) for the last two years. This department attributes the decline, in part, to the administrative decision made to suspend advertising of the program. This was coupled with the State Fire Marshal closing the program, temporarily, while the ship was brought in line with safety requirements. Because of press reports regarding the camping program being shut down, many scout troops provided feedback to the camping department that they did not book yearly trips since they thought the program was closed. Those leaders had seen the State Fire Marshal's issues in the press and then did not see Patriots Point being advertised in the scouting magazines and assumed the program had ended. The agency also stated that camping numbers were down due to the recession and other factors outside the agency's control.

The outside marketing consultant for the agency developed a promotional camping video that is shown in the theater. PPDA plans to show it at road shows. The video is also in the camping section of the website. However, it is linked to YouTube instead of uploading it in-house. This is not a good business decision because the agency is creating the opportunity to send a potential customer off-site.

The camping department requests that every camping group that comes to Patriots Point complete a survey. In addition, according to an agency official, every group that camps is also telephoned after their stay at PPDA, to follow-up on the survey answers.

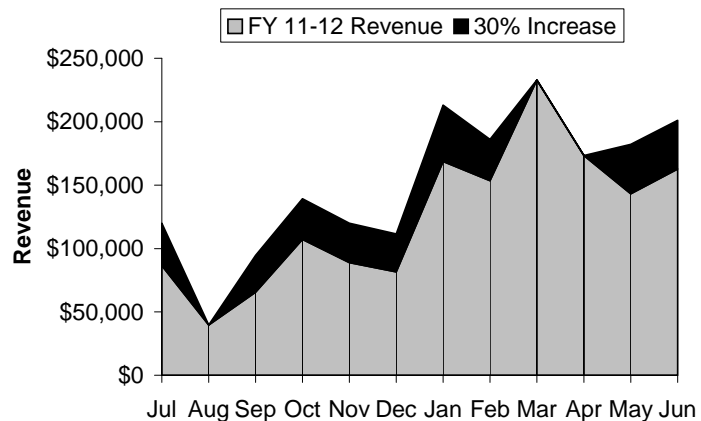
In the past, camping tracked what groups were booked from different road shows so it could determine the most beneficial shows to attend; however, a position in its department was lost, and the process was stopped. This tracking should be reinstated.

The camping department believes that attending more road shows and scout leadership training conferences (to reach scout leaders) are the best ways to attract campers to PPDA. However, according to agency staff, it is the marketing department that decides what road shows the camping program will attend. Marketing also decides who will attend those shows to represent the agency. There appears to be some disagreement regarding road show event priorities between these two departments. Also, non-camping personnel have provided misinformation regarding the program to potential attendees.

The program runs at capacity in the spring months of each year. Capacity has been determined by the State Fire Marshal to be 686 berths. PPDA sets the maximum for bookings at 650 to be able to handle last minute overages. The only way to increase attendance during that time of year would be to open additional camping venues, either landside or on the U.S.S. Laffey. The advantage to camping at Patriots Point is to be able to stay on a ship, so landside facilities may not be as popular as the established program on the U.S.S. Yorktown. The U.S.S. Laffey is also an alternative due to the historic significance of the ship. However, the ship lost its 'grandfathered' status with the State Fire Marshal when it left the agency and was dry-docked for repairs. Without this status, it is no longer allowed to be covered by the fire watch program in place at the agency, but must have a sprinkler system installed on board. An updated air exchange system also has to be installed. This cost was estimated to be between \$250,000 and \$300,000. However, with the possibility of 225 berths that could be placed in available space aboard the U.S.S. Laffey, the agency should consider renovations for the U.S.S. Laffey to make this an additional space for campers. PPDA could also market the option of camping on the U.S.S. Laffey to returning groups. Using the U.S.S. Laffey in this way might also be a way to avoid conflicts between the camping program and event venue rentals at the agency.

The camping program aboard the U.S.S. Yorktown reaches capacity during the spring months of the year. However, there is room for growth in some months. Currently, the agency discounts prices for the program, as an incentive, in the off-season times (just before Christmas and prior to school starting back in the fall). Factoring out the months at capacity and also the back-to-school month of August, we estimate a moderate increase of revenue of 10% per year for a three-year period gained through a department-directed effective marketing of the program should net the agency an additional \$309,043 in annual revenue by the end of year three. It would raise the total number of campers by 3,780 over three years or an additional 76 campers per weekend, which the agency should be able to accommodate.

Chart 2.7: Revenue with Projections Over Three Years



Source: LAC

Camping Excursions

Campers on the U.S.S. Yorktown have the option of taking one of many 'excursions' during their stay as part of the program cost. One of the most popular of these is a trip to nearby Fort Sumter National Park via the tour boats leaving from the agency property. There are also choices to other nearby historic spots, as well as the option to stay aboard the ship and either earn badges or participate in an educational class. All of these are promoted in PPDA's camping packets sent out to potential groups at no cost to any of the excursion venues. The excursion to Fort Sumter National Park is advertised in the pre-printed press releases furnished to groups.

PPDA's camping department handles all of the bookings and pays all of the various venues for these excursions without charging any fees. PPDA has even paid Fort Sumter National Park to cover overtime charges for its staff when the boy scouts went out on the first tour boat of the day so that they could participate in the raising of the U.S. flag at the fort.

PPDA should consider negotiating with these venues for better rates for its campers plus a referral fee back to the agency. The camping fee, which includes one excursion, should only be an in-house choice which captures all revenue inside the agency. This is currently the process for only mid-week campers. Additional excursions can be purchased by camping groups and the agency should get a referral or handling fee.

Conflict Between the Camping Program and Event Rentals

Prioritizing event rentals, which grossed approximately \$180,000 in FY 11-12, over camping, which generated approximately \$1.5 million in the same period, is not the best use of the agency's resources.

Even though the camping program is one of the central revenue streams for PPDA, it appears to be given a lower priority than event rental opportunities. At times, these two revenue streams conflict and result in either blocked camping dates or create negative feedback to the camping department due to occasional rowdy and/or intoxicated event attendees. Continuing this may reduce camping numbers for future fiscal years. There are many other large ship museums across the country and most of them have similar camping programs. PPDA should not block out campers, especially on weekends, if at all possible, as this both refuses to accommodate a potential customer and, simultaneously, gives that customer an opportunity to choose the competition.

The camping department provided copies of surveys where campers complained about rowdy events where alcohol was served. While there are personnel present onboard the ship to ensure that the children do not stray from the berthing areas after hours, there has been at least one issue in keeping event attendees from roaming into the berthing areas. This is a safety and security concern that needs to be addressed. The agency should require additional security personnel to be present, and paid for by groups renting venues, on the ship during this time.

While a large, one-evening rental appears profitable, this concept, when compared to the camping program that produces, on average, \$29,267 per weekend for the agency may not be the most beneficial to the agency. Canceling camping for just two weekends per year could reduce camping revenue by \$58,534, which is almost one-third of the entire annual event rental revenue for FY 11-12. Camping dates are blocked out well ahead for these events, so knowing the actual numbers of campers displaced is not possible. There is also the incalculable loss of future campers by turning them away from this program and potentially giving them the opportunity to try another program.

Recommendations

13. Patriots Point Development should consider renovations to the U.S.S. Laffey for additional berthing space in order to increase the camping program during peak months and to minimize conflicts between the camping program and event venue rentals at the agency.

14. For its camping program, Patriots Point Development Authority should:

- Set a goal to increase camping numbers through a department-directed effective marketing of the program.
- Create camping brochures/packages to feature education and merit badge offerings.
- Create a separate package for each of the major camping groups staying onboard the U.S.S. Yorktown, (boy scouts, cub scouts, girl scouts, church youth groups, ROTC) with current excursion offerings.
- Reach out to the national scout offices (boy and girl) to become a scout camping designation and request use of trademarks in its advertising to potential troops.
- Track customers acquired from these shows to determine the return on investment and aid marketing in determining the most effective shows to attend.
- Upload its camping video directly from its Internet host.

15. Patriots Point Development Authority's camping department needs to:

- Charge a referral fee for additional off-site excursions for campers.
- Negotiate with off-site excursions to ensure that the agency is earning a favorable rate for this recurring group business.

16. Patriots Point Development Authority's education department should develop both a girl scout badge program and a cub scout belt loop program.
17. Patriots Point Development Authority should prioritize the weekend camping program over that of event rentals. Where the two co-exist, the agency should increase efforts to keep these groups separate.

Gift Shop

The gift shop revenue accounts for 18.52% of gross revenue to PPDA, bringing in an average of \$1,648,158 annually for the last four years. However, these figures include the costs of goods sold and sales tax. When those are deducted, the revenue drops down to 9.41% of total PPDA revenue. Cost of goods sold averages approximately 45% of total gross revenue for the gift shop.

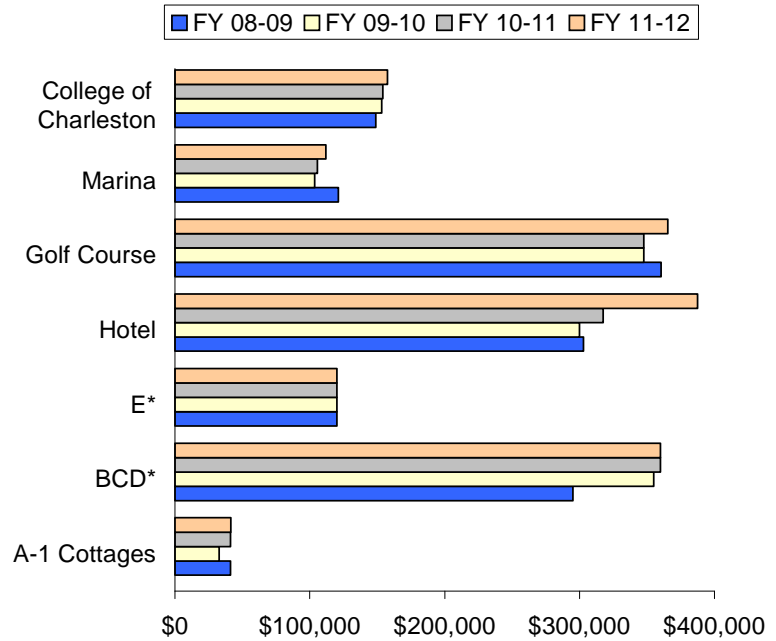
Continuing with the three-year plan for the agency to increase admissions by 10% should indirectly raise gift shop revenue by the same percentages without any additional efforts by the agency. This should generate an additional \$83,347 in gross profit for the agency in annual revenue.

Lessees

PPDA is the leaseholder of several long-term leases on parcels of property which generated an average of \$1,447,781 in revenue for the past four years. This amounts to 16.27% of the total agency recurring revenue each year.

Current leases have very long terms and there is no real opportunity to change revenue without re-negotiation by the parties or by the general recovery of the economy. However, the agency is considering revising the lease for a portion of the golf course, which could net an undetermined gain. Additionally, working with lessees to create joint packages or referrals could be an additional source of revenue. Future leases for remaining parcels at the agency could be a potential revenue source, but the value cannot be quantified.

**Chart 2.8: Leasehold Revenue
FY 08-09 – FY 11-12**



* Parcels BCD and E are unimproved land.

Source: PPDA

Parking

The agency generates, on average, \$411,616 per year in parking revenue. As with admissions, this revenue has increased for the last two years due to a price increase from \$3 to \$5 per car. The total number of cars parked has stayed relatively consistent, with a slight dip in FY 11-12. This is a low expense revenue stream as it only involves one employee at the kiosk and some part-time assistance from the administrative staff.

We found that, although all parking fees are now \$5 per vehicle, monthly parking revenue rarely totaled to numbers divisible by five. In fact, for the last 24 months of parking revenue, only 4 months, or 16.67% had correctly divisible totals. The agency provided no viable reason why this would occur.

If PPDA achieves its three-year plan to increase admissions by 10%, this should indirectly raise parking revenue by the same percentages. This would generate an additional \$49,820 for the agency in annual revenue.

Minor Income Streams

PPDA also has several smaller revenue sources that created an average of \$606,280 in revenue for the past four years. The largest of these are: food services, flight simulator, event rentals, and donations.

The agency has a history of using outside vendors to run businesses at PPDA, such as catering, flight simulator, and photography. PPDA should re-examine use of such vendors to determine if a better return on investment would be gained by using agency staff and purchasing the necessary equipment.

Food Services

Patriots Point Development Authority contracts out its catering services which include the snack bars, the galley on the Yorktown, some event rentals, and the vending machines on the museum campus. The agency earns approximately 20% of catering revenue from this contract. The caterer also gets a 50% venue rental discount, if it handles the catering for an event. Depending on the venue and the type of event, the total income to PPDA (rental plus catering percentage) can be less than using an outside caterer that pays full price for the venue and remits no dollars to PPDA for food service.

Patriots Point is currently contacting event promoters to use their independent caterers for functions that rent PPDA's facilities. We found that, in some cases, PPDA earns more revenue using outside caterers because the event venue is so deeply discounted for the in-house caterer.

There are three ways to increase the food services revenue stream:

- Revise the contract with the in-house caterer in return for referring rentals.
- Charge outside caterers setup fees to earn additional revenue.
- Provide catering using agency staff and equipment.

Promoting the in-house caterer in marketing brochures and on the agency website could be used to re-negotiate the catering contract for a better rate to the agency.

The agency should charge outside caterers for services and support, such as security, custodial, maintenance, corkage, and facility, so that some food service revenue is captured by the agency. The deep discount offered for those using the in-house caterer effectively lowers a percentage of catering revenue. If the reverse approach is implemented, there is consistent revenue

from event space rental and an up-charge for off-site caterers or the standard better-negotiated rate for the in-house caterer.

The average annual revenue to PPDA for catering is \$265,274 for the last four years from receiving approximately 20% of the revenue. The catering contractor grosses an average of \$1,326,370 in revenue. If this operation were brought in-house and only netted a profit of 30% (\$397,911), there would be a direct gain to Patriots Point of \$132,637. There would also be an indirect gain in event revenue as the venue discount for the in-house caterer could be greatly reduced or eliminated.

Recommendations

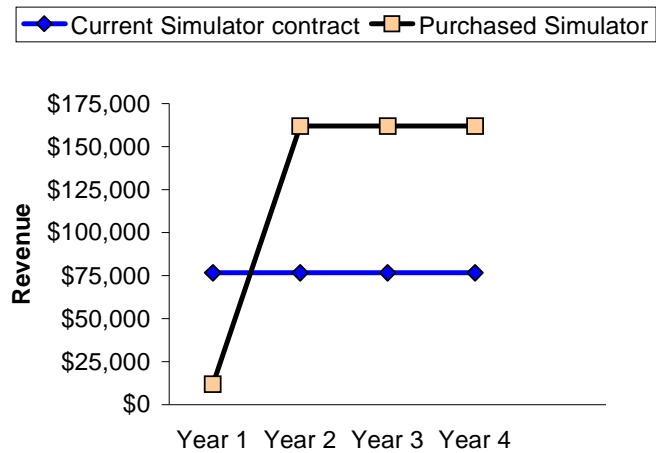
18. Patriots Point Development Authority should determine if hiring an in-house caterer and part-time staff to cover events and snack bars could yield a better return than using outside contractors.
19. In the alternative, Patriots Point Development Authority should promote the in-house caterer as the 'preferred' caterer of the Yorktown on the web and in event publications as an incentive for a better percentage rate on in-house catering revenue.
20. If outside caterers are used, Patriots Point Development Authority should charge additional fees to cover other services.
21. Patriots Point Development Authority should negotiate referral commissions for advertising approved caterers on the website listed below the in-house caterer.

Flight Simulator

There is a group flight simulator onboard the U.S.S. Yorktown which is maintained and staffed by a private company. That company pays fifty percent of sales back to the agency. Income from the flight simulator, to the agency, averaged \$76,645 over a four-year period. The current flight simulator provider does not feature PPDA on its website.

PPDA should consider purchasing a flight simulator and operating it itself. These simulators can cost approximately \$150,000, which is twice as much as what PPDA is making off a percentage of revenue per year. An agency official stated that PPDA has not purchased a flight simulator because the agency wanted a turn-key operation and did not want to deal with staffing issues.

Chart 2.9: Flight Simulator
Contract vs. Ownership



Sources: LAC and PPDA

An average two-seat flight simulator, in good traffic, generates \$3,840/week or \$192,000 annually (based on a 50-week year). At this rate of return, the simulator would pay for itself in the first year. Even covering a salary as high as \$30,000/year for staffing, this machine would have an average yearly profit of \$124,500.

This is a minimal yearly increase of \$47,855 over present revenue. The actual revenue should be much higher as staff should either be able to oversee more than one simulator or handle other duties. Further, a simulator should operate for more than four years prior to replacement.

Once the Medal of Honor Museum moves off the hangar deck, there could be an entire children's interactive nautical/military-themed gaming area at one end (closed off and climate controlled from the museum area) with the simulator(s) located there as well. In that way, the simulator would be an indirect draw for other cheaper games. Newer simulators allow for non-participants to view the action inside and could also create more of a draw. The agency may also want to consider group interactive simulator options and market these for youth groups as well as general recreation.

Recommendation

22. Patriots Point Development Authority should consider purchasing its own flight simulator.
-

Event Rentals

Event rental revenue has increased 106% from \$88,905 in FY 10-11 to \$183,105 in FY 11-12. The event coordinator does not have any staff except for volunteers. However, sometimes additional specialized labor is needed for event rentals, which is supplied by other departments at the agency. In the rental agreement, the coordinator lists these labor costs as services. Those charges are not allocated to the departments providing services, which creates a deficit in their budgets in order to show a gain in event rental revenue.

Event rentals cannot take online payments. Clients must mail in funds for rentals. The information technology department of the agency should work to incorporate its reservation and booking system with the website to allow for more e-commerce opportunities.

PPDA has focused on increasing event rentals by directly marketing to other hotels/caterers and corporations. We found other ways to improve event rentals:

- Discontinue the deep discounts to the in-house caterer by revising the current contract and/or eliminating such a provision in future contracts.
- Avoid weekend scheduling conflicts with the camping department.
- Properly allocate labor use by other departments.

We found that some events get deeply-discounted rates and/or services, including free parking. Examples are: The Professional Golfers' Association was given \$2,750 in rental space (flight deck) in return for \$2,000 face value of passes to the tournament (these were auctioned off by the Yorktown Association, not PPDA, on e-bay for a total of \$900), and the Coastal Carolina Council was given free venue space and parking.

Discounting charitable events such as the Lowcountry Splash ("Get Under It" charitable swimming event) and the NUC All-World Gridiron Classic, in which PPDA received half-time telecast exposure, may be understandable. There were also several political events which rented a \$2,200 venue at \$600.

PPDA has a significant opportunity to increase event rentals into a viable minor income source for the agency. If coupled with fundraising to host signature gala events, the revenues may be even greater. Also, the agency needs to take steps to make sure costs for this area are accurately accounted for among all departments involved. PPDA must ensure that this smaller income stream does not adversely affect the larger camping revenue source.

Recommendation

23. Patriots Point Development Authority should improve its event rentals by:
- Developing e-commerce capabilities for event rentals so that customers can submit payments via a secure site to PPDA.
 - Ensuring that future catering contracts provide for a better return to the agency.
 - Coupling signature events with fundraising as an additional marketing and revenue generation tool.

Donations

Patriots Point Development Authority receives donations and labor from volunteers. Patriots Point does not generally receive unrestricted donated dollars from related associations. When those funds are received by PPDA, they are usually restricted to education or other projects, not capital maintenance. While these associations are helpful for obtaining grant money, it seems advantageous to have undesignated donated dollars received directly by Patriots Point. Unrestricted direct donations to the agency could be used for capital maintenance.

The neighboring S.C. Aquarium is raising over \$1,000,000 per year in donations. Given the location and the potential resources, PPDA may be able to raise, at least, over \$100,000 per year in direct donations. If fundraising were brought into the signature fundraising events with different sponsorship levels, this could increase revenue. The U.S.S. Lexington (Texas) held three fundraiser events that brought in \$400,000 to that museum.

Volunteers are a valuable source of labor and enthusiasm for an organization. Currently PPDA volunteers man the information desk and interact with visitors as tour guides. Several groups come in regularly to work on projects coordinated by the museum services department. Volunteers also form a continual core local base of support for the museum. The agency needs to enhance this source of available labor for the best use of all parties.

Volunteers could also assist with event setups to minimize the use of PPDA staff. Nauticus, a ship museum in Virginia, utilizes volunteers not only to teach classes but also has an active program wherein groups can adopt areas of the ship to renovate or maintain.

There is no accurate way to determine the amount that PPDA could raise through direct donations of time and labor since the current efforts are negligible.

Recommendations

24. Patriots Point Development Authority should improve its fundraising efforts.
25. Patriots Point Development Authority should consider using volunteer labor for assistance with event setups so as to minimize use of staff from other departments.

Conclusion

Based on our discussions of the in-house caterer, the flight simulator, direct donations, and other miscellaneous sources of revenue, we estimate the potential for PPDA to increase its minor income streams by approximately 71%.

Table 2.10: Conservative Potential Values on Smaller Revenue Streams

POTENTIAL MINOR INCOME STREAMS	AMOUNT
In-House Caterer	\$397,910
Four-Year Flight Simulator	124,500
FY 11-12 Total of Other Misc. Sources	50,569
Direct Donations as a 501(c)(3)	<u>100,000</u>
TOTAL*	<u>\$672,979</u>
<u>Net Gain in Smaller Revenue Streams</u>	<u>\$278,550</u>
<u>Net Percent Gain in Smaller Revenue Streams</u>	70.6%

* Reasonably anticipated from miscellaneous revenue at current program levels.

Source: LAC

New Opportunities for Additional Income

In addition to the revenue streams already in place, there are several more that are available for the agency to develop.

STEM, Robotics, Flight Academy

The education department is currently planning programs which coordinate with the South Carolina Science, Technology, Engineering, and Mathematics (STEM) programs by creating an on-site laboratory setting for a portion of that curriculum. Similarly, a robotics laboratory is under construction. This program will work with both math and science curricula, as well as developing a new merit badge offering for scouts.

Finally, the agency had planned to become a facility for the National Flight Academy. This program would create revenue for both the education and the camping programs at Patriots Point. Appropriations for this program were initially funded in the FY 13-14 appropriations act; however, this funding was cut when state revenue was less than expected.

In addition to creating additional revenue, these educational programs contribute significantly to the educational mission mandated in the enabling legislation for the agency.

Memberships

The membership program for the museum at Patriots Point generates little revenue. In FY 11-12, there was a total of 253 memberships at Patriots Point generating only \$17,825 in revenue. This may be a significant untapped revenue resource for the agency. PPDA should develop a local base of support by creating opportunities for the local population to repeatedly visit the campus at Patriots Point. One idea currently being developed is the changes to the museum exhibits, both for upgrades and for rotating exhibits. In addition to the actual exhibits, PPDA needs to find other avenues to attract locals to the property which also augment the agency purpose and basic mission. One option is having member-only events/receptions or allowing members a discount or early purchase option for agency events.

Another idea is developing part of the property of the campus so that it is attractive to a local base of support. The agency should consider product giveaways for members that also create advertising for the agency, such as a free member t-shirt or auto decals.

PPDA has five different membership levels with disparate rates of savings. The agency should reduce the number of membership types, but create a uniform pricing plan for this program.

In addition to out-selling Patriots Point in admissions, the neighboring S.C. Aquarium's membership program has grown from over \$589,000 in revenue in 2009 to just over \$700,000 in 2010 (a 19% increase in one year). The state's number one visited tourist attraction, Riverbanks Zoo and Garden, reports an average of 32,000 households as members and generates \$2.1 million per year from memberships. The S.C. State Museum has between 5,000 and 5,500 members per year and generated \$267,581 last year in revenue from membership sales.

A vibrant membership program could create a recurring customer base which would provide local support, event participation, and populate a workable base for long-term fundraising.

E-Commerce Regarding Memberships

The membership section of the agency website has several problems. E-commerce options need to be maximized to allow membership sales over the internet. Currently, there is no option for this on the PPDA website.

Also, the membership link is located under foundation donations on the agency's webpage. This should be a separate tag under a catchy phrase like "Join the Point" or "Enlist."

There is no corporate link, as promised in the joining information, on the website to corporate members. We found that the website has overlap and misprint issues in many different areas, including the membership area.

Battery Removal and Re-Sale of Clamagore Batteries

The U.S.S. Clamagore is currently in danger of losing her seaworthiness and is being considered for reefing. Whether the submarine goes to dry-dock for repairs or is relinquished by the agency, the batteries aboard the vessel should be harvested and recycled. Submarine batteries are used in many solar-powered systems and have an active market.

E-Commerce

The website for Patriots Point Development Authority is detailed and regularly updated. However, there are limited e-commerce capabilities. Currently, the agency allows online sales of tickets and donations can be made to the Patriots Point Naval and Maritime Museum Foundation (not the agency).

The gift shop at the agency does not have online commerce (e-sales) on the website. Store items could be integrated with ticket sales for special events to generate additional revenue. For example, t-shirts promoting the July 4th event or ghost tours could be sold in conjunction with tickets.

Gift Cards and Certificates

In conjunction with the plan to market locally, gift memberships or gifted admissions could be used to augment ticket sales in a slower holiday season. Reminders to purchase these could be advertised in member newsletters and e-blasts.

Independence Day at PPDA

PPDA's independence day celebration is a large-scale annual event held on July 4th that has had varying economic success over the years. The agency considers this as a gift back to the community and does not charge admission. However, this past July 4th, the agency, for the first time, sold access passes to the flight deck and that portion of the event was very successful. The agency is currently working to correct issues with landside visibility and should have those corrected by next summer. The agency should also consider having more options landside to generate revenue.

Movie Options

Patriots Point Development Authority should work with the S.C. Film Office to market the museum as a location for filming movies. This would both create a marketing and an income opportunity.

Joint Ticketing Referrals

Currently, PPDA has no revenues derived from joint ticketing partnerships nor does it work with any of its leaseholders to promote package deals. Such partnerships could create an increase in revenue to all parties and should be considered by the agency. Entering into a referral/package option with the hotel lessee might be an opportunity to revise the lease agreement and improve terms of the lease in favor of the agency.

As for referring tour groups to area hotels or other attractions, a referral fee should be paid to the agency, along with the acquisition of a cheaper group rate for the tour.

Fort Sumter Tours, since it is on-site, is an obvious choice for joint ticketing. Another option may be the H.L. Hunley Museum for historically-minded tourists. The S.C. Aquarium, combined with a water-taxi service across the harbor, could be a compelling option for out-of-town visitors.

On a larger scale, PPDA could take the lead to create a South Carolina museum pass to allow members of each state museum access to others as an added member bonus. This should create additional value for each museum membership and perhaps warrant a price increase by each agency for its museum memberships.

Grants

This is a new area, as of FY 11-12, in which the agency is attempting to generate revenue. However, since agency staff is being used to acquire funds that will be directed through related associations, and not directly to the agency, there is some question as to whether this endeavor should be handled directly by the agency. PPDA's staff should focus on direct grants and work in tandem with association personnel for those that must be channeled outside the agency.

Singular Events

PPDA's current administration has worked to create new events to draw visitors to Patriots Point. New events include: the centennial anniversary celebration for the Girl Scouts, history symposium series, and the ghost ship events. These singular events cannot be relied upon as a stable revenue stream, but they do provide additional income. Furthermore, they provide a marketing device by which to advertise the museum at Patriots Point and its historic vessels. In addition, these events incorporate the agency's plan to keep activities at the museum vibrant and fresh.

Recommendations

26. Patriots Point Development Authority should consider:
 - Separately recruiting corporate memberships.
 - Developing the agency's website to allow online membership purchases and direct donations to the agency.
 - Increasing its membership costs to make them more uniform and refining the options.
27. Patriots Point Development Authority should investigate recycling the batteries on the U.S.S. Clamagore.
28. Patriots Point Development Authority should develop e-commerce for the gift shop.
29. Patriots Point Development Authority should develop a gifting program for memberships or admissions and market this to its local base.
30. Patriots Point Development Authority should consider developing opportunities for landside revenue during its independence day celebration.
31. Patriots Point Development Authority should consider developing joint ticketing options with leaseholders.
32. Patriots Point Development Authority should negotiate with area hotels and attractions for referral fees and nominal group rates for tour groups referred by the agency.
33. Patriots Point Development Authority should consider working with other state museums to create a South Carolina museum pass.

Lost Revenue

During our review, we identified several areas where the agency is losing revenue to outside sources. These sources provide little, if any, support for agency functions.

Fort Sumter Tours

Fort Sumter Tours is a boat tour company which runs boats from the campus of Patriots Point to Fort Sumter National Park. This company is the sole concessionaire for the National Park Service providing commercial travel to Fort Sumter. Fort Sumter Tours leases both ticket booth space to sell its tickets and docking space at the agency pier to moor its boats.

PPDA used to receive a fee of two percent of gross sales from this venture by handling ticket sales for Fort Sumter Tours. However, this was changed in 1994 to a lease payment for office space and allowed Fort Sumter Tours to have its own ticket booth space. According to the agency, Fort Sumter Tours offsets most of its minimal rent by performing dredging services from the pier where its boats are moored to the harbor. Only Fort Sumter Tours has need for the dredging to occur. The effect of this offset is that the agency only receives revenue from Fort Sumter Tours every few years on off cycles from the dredging expenses.

PPDA should receive approximately \$65,000 per year in lease revenue from Fort Sumter Tours. However, PPDA does not receive any rental income until the expense of dredging is paid. In FY 11-12, the agency received \$29,000 and in FY 12-13 the amount should be approximately \$65,000. After that fiscal year, the channel will probably need to be dredged again. Under the lease agreement, the agency is charged with the task of dredging, but a private company can accomplish the task quicker and at a lower cost than the agency.

With unilateral options to renew held by Fort Sumter Tours, the agency could lose money until 2035. The agency should look into other dredging options from the U.S. Army Corps of Engineers or the S.C. Ports Authority to determine if a more cost-effective option exists.

Per the agreement between Fort Sumter Tours and PPDA, each party is supposed to support the other's endeavors. Working with the company to increase advertising for the agency and/or promote the museum might be a way to increase admissions for PPDA.

There are no joint ticketing ventures between Fort Sumter Tours and the agency. Currently, visitors have to stand in two separate lines, side by side, if they want to visit both attractions. A joint pass would streamline the ticketing process and should provide greater numbers for both ventures.

PPDA should work with Fort Sumter Tours on a joint ticketing package and PPDA should sell those tickets. PPDA could also include a joint ticket option on its website. PPDA should conduct some onsite surveys to determine the amount of crossover business it obtains from having the company onsite.

In addition, the agency pays Fort Sumter Tours for scout camping excursions for those campers who wish to tour Fort Sumter National Park during their stay aboard the U.S.S. Yorktown each weekend.

Recommendations

34. Patriots Point Development Authority should approach Fort Sumter Tours with joint packaging options and handle the sales for such a venture on its website.
35. Patriots Point Development Authority should require Fort Sumter Tours to advertise PPDA at both its mooring points, ticket offices, and onboard its boats. PPDA should track these efforts to determine effectiveness.
36. Patriots Point Development Authority should determine if there are more cost-efficient options for dredging available through entities, such as the U.S. Army Corps of Engineers or the S.C. Ports Authority.

The Medal of Honor Museum (MOHM)

The Medal of Honor Museum (MOHM) has been located aboard the U.S.S. Yorktown since 1993. It is owned by the Medal of Honor Society (society), however, the exhibits are maintained by the museum services department of the agency at no cost to the society. Patriots Point Development Authority pays the Medal of Honor Society approximately \$10,000 each quarter, based on the premise that rather than charge separate admission to this separate museum, the agency would just pay the society a fee.

There is no evidence that the MOHM is bringing visitors to PPDA. The agency might consider charging a separate fee for admission to this museum exhibit or conduct onsite market research to determine if hosting this museum justifies the payments to the society.

Currently, there is a plan to build a separate MOHM landside on the campus of Patriots Point. This project is estimated to cost between \$100 and \$125 million and will occupy up to 36 acres of valuable harbor-front property. The proposal includes no rental payments to PPDA and the Medal of Honor Museum Foundation has asked for the land to be gifted to them at no cost. PPDA should receive lease revenue from any venture based on fair market value of the land (see p. 79).

The society has adopted the current business model for Patriots Point Development Authority for this new museum, and seeks to garner enough valuable property from PPDA to not only construct the MOHM but to develop separate retail operations, venue rental space, and parking. Through those separate revenues, the MOHM plans to be self-sustaining, but it may do so to the detriment of the Naval and Maritime Museum at Patriots Point.

PPDA currently meets its operating expenses and needs to find additional revenue to support costs for vessel maintenance. The society is requesting that the agency give it valuable land to build adjacent museum competition. Moreover, it seeks additional land to create commercial development and event rentals to fund its operations.

The new board of the MOHM foundation has several members who also serve on the board of PPDA. There is the potential for conflict for dual members trying to serve competing concerns.

The study, which highlighted the landside MOHM, was funded by the Patriots Point Naval and Maritime Museum Foundation. One benefit cited for building the museum is that this MOHM will help make PPDA a national tourist destination. The proposal estimates visitors to the new museum to be between 206,010 and 343,350. In the past four years, the highest number of visitors to PPDA was 232,551. Assuming that every visitor to the MOHM also chose to come to the Naval and Maritime Museum at Patriots Point, that would be, at most, an increase of 110,799. The current business plan for PPDA has the goal of a 40,000 increase in attendance within 3 years and the agency is on track to achieve this goal. If the agency can maintain the gain in admission ticket increases, without the landside Medal of Honor Museum, PPDA would increase its attendance to this level in approximately eight years. PPDA is on target to increase admission numbers without the MOHM.

One concern is that, if given the choice, visitors to the campus of Patriots Point Development Authority will opt to visit one museum over the other. The result could be a loss in admissions revenue to the agency. Consumers have a finite number of dollars and have to make choices among competing concerns as to how to spend their resources. Fort Sumter Tours already competes with the agency for those dollars.

We could not estimate what the cost to admissions revenue might be, but we did identify some areas where PPDA could lose revenue to the MOHM.

- The landside MOHM plans to have its own parking lot. If parking is free for that museum, visitors could choose that option. Even if the pricing were the same for the two lots, visitors may choose the MOHM lot, as it will be closer to retail outlets and this will be the first lot accessible from the access road to either museum.
- There is a potential loss of PPDA's event rental revenue, as the MOHM will be the new venue next door and on the harbor.
- Revenue from gift shop sales at PPDA may be affected by a new landside MOHM. Even if all on-site visitors chose to see both attractions, the retail shopping between the two would be split, at best.

Loss to admissions is unknown, but building a directly-competitive venture on its own property could also lead to a loss in parking, events, and the gift shop.

Recommendations

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37. If Patriots Point Development Authority agrees to lease land to the Medal of Honor Museum, PPDA should require:
- Control over parking for the museum and any corresponding retail or commercial activity on that parcel.
 - One central ticket office which covers all the attractions, including that of leaseholders.
 - The option for a joint ticket to the Naval and Maritime Museum at Patriots Point for all visitors attending the Medal of Honor Museum.
 - Only actual needed acreage to be used by the Medal of Honor Museum.
38. Patriots Point Development Authority should ensure that any commercial and/or retail development on the campus of Patriots Point Development Authority be a direct lease with the agency to allow the maximum lease revenue to be captured by the agency for use to support its missions.

Payments to Coastal Carolina Council Boy Scouts of America

From 1991 to 2010, PPDA paid the Coastal Carolina Council Boy Scouts of America \$1 for every scout that camped at PPDA, no matter from which council or state the camper came. According to an agency official, no other scout council or other organization receives funds from PPDA for campers. Only 2.44% of the total campers in the program came from the local scout council in FY 09-10 and 2.43% in FY 10-11. Since this council does not provide any significant service to the agency, there is no reason to continue paying the fee.

When the current executive director arrived, this practice was stopped and taken out of the budget. However, this item was placed back in the PPDA budget and the agency allocated \$17,000 to this council during FY 12-13. According to agency management, no agreement has been made as to what services the council will provide for these funds as negotiations are still in progress, as of September 2012. If the agency agrees to a revenue sharing concept with one council, the other councils may want the same arrangement.

The Coastal Carolina Council Boy Scouts of America has also been the recipient of free venue space aboard the U.S.S. Yorktown and the agency allows its sea scouts to meet there free of charge as well.

The agency should decide whether to continue paying the fees to this council, pay fees to all councils, or pay the national council. Promoting the camping program within scout circles is a proven success for PPDA, but at a national level. PPDA regularly advertises its program in national scouting magazines. The agency should also direct its referral requests to the national councils for both boy and girl scouts. A better use of budgeted funds would be in acquiring trademark licensing and making the program a national scout camping destination.

Recommendations

39. Patriots Point Development Authority should discontinue paying fees to the Coastal Carolina Council Boy Scouts of America.
40. Patriots Point Development Authority should consider using budgeted funds to work with the National Council of both the boy and girl scouts to designate the camping program at the agency as a national destination and to obtain license use of scouting trademarks for agency promotions.

Tourist Photos

At the entrance to Patriots Point Naval and Maritime Museum, visitors have an option to have their photos taken. These photos are then developed while the visitors tour the vessels and are available for purchase when exiting the campus. This money goes to Patriots Point Naval and Maritime Museum Foundation instead of directly to the agency.

Recommendation

41. Patriots Point Development Authority should obtain the funds from the visitors' photos concession.

Sweet Grass Baskets

Also located at the entrance to the museum is a vendor selling sweet grass baskets. These are locally-crafted baskets made from grasses harvested in the area and are a staple of the Charleston tourism trade. This vendor remits no funds to Patriots Point Development Authority.

When you give a business enterprise both a venue and a customer base, some fees should be paid in return. This vendor gets foot traffic of over 200,000 visitors per year walking past to purchase tickets for the museum and an undetermined additional number from visitors purchasing tickets for Fort Sumter Tours.

Recommendation

42. Patriots Point Development Authority should charge a fee to all vendors using the premises.

Adventure Tourism

The agency is considering leasing property covered by conservation easements to the Charleston County Parks Commission to erect a high adventure ropes course. The commission would lease the property over a long term and then build and staff the attraction independently of PPDA. Customers for this attraction would use PPDA's parking, resulting in additional parking revenue in addition to lease revenue. However, a parking shuttle system will have to be added.

These courses are not expensive to construct but there are joint liability issues, especially when there is a zip-line planned, which will start from the top of the U.S.S. Yorktown.

The agency and/or the commission should consider creating a design that will integrate into the overall theme of the campus. Ideas such as either incorporating this into a section of the Vietnam Support base and existing climbing wall or constructing the entire ropes course with a nautical theme would be examples.

Recommendations

43. Patriots Point Development Authority should determine whether the potential return is worth the agency erecting and staffing the adventure ropes course internally.
44. If Patriots Point Development Authority decides to lease the property for adventure tourism, the lease should include that the lessee is responsible for the parking shuttles.

Conclusion

Patriots Point Development Authority uses many sources of revenue to generate enough income to meet the agency's operating expenses. The agency needs to increase each of these revenue streams, as well as to create new ones, in order to meet the costs to cover the necessary scheduled maintenance of the three vessels in its fleet.

Fundraising

Direct fundraising by the agency is the smallest of the minor sources of revenue generating, on average, \$16,444 for the last 4 years and only \$1,942 in FY 11-12. The agency has a foundation and three related vessel associations for additional fundraising opportunities. The agency also received grants from local county and municipal sources to fund operations and specific projects. We found that PPDA has opportunities for additional fundraising.

PPDA has four related organizations that could provide assistance, either monetary or in-kind:

- Patriots Point Naval and Maritime Museum Foundation.
- Yorktown Association.
- Laffey Association.
- Clamagore Veterans Association.

In addition, PPDA receives annual funding from the accommodations tax through the Town of Mt. Pleasant. PPDA has also received grants from the County of Charleston. This year, the City of Charleston designated \$5,000 to assist PPDA with the July 4th celebration. PPDA has both a part-time grants administrator, on staff, and a lobbyist, on contract, who works at both the state and federal levels.

In-House Fundraising

Donations made directly to Patriots Point Development Authority are not a significant source of revenue. While the average amount in donations over the last 4 years was \$16,444, this is not a significant amount when viewed in the total revenue averages of \$8,899,911 for the same period.

Most of the donations made to PPDA over the last few years were related to the restoration of the U.S.S. Laffey. As that work was completed, the agency saw donations steadily decline to a four-year low in FY 11-12 of \$1,942.

For FY 12-13, only \$2,000 is projected in revenue from donations to the agency. The nearby S.C. Aquarium captures over \$1 million per year from fundraising efforts. Per PPDA's executive director's remarks to Naval Sea Systems Command (NAVSEA) on plans for the U.S.S. Yorktown, plans for fundraising for the ship repairs will be made once the environmental and structural assessments are completed. Neither of these studies is projected to be completed before mid-2013. With initial estimates for just hull repairs at \$20 million, PPDA should not wait to begin fundraising.

Grants

The grants administrative position, filled in February 2012, only has part-time duties in this area. Most of the grants applied for are educational. Since some grants cannot be given to a government agency, they will go through the Patriots Point Naval and Maritime Museum Foundation, since it is a 501(c)(3) charitable organization.

Charitable Status

While Patriots Point Development Authority was granted a 501(c)(3) tax-exempt charitable organization designation from the Internal Revenue Service in 1974, the agency is not listed in the active database with the IRS. There may be some issues with its designation since the appropriate forms have not been filed annually with the federal government. To allow funds to be donated directly to PPDA, the agency should have its status reinstated.

Outside Organizations Affiliated With PPDA

Patriots Point Naval and Maritime Museum Foundation

This is Patriots Point Development Authority 's fundraising arm and has an all local board. The foundation is charged with raising funds for the operations at Patriots Point as a 501(c)(3). The foundation tends to hold a large amount in assets, over \$500,000 for the last two years, compared to its spending at Patriots Point Development Authority. In FY 09-10, the foundation raised \$156,685 in support and revenues, but spent \$244,411 on program services. For FY 10-11, the foundation raised \$248,330, but its spending on program services decreased to \$205,602.

The foundation has several restricted accounts whereby donations were given for a specific purpose or project. For example, there is a chapel fund that was started years ago by someone working with the camping program so that scouts could have a place to hold chapel services.

The Yorktown Association

Of the four Patriots Point related organizations, the Yorktown Association has the largest membership. Membership initially promoted WWII Yorktown veterans, but the group now actively encourages all Yorktown veterans to be members. This group has an office on the Yorktown, has a reunion every October, and its board meets every May. It does not provide in-kind assistance to Patriots Point Development Authority. However, the association has made some contributions to the educational fund of PPDA in recent years. The foundation is in the process of establishing itself as a 501(c)(3).

The Laffey Association

The Laffey Association is an association of the ship's alumni with annual meetings at Patriots Point. The Laffey Association also forms work parties aboard the U.S.S. Laffey which perform needed maintenance and other projects. The last of these, per the Laffey Association website, was in April 2011. The materials for these work parties are provided by Patriots Point Development Authority, as long as the project is pre-approved by the director of operations. During the last work party, the Laffey work crew stayed aboard the U.S.S. Yorktown.

The Laffey Association last donated funds to PPDA in 2009 when the ship was in distress. Normally, it does not provide monetary assistance to Patriots Point Development Authority.

The Clamagore Veterans Association

The Clamagore Veterans Association is a small group and has a reunion onsite every two years. It does not provide monetary or work-crew assistance to Patriots Point Development Authority. According to its website, donations are fully tax deductible.

When it was announced, in the summer of 2012, that the U.S.S. Clamagore might be sunk for an artificial reef because PPDA could not afford to make the necessary repairs, this association started a campaign to raise funds to save the boat. It has spread its appeal to other submariners over the internet and put up its own fundraising website: www.savetheclamagore.com.

Related Organizations

PPDA should incorporate each of the four organizations related to the agency into fundraising.

- The Patriots Point Naval and Maritime Museum Foundation, whose mission is to be a fundraising arm of the agency, could expand its effort outside of the greater Charleston area and perhaps both increase and diversify its board with members from across the country.
- The Yorktown Association, being the largest of the ship alumni associations, could provide both volunteer labor along with the educational fundraising it currently undertakes.
- The Clamagore Association, being the smallest of the related organizations, could contribute to the agency through current fundraising efforts.
- The Laffey Association should continue its work parties and visits.

Members of the three vessel associations all have alumni of these vessels and are the true experts on these vessels. These veterans could contribute as volunteers at Patriots Point by talking with visitors on special tour routes. The U.S.S. North Carolina has a program, a 'Living History' tour, which it offers a few times per year. In addition, each of these three vessel associations should form an advisory panel for the benefit of assessing needs on the vessels under the care of Patriots Point Development Authority.

The Medal of Honor Society

This group supports the Medal of Honor Museum, which is currently housed aboard the U.S.S. Yorktown. This society is paid by Patriots Point to host its museum. The agency also provides the labor for maintenance of the Medal of Honor Museum. Plans are currently underway for the Medal of Honor Museum to be moved into a new building landside that will lease valuable, harbor-front property from Patriots Point Development Authority.

Governmental Assistance

State Funding

Patriots Point Development Authority receives no recurring state appropriations. There was a \$9.2 million loan by the state of South Carolina for emergency repairs to the U.S.S. Laffey in June 2009. Payments are currently being made by Patriots Point Development Authority to the state on this loan, as a long-term plan for repayment is being developed (see p. 69).

Town of Mt. Pleasant

The mayor of the Town of Mt. Pleasant serves on the board as an ex-officio member. The town provides PPDA with some funding through an allocation of its accommodations tax. This amount fluctuates from year to year, but is a small source of income for the agency. In FY 12-13, the town also partnered with Patriots Point Development Authority to run a summer camp program. In addition, the town is working with the agency to relocate the access road to Patriots Point in order to enlarge the amount of usable waterfront property available for development.

Other Governmental Assistance

Charleston County has provided funds, in the way of grants, for specific programs at Patriots Point Development Authority. However, this money has been project specific and not a regularly-budgeted item. The City of Charleston had budgeted for a \$5,000 grant for assistance with the July 4th event for FY 11-12.

The local military sends volunteers to help at Patriots Point Development Authority. These volunteers come sporadically and in small groups to work on ongoing projects. The volunteers are scheduled by the volunteer coordinator, but supervised by the museum services department.

Additional Opportunities for Revenue Development Through Fundraising

While the agency's 2012 business plan focuses on fundraising, the plan calls for funds to be raised for PPDA by outside organizations. While this is an important strategy, the agency should not rely on outside or related associations to do this task. PPDA needs to create a clear public relations message of the need to raise funds for capital maintenance and repairs. PPDA needs to educate the public that the agency receives no state appropriations. When the agency reinstates its status as a 501(c)(3), the public should be made aware. Also, funds raised from these efforts need to be restricted to capital maintenance and repairs since the agency is able to meet its operational expenditures from its other revenue streams.

Events

Patriots Point Development Authority has created several large-scale events as an additional funding source to the agency, such as the annual July 4th celebration and the Girl Scout 100th year celebration. These events have fundraising potential. The current business plan calls for three of these events to be held each year with a goal of raising \$20,000 per event or \$60,000 annually.

Sponsorships have also been suggested for these events. If these large events become fundraising galas with the focus on projects at Patriots Point Development Authority, they could be used to present the fundraising message to people who are already supporting the agency. The U.S.S. Lexington, another ship museum, has done this with keynote speakers and raised over \$400,000 with three events.

Additional opportunities for fundraising include:

SPECIALIZED SOUTH CAROLINA LICENSE PLATES

Develop a license plate to be sold through the S.C. Department of Motor Vehicles with a portion of the fee returning to PPDA. This is also a source of free advertising.

CHECK-OFF SOUTH CAROLINA

Add PPDA to the organizations included on the S.C. income tax form to receive donations. This would require action by the S. C. General Assembly. This could be used as both a free fundraising campaign and a marketing approach for PPDA. Last year, these check-offs created over \$400,000 in direct contributions. The U.S.S. New Jersey has both the tax check-off ability and the specialized license tags and together those generate approximately \$180,000 to \$200,000 per year for that ship museum.

DIRECT DONATIONS (Monetary and In-kind)

Create onsite awareness of the need for funding and volunteers through kiosks, signage, and gift shop requests. PPDA should place highly visible SOS (Save Our Ship) kiosks at strategic locations throughout its campus and ask each customer making a purchase if he/she would like to make a donation to save the ships at Patriots Point. Currently, there is a cash or check only donation tank in the middle of the gift shop floor space (away from the registers).

NEW INTERACTIVE EXHIBITS

Include fundraising needs in new exhibits developed by the consultant hired to make the museum more interactive with new exhibits. Live webcams to ongoing repair projects or videos of current needs and/or plans can be used to excite visitors into returning to see progress or motivate them into contributing.

CORPORATE SPONSORS

Recruit corporate sponsors to fund specific projects. Nauticus in Virginia, which showcases the U.S.S. Wisconsin, has such a program both for corporate sponsors and for volunteer groups.

Conclusion

Current direct fundraising efforts by Patriots Point Development Authority should be improved. The agency has the means, by way of its 501(c)(3) status, (once verified or re-instated) to develop direct fundraising as a significant revenue stream. PPDA also has a core base of volunteers, as well as other volunteer labor, already available from the U.S. Coast Guard, the U.S. Navy, and other branches of the military, to handle some smaller restoration projects.

PPDA needs to create its own fundraising efforts instead of relying on the fundraising of outside associations. While these organizations can certainly augment fundraising, it is the agency that needs to lead these efforts.

Recommendations

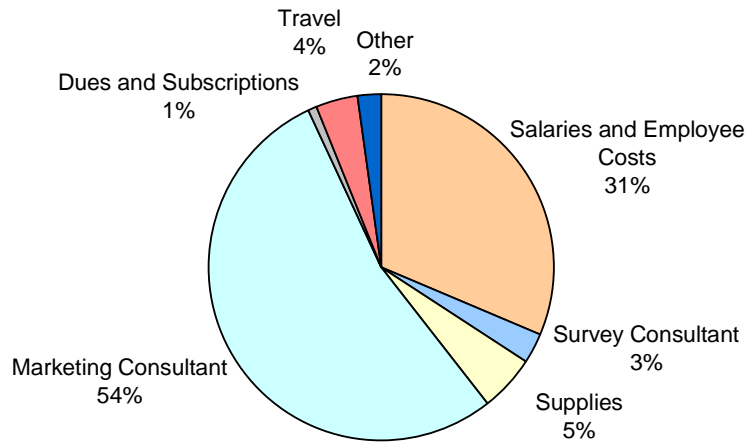
45. Patriots Point Development Authority should reactivate its 501(c)(3) status with the Internal Revenue Service and implement a vibrant fundraising effort, including signature gala fundraisers, and direct corporate sponsors in addition to direct donations to the agency.
46. Patriots Point Development Authority should investigate other fundraising opportunities, such as specialized license plates, tax form check-off, and onsite awareness of maintenance needs.
47. Patriots Point Development Authority should encourage volunteer efforts at the agency and consider aligning volunteer groups and/or sponsors with specific work projects or programs at the museum, such as developing a “living tour.”

Marketing

PPDA needs to improve its marketing efforts to earn funds needed to pay for the vessels. Marketing efforts can be improved by restructuring the marketing department within the agency, using the outside consultant, and expanding marketing through the agency's website and the media.

Patriots Point has its own marketing and group sales department. That department also relies upon the museum services' graphic artist for additional labor. The marketing director also opts to use off-site companies for graphic art, design, and printing services from time to time, depending on the agency's needs. In addition, this department uses an outside marketing firm as a consultant at a cost of \$276,759 in FY 11-12. Also, marketing contracted with the College of Charleston to conduct a market survey in FY 11-12 at a cost of \$15,000. Marketing also uses an outside firm to maintain the agency website at an initial cost of \$45,000. This may be handled more cost effectively in-house. Additionally, outside of the marketing department is the media relations section of the IT department at Patriots Point.

Chart 2.11: Marketing Department Costs FY 11-12



Source: LAC and PPDA

Charleston Tourism Market

The greater Charleston area receives just over four million visitors per year. Patriots Point had 232,551 visitors in FY 11-12. At this current market share of roughly 5.8%, PPDA is only able to cover its operational expenses and has deferred necessary and long-term maintenance of its vessels.

Charleston area historic attractions generated 1,654,289 visitors in 2011. Of this number, PPDA is capturing a 14.06% market share. However, it should be noted that visitors may visit more than one site while in the area.

In competition across the harbor, the S.C. Aquarium reports an average of 427,793 visitors per year and has had admissions revenue of over \$4 million for the last two years. Despite not being in a tourist destination, Riverbanks Zoo and Garden (Columbia) is South Carolina's number one tourist attraction and reports over 1,000,000 visitors for each of the last two years, generating \$3.7 million in general admissions. Patriots Point Naval and Maritime Museum is ideally situated in a high tourist area and should be able to capture a larger share of the tourist market.

Current Marketing Approach at Patriots Point

The current marketing department relies heavily on the marketing consultant to develop plans for the department. The consultant also handled the media purchases, advertising for signature events, and creation of a promotional camping video, as well as subcontracting for the agency website production. Outside consultants can provide independent analysis of 'best use' of advertising dollars and perhaps better link the museum nationally than in-house efforts. However, having both a marketing department and a marketing consultant is a duplication of costs and efforts. Since the agency awarded a new RFP in August 2012 for marketing to the same consultant, the agency position currently slated for marketing at PPDA may be better utilized in another department.

The marketing department had a professional brochure created for the event coordinator and is considering creating one for camping in the future. Notably, the camping department generates an annual average of over \$1.5 million in revenue. The event rental area reached a four-year high last fiscal year at \$183,105. Also, there is a lack of advertising material/brochures for the education program, especially in the area as it relates to the camping program. This department has created its own materials and markets directly to school groups. The marketing department does not see the same potential for education as with ticket sales and camping. The focus is on event growth and not on a conflict between events and the camping program.

The group sales section of the marketing department is in charge of booking tour groups and, until recently, also managed the museum membership program. The vast majority of the groups booked by this department are actually school field trips that are conducted by the education department. Having the bookings handled by that department, or admissions, is more efficient and the agency should consider making that transition. The very small tour bus section of booking could be under general ticket sales. The membership program has already been moved out of this department.

There are two types of road show trips that agency employees attend to advertise their programs — events or festivals with a booth showcasing the museum at Patriots Point and scouting events to highlight its program to potential campers or troop leaders. Teams are chosen by the marketing department from throughout the agency to attend these shows and highlight either the camping program or the museum. The education department handles its own school group marketing. The marketing department does not track bookings back to these road shows.

Without follow-up survey tracking, there is no way to determine how successful traveling to a specific event may be in terms of attracting visitors to Patriots Point. The camping department used to do this on its packets, but stopped once marketing took over the function of managing the trips. There have been problems with misinformation being distributed by general agency staff regarding the specifics of the camping program. Camping showcase events should be handled by that staff or by those trained by that program to avoid adversely affecting the program. Since there is overlap between the camping and education programs, a combined effort by those two departments could create an effective presentation for interested campers.

Marketing is developing a brand concept, “Walk in the Steps of Heroes,” which will be implemented in the new advertising for the museum. The focus will be return visits, by both upgrading and changing exhibits and also by hosting special events.

Recommendations

-
48. Patriots Point Development Authority should eliminate group sales in the marketing department, since the majority of the bookings are for educational field trips, and bring group sales under the education department.

49. Patriots Point Development Authority may benefit by reallocating positions from the current marketing department and have its outside marketing consultant handle marketing needs.
50. Patriots Point Development Authority should implement a tracking system to determine financial return on travel promotional tours.

Local and National Marketing

Marketing stated that shallow discounting of \$1 or \$2 off admission is not a motivator to increase attendance and has moved away from that type of advertising. Marketing tried an online “buy one, get one” deal in three different geographical areas, but failed to acquire the tracking data of sales from these areas to determine best return on advertising investment.

The department reports that it advertises in Southern Living magazine as forty percent of the magazine readers in South Carolina live in the tri-county area (Berkeley/Dorchester/Charleston). The marketing director sees the local market as a key source for venue rentals and signature events attendance. PPDA does not have a joint development partnership with any other state museums or S.C. Parks, Recreation and Tourism.

PPDA reports working with groups that are already advertising in the greater Charleston area as a travel destination, such as the Charleston Visitor Bureau, and the agency also has hotel box publications, which consists of pamphlets advertising PPDA. The agency does not advertise in the Navy Times, which may be an avenue to reach more veterans.

Recommendations

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51. Patriots Point Development Authority should actively work with other state museums to jointly develop effective marketing strategies.
 52. Patriots Point Development Authority needs to consider actively advertising with the U.S. Navy and other armed forces.
-

Electronic Marketing

Electronic marketing is a small revenue source for the agency, but with more businesses branching into e-commerce, this is an, as yet, untapped source of income for the agency.

The agency has a large and regularly-updated website that is managed off-site. In addition, PPDA has both a Facebook© page and a Twitter© following. Those social media outlets are handled by the media relations employee at the agency. E-ticketing is available for both special events and general admission, however, there is no other e-commerce available on the website. Tickets purchased from the website have no expiration date. During the time of our audit, e-tickets were collected at the gate, but not scanned. This allows for the same ticket to be used multiple times. Visitors to the website can sign up for a newsletter, but that option is under each department. There is no registration process on the website to create a member sign-in option which would allow PPDA to grow a database of interested parties.

The agency should add parking pass purchases along with ticketing on its website. Museum tickets should have expiration dates and be scanned at the admission gate. Donations made via the website go to the Patriots Point Naval and Maritime Museum Foundation, not to the agency.

Recommendations

-
53. Patriots Point Development Authority should implement changes to the agency website to create the following:
- E-commerce options available for merchandising gift store items.
 - The option to purchase a parking pass in the e-ticketing section of the agency website.
 - An expiration date for admission on its e-tickets.
 - Donation links that channel funds directly to the agency.
 - An option for all visitors to register an account to receive newsletters.
 - A sign-in option for members of the museum to obtain member-only deals or specials.
 - A link to any corporate members.
 - A pop-up window giving non-registered visitors an option to join or sign up for a newsletter.
54. Patriots Point Development Authority should scan e-tickets on site so that duplicates cannot be used.
55. Patriots Point Development Authority should consider whether having the PPDA IT department manage the agency website would result in cost savings.

Other Possible Improvements

PPDA does not have package plans with the lessees at Patriots Point (hotel, golf course, marina, Fort Sumter Tours). In fact, the group sales area of the marketing department will put together packages for bus groups that include hotels or create referrals for groups planning to visit the museum. PPDA receives no referral fees for this, as it deems this to be goodwill. This department does not actively make referrals to the hotel that is leasing property from the agency.

There are no joint volume discount plans with other tourist destinations in the area and PPDA, through its marketing department. From our review, we only identified instances of volume discounting established by the camping program and some other Charleston area tourist destinations offered as excursions.

There are no traffic surveys of walk-in and bus tour visitors at PPDA by staff to determine important marketing data. Event attendees are not surveyed either. Marketing conceded the need for this, but cited a shortage of staff for such efforts. By contrast, both the camping and education departments survey every group coming through their respective programs and use this information to improve their programs.

According to marketing staff, no other large ship museums have been contacted for idea exchanges. Marketing staff should contact other like museums for advertising and marketing ideas.

Recommendations

56. Patriots Point Development Authority should work with the lessees to create package deals for hotel stays, golf course access, and museum admission to promote the area as a weekend destination.
57. Patriots Point Development Authority should conduct customer tracking to obtain information including how visitors learn of the museum, from where they are traveling, reasons for visiting, and likes/dislikes about the museum experience which can be used to plan for future events as appropriate.
58. Patriots Point Development Authority should communicate with other large ship museums around the country to determine if their marketing techniques could be used in South Carolina.

Chapter 2
Revenue and Fundraising

Maintenance of Vessels

We were asked by the requestor if PPDA is complying with the U.S. Navy's requirements for maintenance of the ships and what the cost would be to restore and adequately maintain the vessels on an ongoing basis. We found that the U.S. Navy has identified problems with PPDA's fleet over the years, which the agency has not corrected. Also, PPDA cannot provide an accurate estimate of the cost to restore and maintain the vessels in its care until the environmental and structural assessments are completed, which are scheduled to be no earlier than 2014 to 2015. The cost of the environmental assessment study is \$379,978.

In its August 2012 capital improvement plan, the agency estimated \$87,480,000 in needed funds for renovations, repairs, and improvements to both the vessels and PPDA campus.

Vessels

When created in 1973, one of Patriots Point Development Authority's (PPDA) purposes was to develop a National Naval Museum of Ships. In fulfilling this purpose, PPDA obtained a fleet of six (6) vessels.

- U.S.S. Yorktown (CV-10) donated in 1974 and received in 1975
- U.S.S. Laffey (DD-724) donated in 1978 and received in 1981
- U.S.S. Clamagore (SS-343) donated in 1979 and received in 1981
- NS Savannah received in 1981
- USCGC Comanche (WPG-76) received in 1984
- USCGC Ingham (WHEC-35) received in 1989

The Savannah left PPDA in 1994 by mutual agreement between the Maritime Administration and PPDA. The Comanche was sunk as an artificial reef outside the Charleston Harbor sometime after 1991. In 2009, the Ingham was transferred to the Key West Maritime Memorial Museum in Florida.

Currently PPDA only has three vessels remaining — the U.S.S. Yorktown, the U.S.S. Laffey, and the U.S.S. Clamagore. All three vessels have been designated as National Historic Landmarks — the U.S.S. Yorktown in 1986, the U.S.S. Laffey in 1986, and the U.S.S. Clamagore in 1989.

The Agreement

As part of the process of obtaining a vessel, PPDA signed a donation agreement with the United States Government for each vessel. In part, the agreements state that title of the vessel is transferred to the donee (PPDA) with the following conditions including:

- The vessel is donated “as is, where is.” Any cost from that point is borne by PPDA.
- The vessel will be maintained, by PPDA at its own expense, in a condition acceptable to the Department of the Navy. Specifically stating:
 - ▶ Cleaning and painting of exterior surfaces, and interior spaces and passageways open to the public.
 - ▶ Provide provisions to ensure the safety of the visiting public and maintenance personnel on board.
 - ▶ Assurance of the watertight integrity of the hull if afloat.
 - ▶ Other safety and maintenance work as the Navy determines is necessary.
- Cannot transfer or otherwise dispose of any interest in, part of, or the vessel itself without prior consent of the Secretary of the Navy or designee.
- Will submit to inspections by the Navy annually.

Inspections

Inspections are conducted by the U.S. Navy prior to June 30 each year. Each vessel is inspected inside and out based on an inspection checklist provided by the Naval Sea Systems Command’s (NAVSEA) Navy Inactive Ships Program. Following the inspections, the results are sent to PPDA with a summary letter identifying areas of the most urgent concern.

We requested inspection reports for the years 1998 through 2012. PPDA provided all reports, except for three missing years (2000, 2001, and 2002). Of the missing years, NAVSEA was able to provide the inspection report for the Laffey in 2002.

The Hulls

According to naval and civilian companies, it is imperative to fight hull corrosion by ensuring and maintaining a good coating on the hull, and having a properly maintained cathodic system, which is a system to control the flow of electricity through and around a ship’s hull to prevent pitting and corrosion.

The Navy has documented that coatings are identified as the primary defense to corrosion, with the cathodic systems named as secondary in importance. If a quality coating is on a sound hull and there is also a quality cathodic protection system, the hull should last indefinitely if the coating is replaced every 15 years, as suggested by the Navy.

Coatings

The last dry-docking for hull maintenance and coatings occurred while these vessels were on active duty. Based on the date of their decommissioning, the amount of time passed since a possible dry-docking is:

- 1970** U.S.S. Yorktown – 42 years (PPDA obtained ship in 1974.)
- 1975** U.S.S. Clamagore – 37 years (PPDA obtained boat in 1979.)
- 1975** U.S.S. Laffey – 20 years (dry-docked in 1995) after she partially sank at the pier in 1994.
- 1995** U.S.S. Laffey – 14 years (dry-docked in 2009)

Cathodic Protection

In periods where the cathodic protection became inoperable or insufficient, PPDA maintenance failed to replace fully-eroded nodes allowing the hull to erode freely.

During the 2007 Navy inspection, the inspectors noted that the U.S.S. Laffey's cathodic system was not operating. PPDA informed the inspection team that the system was scheduled for replacement in May 2007 (same month as the inspection). During the next year's inspection, this system was still not operational.

U.S.S. Laffey (DD-724)

The Laffey's underwater hull was in poor condition due to her service in active duty prior to her donation to PPDA in 1975. She was first dry-docked in 1995, after 20 years as part of the PPDA fleet, following her partial sinking at the PPDA dock. Her hull had holes from corrosion, as well as from the sand blasting at the time of the dry-dock.

The decision was made to sheath the lower portion of the hull in one-quarter inch mild steel, without fixing the existing holes. According to a marine surveyor, the sheathing was not water tight (it leaked) resulting in water coming through the unfixed holes. However, with this type of repair, crews were unable to trace the leak to its origin. In spite of this condition, Laffey served as a museum ship for another 14 years until her dry-dock in 2009, which was conducted because PPDA believed she would sink again.

Periodically, inspections and measurements are needed to determine the condition of the vessel, check for water or oil in the bilge (lowest part of the vessel), measure the water/fluid in the tanks (called sounding tanks), and check how low the vessel sits in the water (called drafts). For a museum ship, the measurements for the drafts and fluids in the tanks should remain the same. The bilges should remain clean and dry.

Despite NAVSEA's repeated urgings, PPDA did not take or document regular tank soundings or draft readings for the Laffey because the agency said she was in the mud and it was not necessary. Prior to the start of soundings in 2011, they were only reported as being taken and documented in 2006. Draft readings were only documented in the inspections for 2006. This 2006 effort was following the 2005 NAVSEA statement "the claim that 'ship is in mud' or 'on the bottom' is not sufficient to excuse the vessel from sounding tanks."

Had PPDA taken soundings and draft measurements of the Laffey regularly, it would have known that the readings were changing prior to her partial sinking at the pier in 1994.

U.S.S. Clamagore (SS-343)

Navy inspection records for the Clamagore have consistently shown concern for the "excessive corrosion" of the superstructure that continued to worsen. Inspection records document that, in 1998, PPDA assured NAVSEA that a contract for the refurbishment of the superstructure would be awarded by August 1998. Again, in 1999, PPDA assured them that a contract would be awarded that summer.

According to a PPDA official in 2012, there is no record of any contract being awarded for the repair or refurbishment of the Clamagore's superstructure. The only significant repair is the work currently being done in-house by PPDA work crews, as funds are available.

PPDA has repeatedly pledged to address the Navy's concerns, but has not followed through with action.

In 2008, PPDA contracted for a hull survey to document the condition of Clamagore's hull. This survey documented that:

- A portion of the hull "is crudely supported by 2 x 4 wood planks."
- The conning tower had debris and was used to store flammables and other unstowed items.
- A major pigeon roost had been established in the free flooding area below the main deck causing further damage to the remaining coating.
- The hull was being allowed to freely erode without the benefit of an operational cathodic protection system.
- Structure around torpedo tubes was severely corroded.
- Several areas were described as dirty, heavily rusted, and scaled.
- Forward engine room bilge had 3-4 inches of standing water/oil.
- Pump room bilge had 4-8 inches of standing water/oil.
- Lower motor room bilge had 12-18 inches of standing water.

In both the 2008 and 2009 inspections, the cathodic protection system for the U.S.S. Clamagore was either turned off or was non-operational. The cathodic system was turned off again in January 2012 when the U.S.S. Clamagore was relocated upon the return of the U.S.S. Laffey. When the inactive cathodic system was identified by NAVSEA in May 2012, PPDA responded that it planned to reactivate the system in early August. PPDA reported that the system was reactivated in late July, allowing Clamagore to erode freely for seven months. According to the Clamagore hull survey in 2008, measurements of the pressure hull showed more than a 60% loss throughout the vessel due to corrosion.

PPDA currently estimates that the U.S.S. Clamagore will need approximately \$3.5 million to be dry-docked so that repairs can be made for her continued display at the museum. Since PPDA maintains that the needed funds are not available, the task of raising these funds has been assumed by the Clamagore Association. In anticipation that the association might fail to raise the needed funding, PPDA is taking steps to remove the Clamagore from the National Historic Landmark designation. This will allow the Clamagore to be sunk as an artificial reef.

U.S.S. Yorktown (CV-10)

The Yorktown is proclaimed as the centerpiece or focal point of the PPDA operation. It hosts numerous activities from weddings to concerts to basketball tournaments.

The Yorktown has not been dry-docked since decommissioned by the Navy in 1970 (42 years). NAVSEA has consistently expressed concern over the condition of the hull and superstructure.

Also like the Clamagore, there were inspection reports for 1998 through 2012, with the years 2000, 2001, and 2002 missing. In 1998 and 1999, NAVSEA lists material deficiencies that include holes at the waterline and the need to reclaim the flooded compartments within the ship. This concern is shown as a repeat deficiency since at least 1997.

The next available report was for 2003, which included the holes as material deficiencies and documents that the holes and flooded compartments are a repeat write-up from the last two inspections. This inspection, for the first time, also documents that the holes are below the waterline during high tide. This explains the flooded compartments.

As reported in the NAVSEA inspections, the position of PPDA is that the ship is imbedded in 26 feet of mud and therefore cannot sink. Likewise, the other vessels were reportedly resting on the bottom during low tide.

In 2005, NAVSEA included in the inspection report that “the claim that ‘ship is in mud’ or ‘on the bottom’ is not sufficient to excuse the vessel from sounding tanks.” The Yorktown has documented sounding tanks beginning in 2006 and has continued through 2012. However, drafts are only shown to have been taken in 2006, 2011, and 2012.

Chronology of Needed Repair for the Yorktown

2008 NAVSEA inspections again documented another hole (singular) in the hull three feet above the waterline and recommended that preservation efforts be made a priority until the vessel can enter dry-dock.

2009 In the inspection, the repeat write-up states that the condition has worsened and documents holes (plural) in the hull and requests that a hull survey be conducted as soon as possible to determine the condition of the hull. PPDA’s response to the 2009 inspection states “To correct the ‘severe pitting’ noted at the waterline, it will be necessary to construct a cofferdam around the Yorktown before hull repairs can be made.”

- 2010** NAVSEA inspection documents that corrosion has worsened and requests updates on the cofferdam study and hull evaluation. PPDA's response is that the cofferdam study is expected to be complete in early 2011 and work is continuing with Clemson Conservation Center to inspect and analyze the hull.
- 2011** NAVSEA documents that the Yorktown has severe corrosion damage with holes in need of repair and severe pitting at the waterline. They state that a hull assessment of the portion of the vessel not in the mud should be done. PPDA's response states that the Clemson project "will yield an extensive and comprehensive survey of the ship," without an update or status.
- 2012** In the current inspection conducted May of 2012, NAVSEA again documents that the "severe corrosion damage, identified in previous reports, continues to worsen." Inspectors request information on how the Clemson University project is progressing. PPDA's response states that an environmental assessment contract to determine what hazardous waste is on board has been advertised with work anticipated to begin in August of 2012. The hull assessment will be a follow-up and is expected to begin in mid-2013. "Once all of the environmental data and structural data is known, a detailed plan can be developed for restoration work that is needed, including prioritization of the work and fundraising."

Maintenance Plans

The Navy has consistently requested comprehensive maintenance plans that include plans for dry-docking for the vessels at Patriots Point. While PPDA maintained annual maintenance schedules, no comprehensive plans were created until one was created for the Laffey in June 2010, following the completion of her hull replacement in dry-dock.

While some inspection reports document the existence of the requested plans, according to a PPDA official, a similar plan "does not exist for the Yorktown or Clamagore....when a ship is flooding, contains known and unknown hazardous materials, and is suffering from severe corrosion, it is not possible to proactively address prevention of these issues — they already exist."

Hazardous Materials

Both the Yorktown and the Clamagore have hazardous materials on board. The Yorktown has in excess of 100 tanks on board. While on active duty, these tanks stored aviation fuel, diesel fuel, drinking water, hydraulic fluid, and many other substances.

Since receiving the Yorktown, PPDA has removed 250,000 gallons of fuel and the vessel has ballast tanks filled with unknown substances. Therefore, PPDA is awarding a contract to determine the content of and level of fluid in each tank.

According to the *Standards for Historic Vessel Preservation Projects*, part of the stabilization process for historic vessels is draining, flushing, cleaning, and applying a coating to the inside and outside of tanks. After 42 years at Patriots Point, the contents of these tanks is a concern because of the condition of the hull and the possibility that the corrosion could cause a breach that allowed these fluids outside the hull.

It should be noted that the Navy changed its manual for the deactivation of ships in May 2005 to require that contaminated liquids, such as fuels, lubes, hydraulic oils, and aviation fuels, be removed and the tanks be cleaned before the vessel is donated. Also, an inactivation dry-docking is authorized for inspection of and repairs to the underwater hull and fittings.

Conclusion

In its inspection reports, the Navy has repeatedly cited maintenance concerns. PPDA consistently deferred some repairs until they were major issues with costs well beyond what a timely repair would have cost.

The Navy has consistently shown concern for the Yorktown and the condition of the hull considering the length of time she has gone without a dry-dock. PPDA maintains that the Yorktown is buried in the mud, which protects the hull. However, PPDA fails to mention that the bottom voids of the vessel were filled with water when it was received 42 years ago and is corroding from within.

For at least 37 years, PPDA has not taken action to correct the structural condition of the vessels. Fundraising efforts do not exist beyond requesting funds from state and federal government. Fundraising efforts are waiting until an environmental and a structural assessment are scheduled to be finalized sometime around 2014 to 2015, while capital project projections indicate repairs may not start until 2015 to 2023. Current plans will take the Yorktown to half a century without major repairs.

Recommendations

59. Patriots Point Development Authority should create and implement maintenance plans for the U.S.S. Yorktown and the U.S.S. Clamagore (if not reefed), and identify and project maintenance requirements, including dry-docking schedules.
60. Patriots Point Development Authority operations department should, using existing staff and materials, complete obvious repairs on board the vessels.

U.S.S. Laffey Loan

We were asked to review PPDA's plan to repay the remainder of the \$9.2 million loan from the state for repairs to the U.S.S. Laffey. We reviewed PPDA board meeting minutes from 2008 through 2012, documentation from the Joint Bond Review Committee, the inter-agency loan agreement, other documentation, and interviewed staff and associated parties, to obtain information about the U.S.S. Laffey loan, including the need for the loan.

On October 1, 2012, PPDA's executive director informed the LAC that the PPDA board had authorized him to speak with appropriate officials in state government about the concept of requesting an amortization schedule for repayment of the loan. The agency has determined that it can support a debt service payment of between \$400,000 and \$500,000 per year over a possible 25-year period, with a deferment of 3 years. The deferment would allow the agency time to invest additional capital in its museum experience master plan and its marketing program, which would allow the agency to generate additional revenue from admissions. PPDA would like the plan to be submitted to the appropriate officials no later than November 2012. This proposal, according to PPDA, would likely involve some type of joint resolution between the House and the Senate to reimburse the State Treasurer's Office for the loan amount.

During our review, we found that procurements for the U.S.S. Laffey repairs were handled as emergencies (see p. 101). PPDA should plan for future, long-term maintenance for the U.S.S. Laffey to maintain her current condition.

Current Status

The U.S.S. Laffey returned to Patriots Point from dry-dock in January 2012. A marine surveyor, who served as project manager during the repairs, detailed all the work done to restore the U.S.S. Laffey to good condition. If PPDA does not set aside funds for maintenance on this ship, she may, once again, be in a state of disrepair and eventually be in danger of sinking. The agency should fund a capital maintenance account to keep the U.S.S. Laffey in good condition and perform routine maintenance.

The PPDA board discussed repayment plans for the \$9.2 million loan in at least three board meetings in 2012. The repayment plan was also discussed in the executive director's three-year business plan, where it was noted that a repayment plan must be submitted to the Budget and Control Board by May 2013. As of October 2012, PPDA stated it will submit a plan by November 2012 regarding payment of the remainder of the \$9.2 million loan.

The agency is current in its principal and interest payments to the State Treasurer. As of September 2012, two payments had been made to the State Treasurer on the loan: \$500,000 towards the principal in May 2011 (which was due by June 1, 2011) and \$252,063.70 towards interest on June 1, 2012. The next interest payment is due May 2, 2013, which coincides with the end of the two-year extension period. According to the State Treasurer's office, the money used for the loan was "unspent bond proceeds" raised for other state agencies' projects which were not forecasted to be expended in the near future. Since these funds are technically committed to other projects, they will need to be repaid.

Chart 3.1: Timeline of U.S.S. Laffey Loan

Oct	2008	PPDA board was informed that the U.S.S. Laffey was listing.
Jan	2009	PPDA board was told that keeping the U.S.S. Laffey from sinking was costing the agency much of its limited funds.
Feb		Lobbying firm was hired to assist PPDA in obtaining funds. Board was informed that both state and federal officials had been approached about funding.
Mar		Board was told that agency officials and lobbyist had met with federal and state legislators regarding federal stimulus funding.
Apr		PPDA secured a commitment from the State Treasurer for a state loan up to \$12 million. Congressman Clyburn was requesting \$20 million in the 2010 federal budget for PPDA.
May		PPDA board instructed staff to negotiate with state officials and come up with a plan to save the U.S.S. Laffey.
Jun		Joint Bond Review Committee approved state loan.
Jun		Inter-agency agreement between PPDA, B&CB, and the State Treasurer signed June 30, 2009.
Aug		U.S.S. Laffey taken to shipyard for repairs.
Aug	2010	Congressman Clyburn said he would not support a request for federal funding for PPDA.
Dec		Initial loan was to be paid in full.
Apr	2011	Joint Bond Review Committee granted PPDA a two-year extension to repay the loan.
May		PPDA paid \$500,000 toward the principal on the loan.
Jan	2012	U.S.S. Laffey returned to Patriots Point.
Jun		PPDA paid a \$252,064 interest payment on the loan.
May	2013	Deadline of two-year extension.

Chapter 3
Maintenance of Vessels

Leases

Background

A major revenue source for PPDA is rent received from its leases. For future leases, we identified several issues that PPDA should address in order to ensure that the lease terms enhance PPDA's ability to fulfill its mission.

PPDA owns approximately 450 acres of property in Mount Pleasant on and around Charleston Harbor. According to its enabling legislation, PPDA should develop its land, "...to provide a place of education and recreation to foster among the people pride and patriotism in our nation and its heritage." The legislation gives PPDA the ability to sell, lease, and otherwise develop that land in order to raise funds for its operations and for the maintenance of its vessels, including the Yorktown.

Approximately 21 acres of PPDA land is under a conservation easement which restricts the ways in which that property can be developed. Also, a federal land water conservation fund grant was used to fund development of the PPDA golf course which has resulted in 261 acres of PPDA being subject to developmental restrictions. PPDA owns six parcels that have not yet been leased or developed. These parcels total approximately 56 acres. Some of these parcels are subject to the terms of the conservation grant fund, and 28.79 acres of these parcels are used by PPDA for a gift shop, ticket sales facilities, and parking.

Currently, PPDA leases approximately 267 acres to several tenants, including a resort hotel with a marina. PPDA's revenue-generating tenants also include the College of Charleston's athletic facilities, as well as, a golf course and cottages. Rent paid to PPDA is based on provisions in the lease agreements between PPDA and its lessees. The amount of revenue collected by PPDA from the leases is listed in Table 4.1.

Table 4.1: Summary of Patriots Point Development Authority Leases

PARCEL	ACRES	LEASE ENDS	DEVELOPMENT	LEASE REVENUE				
				FY07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12
A	35.6*	2095	Hotel	\$362,024	\$303,018	\$299,894	\$317,366	\$387,417
A-1			Cottages	\$44,141	\$41,170	\$32,730	\$41,057	\$41,281
B-1			Marina	\$137,419	\$121,044	\$103,727	\$105,608	\$111,769
BCD			Undeveloped	\$235,000	\$295,000	\$355,000	\$360,000	\$360,000
E			Undeveloped	\$100,000	\$120,000	\$120,000	\$120,000	\$120,000
Golf Course	197	2041	Golf Course	\$432,441	\$360,483	\$347,593	\$347,517	\$365,397
Athletic Facilities	35	2062	College of Charleston Athletic Facilities	\$144,872	\$148,895	\$153,296	\$154,097	\$157,765

*Parcels A, A-1, B-1, BCD, and E are subdivisions that total 35.6 acres.

Source: PPDA

Lease Terms

In examining the terms for PPDA’s leases, we identified several instances in which lease terms could be improved for future developments. More favorable lease terms would allow PPDA to obtain higher, more consistent revenue, which would allow PPDA to better fulfill its mission of maintaining its vessels.

In leases with its revenue-generating tenants, there is limited ability to modify rent payments in the situations where the land value of the leased property increases. Currently, rent is set according to the terms of the leases. For the 99-year leases, there is a provision that allows the companies to revisit the rent provisions and adjust for increases in land value after 49 years. However, those are the only terms in those leases in which rent can be adjusted over time. Aside from the 49-year rent adjustment provisions, the only way to adjust rent over time is to amend the leases.

By not including more frequent rent reviews in its leases, PPDA is losing potential revenue that could be achieved in the event land values at Patriots Point increase. In California, leases of public land typically include a rent review provision that allows for the increase of rent in times of increased land value. For example, in California, a rent review of property leased to Chevron resulted in an increase of annual rent from \$319,140 in 1993 to \$1.3 million in 2008. Similar provisions in PPDA leases could allow PPDA to achieve a better return from its leases while protecting PPDA in the event of decreases in land value.

Recommendation

61. The Patriots Point Development Authority should provide for more frequent rent review provisions in its leases.

Delays

The leases between PPDA and some of its tenants have been revised in order to accommodate delays in the development of the property. The hotel and resort has delayed improvements, such as a restaurant and additional hotel rooms, that were originally scheduled to be completed in 2000. The lease provisions have been amended to require the tenant to pay PPDA a minimum rent, despite the delays, thus compensating PPDA financially for the delays. However, although PPDA has been compensated for these delays, the delays have a negative impact on the development of PPDA. For example, a restaurant would potentially attract visitors to the Patriots Point area who may consider purchasing tickets to the Yorktown. Additionally, the developmental delays detract from the unified development of Patriots Point. Finally, PPDA has possibly lost revenue in years in which the development had not taken place and in which the leases had not yet been revised.

Additionally, the leases provide few options for PPDA if developments do not occur as scheduled. Although the leases give PPDA the option of holding the tenant in default if it does not develop the leasehold property on schedule, PPDA has not held tenants in default. Other than holding the tenant in default, the leases have few other options for PPDA.

In future leases, PPDA should negotiate for contingencies to protect its interests if a tenant does not develop on schedule. For example, a provision could be included that would increase a tenant's base rent if it does not timely develop its leasehold property. Such a provision would compensate PPDA for a developmental delay without requiring PPDA to hold a tenant in default or renegotiate the lease.

Base Rent Amounts

PPDA should consider establishing higher base rental amounts for future tenants to help minimize fluctuations based on economic conditions. PPDA's rent provisions typically set a minimum base rent amount that a tenant will pay regardless of how much business is generated by the tenant's development. Additionally, the tenants also have percentage rent amounts paid for money earned in excess of the base amount. For example, lease payments for the hotel are comprised of a base rent, which is adjusted annually based upon changes to the Consumer Price Index, and percentage rent based on the revenues generated by the property.

Although the percentage rent payments can result in increases in revenue during years of increased sales, decreases in sales result in lower revenue from the percentage rent. PPDA has experienced decreases in some of its lease revenues since 2008.

Table 4.2: Changes in Patriots Point Development Authority Lease Revenue From FY 07-08 to FY 11-12

PARCEL	LEASE REVENUE		
	FY 07-08	FY 11-12	DECREASE/INCREASE FY 07-08 to FY 11-12
BCD	\$235,000	\$360,000	+\$125,000
A Hotel	\$362,024	\$387,417	+\$25,393
E	\$100,000	\$120,000	+\$20,000
College of Charleston	\$144,872	\$157,765	+\$12,893
A-1 Cottages	\$44,141	\$41,281	-\$2,860
B-1 Marina	\$137,419	\$111,769	-\$25,650
Golf Course	\$432,441	\$365,397	-\$67,044

Source: PPDA

The properties to lose the most rent since FY 07-08 are the golf course and marina, which are properties that have percentage rent provisions in their leases.

According to PPDA officials, although modest increases in lease revenue are expected in the coming year, some lease revenue will not meet pre-recession revenue. For example, PPDA officials have told us that golf revenues are not expected to recover to pre-recession levels, in part, due to general demographic trends with the golf course industry that will result in stagnant revenues for the foreseeable future. If those trends continue as predicted, PPDA revenue from the golf course will be lower than in previous years.

Due to the general trend of less customer traffic at the golf course and hotel, PPDA may experience less long-term revenue on those properties due to decreased percentage rent fees.

PPDA has revised leases in order to increase base rent payments for situations in which the tenant has not developed property in a timely manner pursuant to the lease agreement. In these situations, PPDA is not receiving percentage rent payments. Additionally, less-developed property results in fewer visitors to PPDA-owned land and potentially costs Patriots Point visitors to the Yorktown.

PPDA should consider increasing base fees for future leases in order to ensure adequate revenue is generated in the event that its tenant fails to timely develop its leasehold property.

It is important that PPDA protect its interests when negotiating future leases. The leases are a major source of revenue for PPDA. The following factors need to be considered when PPDA negotiates future leases:

- Deciding whether relying on percentage or base rent is more desirable.
- Assurances that planned developments will proceed on schedule.
- Options for contingencies involving delays in developments.

Recommendation

62. The Patriots Point Development Authority should make assurances in its leases that planned developments proceed as scheduled, include more options for contingencies involving delays in developments in its leases, and consider relying more on base rent to achieve desired lease revenues.
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Future Lease Considerations

PPDA currently does not have an employee designated to monitor leases. Some officials at PPDA have roles that involve some lease management. For example, PPDA's chief financial officer examines revenue derived from its leased lands and the audited financial statements required of PPDA's lessees. Another official does some inspections to ensure that PPDA property is developed according to developmental master plans. However, PPDA does not have an employee who conducts regular examinations to ensure that its lessees are adhering to their lease agreements or who otherwise engages in lease management.

As a major source of PPDA's revenue, PPDA should develop a mechanism for ensuring that it is maximizing revenue from its leases. That includes regular reviews of its lessees' adherence to the lease agreements and having a designated employee of PPDA responsible for managing leases. Having an individual responsible for such reviews and for general lease monitoring would allow PPDA to more effectively manage its leases and maximize revenue associated with them.

During our audit, we noticed substantial fluctuations in revenue streams associated with the hotel. For example, green fees earned by the hotel decreased from approximately \$31,000 for the year ended December 31, 2007, to approximately \$2,000 for the year ended December 31, 2010. These decreases could not be explained by PPDA staff, so we asked the hotel management and were told that, in previous years, the hotel would have the golf course bill it for the use of the golf course by its guests and the hotel would pass that bill to its guests. Hotel management also said that this arrangement resulted in challenges so it now has its guests pay the golf course directly. Such fluctuations should be monitored by a PPDA employee to ensure that the revenue fluctuations are business-related and that PPDA continues to maximize lease revenue.

PPDA's leases for the resort and marina allow PPDA to issue statements of landlord interest. These statements certify, in writing, that the lease is in full force and effect and that the tenant is not in default, except as specified, in regard to any of its lease obligations. PPDA has not issued a landlord statement since 2004. PPDA should issue statements of interest on a more regular basis, regardless of whether the tenant has requested one. These statements document that PPDA is aware of the state of a particular lease at a particular time and that it is aware of any defaults on the part of the tenant. These statements would also provide external reviewers with evidence of the same.

Recommendations

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63. The Patriots Point Development Authority should conduct regular reviews of compliance with its leases and should issue statements of landlord interest on a regular basis.
 64. The Patriots Point Development Authority should designate an employee to be in charge of lease management.

Revenue from Remaining Land

In August 2012, PPDA announced plans to build the National Medal of Honor Museum on Patriots Point property. The Medal of Honor is the highest award for valor in action against an enemy force which can be bestowed upon an individual serving in the Armed Services of the United States. The museum development will be located on approximately 36 acres of PPDA property. The museum itself will encompass approximately 4 to 6 acres of PPDA property. Additionally, 2 acres will be reserved for a parking lot, another 5 acres will be committed to a “cultural use,” and the remaining 23-25 acres will be developed as a mixed use development, which may include hotels, restaurants, and retail uses. An outside consultant estimated the museum will cost approximately \$100 million to build. The money for the museum will be raised from private donors by a foundation dedicated to that purpose.

The lease for the museum will be negotiated between PPDA and the National Congressional Medal of Honor Museum Foundation. Additionally, the Budget and Control Board will be involved in the lease negotiation process and will approve the final lease. In negotiating the lease with the museum foundation, PPDA should ensure that it obtains terms that will allow PPDA to maintain its vessels, specifically:

- PPDA needs to ensure that the Medal of Honor Museum pay fair market value rent to PPDA for the use of the land.
- PPDA should ensure that the museum offers potential visitors a joint ticket option in which visitors can buy a ticket to the museum and to Patriots Point.

The Medal of Honor Museum is a development that can be beneficial to Patriots Point. An outside consultant estimated that the museum will attract about 200,000 visitors a year, and those visitors could be a potential revenue source for PPDA. However, the Medal of Honor Museum will also be a potential rival attraction that could draw visitors away from the Yorktown and other attractions at Patriots Point. Without a joint ticketing option, admissions revenue for the Yorktown could decrease as visitors to PPDA would pay to visit the Medal of Honor Museum instead. Thus, if the Medal of Honor Museum does not pay reasonable rent to Patriots Point and allow for joint ticketing, it may offer little benefit to Patriots Point.

As was noted in our 1998 audit of PPDA, a high percentage of PPDA property has been dedicated to recreational use. It is important that PPDA obtain high returns on its remaining property in order to obtain revenue to fulfill its duty of upkeep of its vessels.

Recommendations

65. The Patriots Point Development Authority should ensure that it receives fair market value rent from its lease of land for the Medal of Honor Museum.
66. The Patriots Point Development Authority should negotiate a joint ticketing plan with the Medal of Honor Museum.

Master Plans

Two companies were commissioned to produce master plans for the development of PPDA's property. The first master plan was released in August 2010. That plan envisioned a multifaceted mixed use development comprised of both mission-driven uses and market-driven uses. It called for market-driven uses such as the building of residential, office, retail, and hotel developments. The mission-driven uses included a memorial chapel, a three-mile harbor walk, a landside museum, and other exhibits.

A second master plan that was presented to the PPDA board in 2011 proposed the development of several museums on PPDA land, included the Medal of Honor Museum, an amphitheatre, a Civil War museum, and a maritime science and technology center. That plan also proposed developing the waterfront at Patriots Point and including mixed development, such as a conference center, hotel, "destination retail," a signature restaurant, and a wedding pavilion.

College of Charleston Lease

PPDA currently leases 34 acres to the College of Charleston for its athletic facilities. The facilities include a baseball stadium, softball stadium, soccer stadium, and a tennis center. The College of Charleston pays Patriots Point an inflation-adjusted yearly rental amount that was \$157,765 in FY 11-12. That land has been leased to the college until 2062. The College of Charleston uses a portion of acres of land as a parking lot, which is not currently leased to the college.

PPDA should ensure that its tenants use only land leased to them. Not enforcing its landholding rights could open PPDA up to potential adverse possession issues, which would possibly result in PPDA losing certain legal rights to its property. If it is decided that the College of Charleston should continue to use that land, PPDA should ensure that it is financially compensated by the College of Charleston. Additionally, PPDA should request back payment for the College of Charleston's use of the non-leased property.

Recommendations

67. The Patriots Point Development Authority should ensure that its tenants only use land leased to them.
68. The Patriots Point Development Authority should ensure that it receives compensation from the College of Charleston for its use of Patriots Point Development Authority property that was not leased to the College of Charleston.

Recreational Park

PPDA is examining utilizing its parcel that is under a conservation easement as an “eco tourism” park. This proposal would involve the Charleston County Parks Commission operating a recreation park on the tract of land currently under a conservation easement. That property currently generates no revenue for PPDA. According to PPDA officials, a recreation park would involve development that would comply with the terms of the conservation easement. Potential attractions in the recreation park would possibly include zip-lines, kayaking, climbing walls, and a recreational tree house. PPDA continued that this use of the easement property will allow PPDA to obtain some revenue from a property that currently does not produce any revenue.

Golf Course

There has been discussion of negotiating with the golf course lease holder in order to modify the use of a portion of the golf course that corresponds to the course’s 18th hole fairway. That portion of the course has a view of Charleston Harbor, including Fort Sumter. This land is currently subject to development restrictions, and possible new developments on this land would depend on whether the restrictions can be modified. Possible uses of this land could include a wedding chapel or mixed development; however, the PPDA board does not believe that now is the time to address this issue of alternative uses.

Conclusion

PPDA’s management of its land is important to its ability to fund its operations and maintain its vessels. In negotiating future leases, PPDA should ensure that lease provisions provide sufficient lease revenue to allow PPDA to fulfill its mission. Additionally, PPDA should conduct regular reviews of its leases in order to ensure that its interests in the leases are being protected.

Chapter 4
Leases

Administrative Issues

In this chapter, we reviewed administrative issues including the agency’s compliance with the Freedom of Information Act, retail operations, the artifact inventory, and use of procurement cards. We also report on the status of the parking lot project questioned by our requestor.

Compliance with Freedom of Information Act

We were asked to examine whether Patriots Point complies with the Freedom of Information Act (FOIA) in its executive sessions and with the public. We found that PPDA needs to inform interested parties of its meeting times, to announce the correct times for PPDA board meetings, and to publicly post meeting times in its offices. We observed numerous executive sessions of the board and found that its board is generally compliant with FOIA in executive session. We also examined PPDA’s response to FOIA requests, and found that it is substantially compliant in responding to information requests from the general public.

S.C. Code §30-4-15 states that FOIA is meant to ensure that “...public business be performed in an open and public manner so that citizens shall be advised of the performance of public officials and of the decisions that are reached in public activity and in the formulation of public policy.” As a public body in South Carolina, PPDA is subject to FOIA.

FOIA includes, among others, the following provisions:

- A right of persons to inspect or copy public records.
- Open meetings of public bodies.
- Posted agenda of meetings of public bodies.
- Notifying interested parties of meeting times.

Notification of Meetings

FOIA requires that public bodies give written public notice of their regular meetings at the beginning of the calendar year. FOIA also requires that the agenda for regularly-scheduled public meetings be posted on a bulletin board at the office or meeting place of the public body at least 24 hours prior to such meetings, and public bodies must post on such boards public notice for any called, special, or rescheduled meetings. Public bodies must also notify anyone who requests notification of meeting times of the time, dates, places, and agenda of all public meetings.

In our review of PPDA, we found instances in which PPDA did not comply with these requirements. In two instances, we found that Patriots Point did not post the agenda of its regularly-scheduled board meeting on a bulletin board on the day of the meeting. We informed PPDA of this violation, and it has since posted its board meeting and subcommittee agendas on a bulletin board at Patriots Point.

We also found instances of PPDA posting incorrect times of its board meetings on the PPDA website. After informing PPDA of this violation, the PPDA website was updated. Additionally, we found that a member of the public who requested notification of board meetings was not informed of at least one meeting of the PPDA board.

Executive Session

FOIA allows public bodies to meet in private for executive session under certain circumstances. These circumstances include the discussion of negotiations incident to proposed contractual arrangements, the discussion of a proposed sale or purchase of property, and the discussion of certain legal matters.

FOIA requires that the public body vote in public on the question of going into executive session, and the presiding officer of the public body shall announce the specific purpose of the executive session. While the body meets in executive session, it may take no action except to adjourn or return to public session. While in executive session, members of the public body may not commit that public body to a course of action by polling members in executive session. Also, discussion in the executive session must focus exclusively on the publicly-announced reason for the executive session.

During our review, we witnessed five executive sessions of the PPDA board, as well as a board retreat that took place in Mt. Pleasant. In those instances, the board voted to go into executive session in its public meeting and the chairman of the PPDA board announced the reason for going into executive session. The reasons for going into executive session announced by the board were reasons allowed by FOIA.

During the executive sessions, the board discussed matters that dealt with the publicly-announced purpose of the executive session. In a small number of instances, there were brief discussions of matters not involving the publicly-announced purpose of the executive session. In those instances, members of the board were advised not to discuss matters that were not part of the announced purpose of the executive session, and discussion of the publicly-announced purposes resumed.

Additionally, there was at least one attempt to poll board members during executive session. In that instance, the board was reminded that it was not permitted to poll itself during executive session and the polling did not take place. In our observation of the PPDA board's executive sessions, we did not identify a violation of FOIA provisions for executive sessions.

FOIA Requests

We examined PPDA's response to all FOIA requests from the last two years. With some exceptions, FOIA requires public bodies to allow any person to inspect or copy any public record of a public body. FOIA allows the public body to establish and collect fees not to exceed the actual cost of searching for or making copies of records. In most of the requests we examined, PPDA complied with the provisions of FOIA, charged a reasonable amount for copies, and allowed inspection of documents. In one instance, we examined an interested party's complaint that PPDA did not accommodate a request for access to a public record covered under FOIA. PPDA used presentation boards at a public meeting, and the interested party requested copies of the boards or, in the alternative, a chance to view them personally. A PPDA official denied the request, stating that there was no information available.

In response to our inquiry, PPDA officials stated that it would be too costly to reprint the boards used at the public meeting and that the interested party could examine the boards personally. It is true that PPDA had no duty to reproduce the boards at its own expense. The interested party contends there was no offer to personally examine the boards following the initial written request. However, PPDA stated that the citizen was eventually offered the chance to view the information boards, but could not provide written documentation of that offer.

Board Member Training

In our 1998 audit of PPDA, we found that PPDA's board members did not receive training from the Office of Human Resources pursuant to §8-11-165 of the S.C. Code of Laws. During this review, we found that an official from the state Office of Human Resources provided training to the PPDA board in August 2011.

Recommendations

69. The Patriots Point Development Authority should post the correct times of its board meetings on the PPDA website.
70. The Patriots Point Development Authority should notify interested parties, in a timely manner, of the times, dates, places, and agenda of its board meetings.
71. The Patriots Point Development Authority should continue to post its agenda on a public board at the office or meeting place at least 24 hours prior to its board meetings.
72. The Patriots Point Development Authority should ensure that it complies with all valid requests for public documents.

Retail Operations

Patriots Point Development Authority (PPDA) operates a retail facility and parking. We found that PPDA can improve its internal controls in the parking operation and should install a traffic counter to provide a baseline for this operation. We also found that PPDA can improve its internal controls in the retail operation and should create a separation of duties, regularly use purchase orders, eliminate the at-will reduction of merchandise, and establish computer products for management oversight.

The retail operation consists of a gift shop, parking fee operation, and admission ticket function. As of June 5, 2012, the retail function consisted of 7 permanent employees and 15 temporary employees, both full-time and part-time.

Parking

The parking fee operation consists of a ticket booth manned by an attendant who collects \$5 from each non-exempt vehicle entering the parking lot. Exempt vehicles include contract and vendor employees, and tour and school buses.

PPDA uses parking fees as one of the methods to raise funding for the operation and maintenance of the vessels. It does not have a verification process to ensure that all visitors have paid the parking fee, or that those exempted by the parking attendant qualify for the exemption. The one control in place (random-colored parking pass) is contaminated with uncontrolled access to make unauthorized passes.

Parking Passes

PPDA prints its own numbered parking passes using seven different colors of paper, one for each day. It has established a policy which ensures that the color used for each day is chosen entirely at random. The passes are printed from master copies on printed paper purchased for this purpose.

The printing process uses the store's copier/printer/fax machine readily available to, and utilized by, all store personnel during the course of daily operations. The masters, the colored paper, and the printed copies are left by the copier, readily available to anyone using this machine.

Parking Operations

PPDA does not maintain any records of the total number of vehicles that come through its fee gate. Also, we found that total parking fees rarely totaled to numbers divisible by five. PPDA knows the number of parking passes distributed and that number is compared to the parking attendant's money at the end of the day. However, it does not know how many vehicles entered the parking lot.

When entering the PPDA entrance, vehicles are stopped at the fee booth where the attendant collects the \$5 parking fee. Upon receipt, the attendant provides the driver with a parking pass to be displayed on the dash of the vehicle when parked.

Attendants do not have the facilities to process credit or debit card transactions. Individuals needing to pay with this type of transaction will be directed to pay at the store prior to visiting the vessels and to display the store receipt on the dashboard in place of the parking pass. PPDA does not have any procedure or policy to verify or confirm whether visitors claiming a need to pay by credit/debit card, do in fact pay for parking.

A unique numbered ticket could be issued to individuals needing to pay with a credit/debit card, and collected at the cash register when payment is received. This will provide an accurate count of the quantity of parking fees paid by this method as well as tracking how many do not pay the fee.

Likewise, no count is maintained for vehicles entering the property that fall in the exempt categories. Individuals claiming an exempt purpose are allowed in without a parking pass.

According to a PPDA official, a daily count of all exempt vehicles entering PPDA is not maintained. Also, should a wrong color parking pass be issued or used, there is no procedure in place to identify the problem. The official acknowledged that no employee patrols the parking lots to verify whether vehicles have the proper color parking pass. He also maintained that frequently visitors fail to display the parking ticket and may actually take the tickets with them. No one checks the cars for either parking passes or cash register receipts.

PPDA has the responsibility to apply oversight with required checks and balances to ensure that authorized parking fees are properly received. To begin to establish proper oversight, PPDA must establish an accurate count of the number of vehicles that enter the property on each specific day. Once the total number of vehicles and the number of passes are known, PPDA can effectively address the quantity and the reasons for those left unpaid. The use of a traffic counter placed at the entrance would identify the quantity of vehicles entering the property.

Recommendations

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73. Patriots Point Development Authority should securely house all unissued parking passes, passes awaiting use, pass masters, and the colored paper.
 74. Patriots Point Development Authority should require parking lot attendants to keep track of all categories of non-paying vehicles arriving at the entrance, with the possible exception of Patriots Point Development Authority employees.
 75. Patriots Point Development Authority should install a method (traffic counter) to verify the number of vehicles entering the parking area as a check and balance against the tickets issued.

Gift Shop

Under PPDA's current retail operation, the necessary checks and balances system can be improved.

- Currently personnel can purchase resale merchandise without a purchase order and check-in their own purchases. They can also adjust items out of the inventory whenever they desire, without reason or oversight.
- The computer system either cannot track these adjustments, or computer personnel are not knowledgeable enough of the system. The computer system is also unable to compare merchandise item quantities within the system to the actual inventory count entered.
- Retail floor security does not exist, with only fake cameras stationed in the gift shop.
- Multiple entries are required for credit/debit card processing resulting in errors.

The gift shop's operations are the primary source of PPDA's retail operations. The snack bars and food service facilities, as well as the photography operation, are either contractor operations or operations contracted by the PPDA foundation.

The full-time employees involved in the store operation are the store manager and four assistant managers. While there are scheduled, assigned duties for the assistant managers, there is no designation of an employee in charge to hold accountable for store operations in the manager's absence.

Point-of-Sale (POS) Cash Register

Temporary personnel operate the gift shop registers. During high tourist traffic time periods, summer employees operate the registers while more experienced personnel are assisting customers, receiving shipments, and restocking shelves. While supervisory/assistant managers are always available, they are not always directly supervising the cash register and checkout operations.

The cash registers are part of a computerized point-of-sale (POS) system that provides bar scanning and inventory management operations. During a sales transaction, merchandise bar codes are scanned and the computer provides the sales price, and, upon finalizing the sale, the computer will reduce inventory by the quantity sold.

Credit/Debit Card Processing

Credit/debit cards used in the gift shop are processed through a card processing system separate from the cash register operations, causing two entries for each credit/debit card transaction. This repetitive entry can and does allow for increased human errors. One error caught by PPDA personnel showed a \$25.97 charge at the cash register that became \$259.97 at the credit card machine. Current safeguards do not allow PPDA personnel to access the card data to correct the charge. The agency does not know how to contact this customer and must wait for the customer to call the agency so the error can be corrected.

PPDA has the inherent responsibility to be accurate and to review and refund erroneous transactions. Since the point-of-sale system currently in use has the capability for processing these cards at the register, the multiple entry processing currently in use provides an increased risk for errors.

Gift Shop Discounts

Discounts are given for different groups of individuals, including PPDA employees, and employees of Fort Sumter Tours, Corporate Events and Catered Affairs LLC, Patriots Pictures, the Yorktown Association, Medal of Honor Museum, and Patriots Point members. Discounts vary based on the group.

With the various discounts, coupled with cash register operation by temporary and part-time employees, management personnel should consider coded membership cards. Using cards with codeable magnetic strips that could be utilized with the POS system could ensure that the proper codes are applied when presented.

Recommendations

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76. Patriots Point Development Authority should designate an employee to be in charge of the gift shop in the manager's absence.
 77. Patriots Point Development Authority should consider plastic cards with bar codes or magnetic strips for use as membership cards and for other groups provided discounts, which can be scanned or swiped to ensure that correct discounts are given.
 78. Patriots Point Development Authority should ensure its credit/debit card system is reliable and is fully integrated with the point-of-sale system.

Inventory

PPDA's gift shop operation maintains an inventory averaging \$298,000. This inventory is maintained within the point-of-sale system as a perpetual inventory providing for more real-time data than previous manual operations. Where operation of these POS inventory systems require less labor and time, management oversight continues to be a requirement to ensure proper operation. We found that more oversight is needed with the purchasing and receiving, separation of duties, and adjustments.

Purchasing and Receiving

The PPDA gift shop operation has a point-of-sale system that utilizes bar coding to streamline cash register operations. With the computerized merchandise data within this POS system, it also enables management to review quantities on hand and order replacement quantities as stock levels decline. The system maintains the name and address of the vendor and the unit price, and automatically formats the chosen items into a purchase order by vendor.

Upon receipt of merchandise, the system compares quantities received with quantities ordered through the purchase order. Following this comparison, the computer automatically increases the quantities within the inventory by the amounts received. According to a PPDA official, merchandise cannot be received into the POS system without an existing purchase order.

The store manager and three of the four assistant managers are the only individuals authorized to order merchandise from vendors. A PPDA official verified that when purchasing/ordering merchandise from vendors, purchase orders are not always used. Individuals will order the merchandise by phone and then input the purchased items into the POS system to create the purchase order. The official also stated that there are times when ordered merchandise arrives before the purchase order is entered into the system. POS system purchase orders have been created from the shipment's packing slip or invoice, which is a poor business practice.

Separation of Duties

PPDA allows the same employee to both order and receive merchandise. This does not allow for proper separation of duties. Once the purchase order is in the system, the merchandise is received within this system which then generates a "receiving report" which is forwarded to finance. Finance will match the receiving report with the vendor's invoice prior to making payment. However, finance does not have access to the POS system to verify that each purchased item has increased by the amount of purchase.

Without the proper separation of duties, the potential exists for merchandise to be skimmed off the shipment, or received and immediately adjusted out of inventory. Current PPDA procedures do not require, or provide finance personnel with the capability to verify, that invoiced quantities were entered into inventory.

Shrinkage and Adjustments

A PPDA official stated that inventory shrinkage was within “industry standards,” and described the standard as ten percent. With the current 2012 physical inventory value identified at \$271,698 at cost, PPDA would remain within “industry standards” until a loss of \$27,169 was achieved.

The store manager and assistant managers are all allowed to adjust the quantity on hand of any inventory item within the computer “at will” throughout the year. Even with these adjustments, the inventory taken in June 2012 showed a shrinkage of \$10,696. We were unable to identify the total value of quantity adjustments from listings provided by PPDA due to insufficient data.

- 249 adjustments carried the memo *adj*
- 211 adjustments carried the memo *update*
- Adjustments that cannot be identified by item include the memo:
 - ▶ *xxx*
 - ▶ */*
 - ▶ *n*
 - ▶ *nmn*
 - ▶ *error*

While a certain amount of shrinkage may be experienced due to shoplifting, without knowing the amount, appropriate action cannot be taken. Likewise, knowing which merchandise is prone to shrinkage must be known before action can be taken, such as moving these items to more visible locations.

Adjustments are also shown as “starting balance” and “new item” that are adjusting thousands of dollars onto the inventory. This is an indication that personnel are bypassing the requirement for a purchase order entirely. This is an added exposure for the theft of merchandise without any inventory record.

Susceptibility to Merchandise Theft

All retail outlets are susceptible to theft through shoplifting and other methods of pilfering. As a result, stores use multiple methods to control their losses, such as:

- Angling the shelves and aisles to be viewed by store personnel at manned stations (cash registers).
- Using convex surveillance mirrors to remove remaining blind spots.
- Installing surveillance cameras for detection, and identifying and prosecuting thieves.
- Moving high loss items to more visible locations.

Currently, the primary theft prevention strategy employed by PPDA is the use of multiple fake camera domes scattered throughout the retail facility, coupled with signs that state you are on “CCTV” (Closed Circuit TV). Current procedures, coupled with limited information technology support, removes the capability to know the extent of losses as well as identification of high loss items.

The gift shop has five entrance and exit doors available to the public. We observed customers exiting out of all five exits. Staffed cash registers only directly cover one of these exits. An additional exit has a cash register station that was not manned during the period of this audit. This also provides a significant exposure to theft.

Additionally, as long as employees are allowed to change merchandise quantities within the computer system at will, with little or no documented explanation, there is an exposure for employee theft.

Physical Inventory

PPDA contracts for one physical inventory annually during the month of June. Following this inventory, discrepancy reports (listings) should be printed allowing gift shop management to research disagreements between the physical count and quantities in the computer (perpetual) inventory for any item. PPDA was only able to provide these listings through 2008.

While unable to provide the discrepancy report for 2012, PPDA could provide separate listings for the perpetual inventory and the physical inventory, requiring additional effort before items could be researched. Matching up items from separate listings by management personnel when computer capability should be available is a waste of valuable time for the store manager and finance personnel. At the time of the inventory, these individuals are faced with closing out the fiscal year and preparing the store for a major holiday.

Additionally, it took PPDA over six weeks from the time of the inventory before the listings were available. With the continuing sales and receipt of merchandise coupled with end-of-year processing, delays increase the effort and decrease the likelihood of verifying the accuracy of the physical count.

Differences between the perpetual and physical inventories should represent the amount of shrinkage experienced during the year, as well as the identification of merchandise most susceptible to theft. This information is crucial to management for determining the store layout and various other decisions for the coming year.

As previously mentioned, the store manager and assistant managers are allowed to adjust quantities of merchandise at will throughout the fiscal year. Even with these adjustments, the difference between the perpetual and physical inventories in the 2012 inventory listings showed a shortage of \$10,695.

Promotional Merchandise and Employee Uniforms

PPDA management has decided, on occasion, to offer gift shop merchandise to individuals or groups for public relation or promotional reasons, such as gifts, recognition, thank you consideration, etc. During the 1998 LAC audit, it was recommended that PPDA establish a written policy for the use of gift shop merchandise for promotional purposes.

PPDA provided a written policy, dated April 2011, outlining procedures restricting this practice to the executive director and department managers. It also requires the gift shop manager to provide the executive director with a monthly list of merchandise withdrawn for this purpose.

Although the procedure requires this monthly report to be used to transfer the cost to the appropriate department manager's account, under the current practice approved by PPDA finance, these items are purchased from the gift shop using the department's state procurement card. Additionally, the store now maintains a stock of employee uniform items, which each department procures with the state procurement card for assigned personnel.

One advantage to this method of operation is the detail and sales history maintained by the computerized POS system, in addition to computerized monthly reports.

Recommendations

79. Patriots Point Development Authority should ensure that:
- Purchase orders are created prior to placement of merchandise orders.
 - Proper separation of duties ensuring that the individual creating the purchase order is different from the individual verifying and receiving the order.
 - Finance has sufficient access to the system to verify that all received items are entered into the system.
80. Patriots Point Development Authority should discontinue the practice of adjusting merchandise levels, at will, throughout the year. PPDA should ensure that the gift shop manager has the ability to calculate the amount of annual shrinkage and identify merchandise at risk.
81. Patriots Point Development Authority should:
- Obtain and install a working camera monitoring system.
 - Obtain and install convex mirrors on the retail floor to ensure that existing blind spots can be observed by gift shop personnel or viewed through an installed camera system.
 - Consider reviewing the gift shop's layout and determine the best placement of cash registers.
 - Ensure that doors not covered by cash registers or not manned are locked and equipped with pilfer alarms which would prevent entrance by customers and could be exited by use of the panic bar, but would sound an alarm.
82. Patriots Point Development Authority's information technology department should develop the necessary physical inventory and end-of-year listings well in advance of the end-of-year processing.
83. Patriots Point Development Authority should review the reliability of its credit/debit card processing service and integrate with both the ticketing and point-of-sale operations.

Tickets

PPDA operates an admission ticket window as part of the gift shop operation. PPDA department managers will, on occasion, issue complimentary admission tickets (passes). During the 1998 audit, it was recommended that PPDA establish a written policy governing these complimentary tickets. PPDA has provided a copy of the current policy covering this operation, which requires monthly reports to the executive director at the beginning of each month. We found no material issues regarding ticket operations.

Artifact Inventory

Patriots Point Development Authority maintains a quantity of historical artifacts that have been loaned, donated, and purchased. In our 1998 audit, we found that PPDA did not have a master file of all artifacts. During this review we found the agency still does not have this master file.

Following the purchase of museum software in 2001, artifacts have continued to be placed in the inventory. A PPDA employee confirmed that all items on loan from the U.S. Navy are in the computerized inventory, as well as 20% – 30% of the remaining artifacts. A shortage of personnel qualified in the handling and categorizing of artifacts was identified as the cause of the delay.

There is an additional handwritten inventory that was described by a PPDA official as “not very accurate.” This inventory will include a single artifact where several may exist, while some artifacts are not listed.

Section 10-1-140 of the South Carolina Code of Laws states:

The head of each department, agency, or institution of this State is responsible for all personal property under his supervision and each fiscal year shall make an inventory of all such property....

Recommendation

84. Patriots Point Development Authority should finalize the master inventory and enter all artifacts into the master inventory under the supervision and guidance of the museum curator.

Procurement Cards

Patriots Point Development Authority uses state-issued procurement cards for small value purchases of job-related supplies, materials, equipment, or services. In our limited review of procurement cards, we found that PPDA purchased prohibited items through the procurement card process.

Gift Cards

We found that PPDA made an improper purchase of gift cards using a state-issued procurement card. State policy addressing the purchase of gift cards was changed in May 2010, specifically prohibiting this type of purchase.

A PPDA employee purchased 20 gift cards (\$25 each) for a total of \$500 in December 2011 for the employee Christmas party. According to the employee, a raffle was conducted where the gift cards were awarded to the winners.

According to an agency official, Patriots Point Naval and Maritime Association was to reimburse the agency for this purchase. Documentation shows that the agency was reimbursed in response to a follow-up request in June 2012.

Recommendation

85. Patriots Point Development Authority should ensure that state procurement cards are not used to purchase gift cards, store value cards, calling cards, pre-paid cards, or similar products.

Parking Lot Project

The 2010 audit request asked about PPDA's plans to spend over \$3.1 million for a new parking lot and if this was a reasonable investment that the agency's cash flow could pay for in a reasonable time. This project was never implemented and the current administration has no plans to pursue it.

In early 2010, PPDA submitted a capital budget request to the Joint Bond Review Committee for landside infrastructure improvements. These improvements included creating 175 additional paved parking spaces, 200 additional parking spaces on a grassed area, a grassed area for special events, and improving the arrival route for visitors at the entrance. This request was for approximately \$1.2 million and would be the first of three phases of an approximate \$3 million project.

The Joint Bond Review Committee considered this request at its June 2, 2010 meeting. PPDA's request was "carried over" by the committee and not approved. In July 2010, PPDA withdrew its request for this funding. According to the current executive director, the agency has no plans to pursue funding for this parking project.

Agency Employees and Contractors

In this chapter, we report on human resources administration, including temporary employees and the agency's use of contracted legal services. We also address violations of state law regarding PPDA's use of emergency procurements.

Contract Legal Services

Patriots Point Development Authority contracts with a local attorney for its legal services. In the past four fiscal years, the agency paid this attorney \$648,484, which averages to \$162,121 annually. In FY 11-12, the amount paid was significantly less than in years past; however, the agency may still benefit from hiring a full-time attorney. In addition, an associate of this attorney has submitted hours for payment even though that attorney was never approved by the S.C. Attorney General's Office to work as counsel for PPDA.

The current PPDA management has noted that the billable services for its legal counsel have been reduced; however, the amount paid for legal services can vary based on what the counsel is asked to do by the agency. If PPDA established an FTE for an attorney, the amount paid for legal services would be stable. The state has six categories of attorneys with the mid-range salary for the highest level attorney being less than \$120,000.

Unauthorized Attorney

In order to employ associate legal counsel, a state agency must request authorization from the S.C. Attorney General's Office. There is only one authorized legal counsel for Patriots Point Development Authority. We reviewed invoices from this firm for FY 11-12 and found that a second attorney had billed PPDA \$5,760, based on an hourly rate of \$150. According to the S.C. Attorney General's Office, there is no record of this attorney being authorized to serve as counsel for PPDA. In addition, based on the established billable rates, this attorney, with only three years of experience, could only charge a maximum of \$90 per hour.

Recommendations

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86. Patriots Point Development Authority should consider establishing an FTE to hire an in-house attorney to handle its legal services.
 87. Patriots Point Development Authority should request repayment of \$5,760 from the unauthorized legal counsel.

Emergency Procurements

One of our objectives was to review PPDA's use of consultants/contractors. We reviewed PPDA's sole source and emergency procurement of contractors/consultants and found that the agency is not correctly procuring contractors/consultants under the emergency procurement regulation in state law.

We reviewed PPDA's quarterly sole source and emergency procurement reports from the time period of April 1, 2009 through March 31, 2012, with the exception of 10/1/09 – 12/31/09, which was not filed with the Budget and Control Board. During this time, PPDA had sole source procurements totaling \$192,499. Contractors procured by sole source included the agency's lobbyist firm and an armored car service.

For this same time period, PPDA had 27 emergency procurements totaling \$1.6 million. Of that amount, \$1.2 million was associated with the U.S.S. Laffey. Other emergency procurements included \$146,789 for advertising services, \$157,314 for land clearing and grubbing, and \$13,750 for mowing services.

S.C. Regulation 19-445.2110 states that an emergency procurement may be used in a "situation which creates a threat to public health, welfare, or safety such as may arise by reason of floods, epidemics, riots, equipment failures, fire loss, or such other reason...."

Procurement of Lobbyist Firm

In early 2009, Patriots Point Development Authority determined that it needed financial assistance to keep the U.S.S. Laffey from sinking and for maintenance of the other vessels in its care. The agency decided to contact state and federal officials to determine if funding could be obtained. To aid in that venture, the agency hired a lobbyist firm in February 2009. However, PPDA did not appropriately procure these services. The only documentation provided by PPDA regarding the procurement of these services was the letter of agreement from the firm. Since February 2009, the lobbyist firm has been procured as a sole source and this firm is paid \$60,000 annually.

PPDA may be increasing the amount the agency pays for these services by not allowing other providers to bid for the contracts. Also, the state may not be getting the best service for the best price.

Emergency Procurements for U.S.S. Laffey

During our review, we found that procurements for U.S.S. Laffey repairs were handled as emergencies. While the PPDA board decided, in its June 17, 2009 meeting, that it was appropriate to handle the work using emergency procurements, it had known of the precarious condition of the ship for years. An agency's board or commission cannot declare an emergency if the conditions in S.C. Regulation 19-445.2110 are not met.

During that same board meeting, a board member voiced concerns on why PPDA had not solicited bids for this project since the agency and board had known of the ship's problems since late 2008.

The U.S.S. Laffey has had serious issues as documented by naval inspection reports. We reviewed reports from 1998 through 2012 and found that inspectors had identified dangerous and immediate needs of the ship, including holes in the hull in 1998, as well as in subsequent years. Patriots Point had allowed the U.S.S. Laffey to sink previously in 1994 and she was repaired at that time. According to reports, some of those repairs were the cause of the ship listing and potentially sinking in 2008.

If Patriots Point Development Authority had addressed the issues identified by NAVSEA over the years, the agency would not have had to procure the repairs as emergencies, the Laffey may not have been in danger of sinking, and the state loan would not have been necessary.

Recommendation

88. Patriots Point Development Authority should comply with state law regarding the use of emergency procurements.

Temporary Employees

PPDA has not complied with state law by employing long-term temporary employees. S.C. Reg. 19-700 defines a temporary employee as, "A full-time or part-time employee who does not occupy an FTE position, whose employment is not to exceed one year, and who is not a covered employee." Temporary employment may be a cost-effective manner to augment agency staffing since the agency does not pay any fringe benefits. However, we found that PPDA has not managed temporary employees in compliance with the law.

The agency does not have a system in place to identify when temporary employees should have a required break in service. We reviewed the human resources files of a nonstatistical sample of 20 of 48 temporary employees and found that PPDA did not require a break in service for any of the 10 employees who had worked at least one year. We found eight employees who had worked over two years without a break. In one instance, a temporary employee had worked continuously since October 2003 with no break in service, as required. The remaining ten temporary employees in our sample had not worked at least one year at the time of our the file review, so no break in service would have been required.

We recommended in our 1998 audit of PPDA that the agency comply with state human resources regulations regarding the length of time temporary employees may work without a break in service. We also recommended that the agency establish written guidelines for temporary employees to address, at a minimum: hiring rates, raises, evaluations, specific job duties, and disciplinary actions. PPDA does not have any written policies or procedures regarding the administration of temporary employees.

The purpose of temporary employment is to allow agencies to fill a need that is only for a limited period of time. If individuals are employed continually as temporaries, it may be an abuse of the system and of the employees, since they are not receiving benefits.

Recommendations

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89. Patriots Point Development Authority should comply with state human resources regulations and not allow temporary employees to work more than one year without a break in service.
 90. Patriots Point Development Authority should implement written policies regarding the administration of temporary employees.

Operations Staff

We were asked to determine if PPDA's staff was adequate to maintain ongoing operations on the ships. Because PPDA does not know all the maintenance needs of the vessels to bring them into good condition, we cannot determine if the staff is a sufficient size; however, we reviewed the education and experience of the employees in the operations department to determine, among other things, if they had naval experience.

We reviewed the human resources files of operations employees with supervisory experience and those working directly under the supervisors. Of the 14 files reviewed, we found that 4 employees had naval experience — the director of operations, the superintendent of maintenance, the assistant superintendent of maintenance, and an electrician. At least seven other employees had direct work experience for the positions they currently hold at PPDA.

Employee Compensation

We were asked to determine if employees are compensated at generally recognized adequate compensation for duties performed. The executive director stated that he would like to have a consultant conduct a market analysis, based on the Charleston area, to determine if PPDA's employees are compensated appropriately. In our 1998 audit, we recommended that PPDA obtain an entity with appropriate credentials in personnel management to address classification and compensation issues. No study has been conducted since that time.

Recommendation

91. Patriots Point Development Authority should obtain the services of an entity with appropriate credentials in personnel management to study Patriots Point Development Authority's human resources needs, including classification and compensation issues.

Overtime Pay

PPDA employees were paid a total of \$49,857 in overtime for FY 11-12, with the majority of overtime (\$35,385) paid to operations department employees. According to an agency official, groups renting the ship sometimes requested certain services from PPDA employees. In other situations, PPDA employees were paid overtime to work agency-supported events such as July 4th, Memorial Day, or Veterans' Day celebrations.

We reviewed a nonstatistical sample of special event contracts with various groups renting the ship. On these rental agreements, the groups were charged a certain fee for the use of these employees, who were mostly lift crews and electricians. PPDA was paid by the groups renting the ship, then the agency, in turn, paid the employees the overtime pay.

Employee Evaluations and Position Descriptions

Patriots Point Development Authority has generally performed annual evaluations on its employees. Also, our review indicates that most files in our sample had position descriptions reflecting current job duties. This is an improvement from our 1998 audit where we found that PPDA had not consistently performed evaluations on its employees and did not have position descriptions for all its employees.

Our nonstatistical sample of 14 files, which cannot be applied to the general population, revealed that most employees received annual evaluations, with some exceptions; however, the human resources files of most of the executive-level staff of the agency did not contain evaluations. Instead, the executive director has established detailed work plans describing what he expects each of the department directors to accomplish. These work plans are updated by the employees to indicate if the outlined goals were met. This method is more thorough than a standard employee performance evaluation.

Formal evaluations serve as an effective management tool within the agency and formal documentation of strengths and weaknesses of employees. This is also the format whereby an employee's position description can be reviewed by the supervisor with the employee to ensure that the employee is clear about expected duties.

Agency Comments

PATRIOTS POINT

★HOME OF THE USS YORKTOWN★

December 10, 2012

Perry K. Simpson, Director
SC General Assembly Legislative Audit Council
1331 Elmwood Avenue, Suite 315
Columbia, South Carolina 29201

Dear Mr. Simpson,

Let me say that I was very impressed with the professionalism of your entire audit team throughout the process. The Patriots Point staff spent over one thousand hours on this audit. Much of this time was devoted to interaction with your staff members. They were individually and collectively engaged, courteous, respectful, and personable. I hope that your staff can say the same about us.

First and foremost, as the agency head, I am pleased, but certainly not surprised, that there were no suggestions, much less charges, that anyone associated with Patriots Point was alleged to have engaged in mismanagement of funds, fraud, theft, wasteful spending of money, violation of laws, disregard for regulations or state policy, poor or ineffective leadership and management, or failed missions. Sometimes what is not said in a report such as this is far more valuable than what is said.

I have been in the position of Executive Director of Patriots Point for just over two years. Moreover, most of our board members were appointed within the last two and one half years, including our chairman Mr. Ray Chandler.

When I accepted the position, I asked the board to give me the latitude to take the actions necessary to build a culture of success at Patriots Point recognizing that it would require significant reorganization, financial investment in our staff and our museum, and the flexibility to try new approaches to solving long standing problems. Very importantly I asked for their support on changing public and political opinion concerning Patriots Point. I also asked for support in developing a business model that would put us in position for achieving long term financial success. The board has supported me and our staff in every way. Personally, I think the results are obvious and positive. However, we are only two years into a process that will take five or more years to complete.

Lieutenant Governor McConnell requested this audit more than three years ago; before I or more than half of our board became associated with the agency. Within the last sixty days he has indicated that he has seen evidence that we have “turned the ark around.” That observation makes us all exceedingly proud. Lieutenant Governor McConnell is a long time supporter of Patriots Point and its museum. In asking for this audit, he was expressing his obvious concern for our future. He posed nineteen specific questions to the Legislative Audit Council. The Patriots

Point board and staff, working in concert, have hopefully restored his faith in the agency. We have developed plans and strategies necessary to realize long term sustainment of our state's "Navy" and the museum at Patriots Point. We recognize that we have much more to do here.

Our first obligation regarding the audit is to accept it in the spirit in which it is presented: that Patriots Point will be the model agency in the state of South Carolina. Our second obligation is to review the recommendations contained in the audit and over time make changes and improvements that we feel are appropriate. Our third obligation is to ensure that, where appropriate, we clarify, correct, and/or provide additional information relative to those statements and recommendations upon which there is disagreement. The areas where we disagree are many. However, without directly saying it, the audit suggests that it may be an impossible task to fund the long term maintenance of at least two aging warships. Their "suggestion" is wrong. We will provide the funding through wise and creative leases of more than one hundred acres of land; through a 30% increase in ticket sales by 2016; and through the creation of a fundraising juggernaut over the next three years. We will succeed.

Again I want to say that it has been a pleasure working with your staff. They are intelligent, hardworking, dedicated professionals who want to make a difference. I hope they left this audit with an appreciation for our museum at Patriots Point and for the dedication of our board and our seventy five outstanding state employees.

A handwritten signature in black ink, appearing to read "R. Mac Burdette", with a long, sweeping horizontal line extending to the right.

R. Mac Burdette
Executive Director
Patriots Point Development Authority

SC Legislative Audit Council Report
Patriots Point Development Authority

Page 10: VARIOUS CORRECTIONS REGARDING REVENUE & EXPENDITURES

Chart 1.1: Revenues and Expenditures FY 10-11 through FY 12-13

	Revenues	Expenditures
FY 10-11	\$8,958,947	\$ 8,698,699 *
FY 11-12	\$9,471,933	\$ 9,899,052 **
FY 12-13	\$9,664,000	\$10,043,046 ***

* Includes \$988,880 in depreciation expense

** Includes \$1,138,784 in expenditures related to the Laffey move, a one-time expense and \$1,007,327 in depreciation expense.

*** Includes \$1,050,000 in depreciation expense.

Page 10 – DETAILED ANALYSIS IN REVENUE AND EXPENSES BETWEEN FY 11-12 AND FY 12-13

At the end of FY 11-12 the agency had \$4,116,556 in cash reserve funds. These funds are needed to cover any potential shortfall from operations and capital repairs and improvements. In FY 11-12, PPDA generated \$9,474,933 in revenue and incurred \$9,899,052 in expenses. Included in the expenditures was a one-time expense of \$1,138,784 to relocate the Laffey and \$1,007,327 in depreciation. The budget adopted for FY 12-13 shows projected revenues of \$9,664,000 and expenditures of \$10,043,046, included in the expenditures is \$1,050,000 in depreciation expense. Also included in the budget were \$1,152,000 in capital expenditures, these items are to be funded out of the cash reserve fund. This results in a projected cash reserve fund of \$3,635,510 at the end of FY 12-13.

Page 12 – CLAMAGORE

Notably, the cash reserve fund for the agency, as of September 2012 was \$4,116,556. A portion of this fund, \$1,152,000 is designated for capital improvements presented in the FY 2012-13 budget and an additional \$1,750,000 is designated as a contingency fund to cover any shortfall from operations. The agency is not in a financial position to dry dock the Clamagore, the cash necessary to perform the repairs is not available if we maintain an adequate contingency fund on hand to handle emergencies such as storms and unknown maintenance items that we may to deal with in the future.

Page 15 – ADMISSIONS REVENUE

The largest revenue source for the agency is generated from museum ticket sales. This revenue source includes all paid visitors to the museum, including walk up visitors, tour groups, school groups and groups participating in the educations programs offered at the agency. All of these ticketed categories are included in admissions revenue and reported this way for financial purposes, they are not reported in any other income stream. Our new galaxy ticketing system will provide a detailed breakdown for each one of the sub-categories under the heading of general admissions. The number of paid visitors increased 4.2% in FY 11-12 compared to FY 2010-2011. The average paid admission for FY 2011-12 was \$15.40 per paid visitor. After checking with several other attractions in the area, they all stated they reported admissions revenue similar to Patriots Point, all ticketed categories are included in the general category admissions revenue.

Pages 4 and 12: CLAMAGORE

Recommendation is to save the Clamagore and to use \$3.5 million of our \$4.2 million reserve for that purpose.

Answer: The Clamagore generates little in the way of ticket sales. If we used our unappropriated fund balance for this purpose we would not have funds for:

- Emergency repairs
- Emergency situations such as hurricane. Our business plan stipulates that we maintain three months operating capital for such emergencies. It would be very irresponsible to take our fund balance below \$1.5 million.
- To make improvements to the museum which will generate additional ticket sales such as the New Museum Experience and The Flight Academy.
- There are only two museums in the nation that have more than two ships and there is a reason for that. From a business perspective we can only afford so many vessels. The Clamagore is fast approaching becoming a liability to Patriots Point. The Laffey is restored. The Yorktown needs to have all possible funding directed to her. She is the reason we are successful. The Clamagore generates very little in ticket sales.

We are completing the Federal 106 process that will allow the Patriots Point Development Authority (PPDA) board to make a decision that is in the best interest of the museum. We sincerely hope that the Clamagore Association is successful in raising the funding to have the Clamagore restored.

Page 12 and 63: LAFFEY FUTURE MAINTENANCE

Answer: We have every intention of meeting future restoration requirements of the Laffey (15 year scenarios). We believe that by the time she needs dry docking, that PPDA will have increased its lease holdings to address that requirement. The cost of dry docking Laffey in 15 years will be far less than the 2010 restoration.

Page 13: FEDERAL ASSISTANCE

Answer: The business plan calls for PPDA to approach the Navy for assistance when we have completed environmental and structural assessments of the Yorktown. The recommendations of the audit have been part of our plan for some time.

Page 14: MAJOR INCOME STREAMS

Answer: We wish to point out that one of our financial strengths, that is shared by few other museums, is the diversity of our revenue streams. Attendance accounts for less than 40% of income. That is a great strength allowing the other major revenue sources to sustain our operations during times of economic strife. This cannot be overlooked. We are working to increase and strengthen our current revenue sources. In time, we believe that revenue from leases will exceed or match revenue from ticket sales. We are constantly trying new ideas for creating new revenue or expanding existing revenue streams by expanding it to new markets such as church youth groups, Jr. ROTC program, and homeschool programs. There is nothing static about our business approach to making money.

Page 17 and 20: THE MUSEUM

Answer: I am extremely disappointed by the auditors' discussion on Museum Services and Operations.

- The auditors spent a total of 30 minutes in discussion with the Patriots Point Director of Operations during the entire audit. The Director of Operations is probably the single most important person at Patriots Point.
- The suggestion that Operations should be placed under Museum Services shows a complete lack of understanding of what it takes to run the daily operation at Patriots Point. Museum Services is a

specialty service. Operations is the muscle behind what has to occur at Patriots Point each day. There is a major industrial component of our operation.

- The auditors should have discussed their position with the Executive Director before drafting this section. They did not. Clearly they do not understand that the Executive Director's role is to have a "global" perspective over the entire agency and as such should have been allowed input regarding this section of the report. The Executive Director's organizational philosophy is that there are "line" departments that provide direct specialized services to the customer (i.e. education and overnight camping) and there are service support departments that provide general services so that the line departments can carry out specific missions without becoming bogged down with general support services.

Page 25 and 27: EXCURSION MANAGEMENT IN CAMPING DEPARTMENT

Answer: We no longer refer to "excursions," we refer to programs. Our goal is, and has been to no longer offer "off property" excursions except for the Fort Sumter Tour. There is nothing new in this audit recommendation. We have already eliminated all but one "off property" tours, which does indeed keep revenue at Patriots Point. We just added the "Ghost Tour" as an on property program that is available to our campers for a fee.

Page 21: MEMBERSHIP PROGRAM

Answer: Membership Program is not currently where we plan for it to be within the next two years. When our fundraising organizations are reorganized, membership sales will be transferred to these organizations. We are presently evaluating the entire membership program with the Yorktown Association. The potential for memberships will be related directly to the strength of our overall fundraising program and will in the future be executed by our partner nonprofits.

Page 22-23: OVERNIGHT CAMPING NUMBERS

Answer: The audit claims that camping numbers decreased because of a decision to suspend advertising of camping programs. Nothing could be further from the truth. In the past two years, marketing of camping has probably doubled over previous years. We are now conducting sales calls on behalf of the camping program to open to new markets beyond scouting. This has never been done before. The sales calls are being executed by both camping and marketing staffs. The reduction in camping is due to:

- The economic recession
- The fact that Boy Scout programs are not expanding as rapidly as in the past
- There are so many choices for scout programs. We cannot continue to rely solely on the Boy Scout programs in future. They will always be a priority for us, but we must attract new customers such as Girl Scouting, church youth groups, Jr. ROTC units, and home school children. Our approach will be to market to a much wider audience as is stated by our three year business plan.

Page 24 and 27: ROAD SHOWS

Answer: Marketing does not determine which scout road shows the camping department attends. That is an incorrect statement. The director of camping discusses destinations with the Executive Director and the decision is made. When necessary the Marketing Department and other department staff members assist camping with road shows. This statement should be corrected.

Page 24: LAFFEY AS CAMPING VENUE

Answer: Until we increase annual overnight camping numbers to 24,000 annually, it would be a misappropriation of funds to use \$300,000 to improve the Laffey to accommodate camping. We can accommodate an increase of 4,000 campers on the Yorktown with no major expenditure. The cost could exceed \$300K because of water and sewer extensions to the ship required to service bathrooms. We are

talking about 70 year old war ships. It would take approximately three years to earn a return on investment for restructuring the Laffey for camping and that would happen only after the Yorktown was at 90% occupancy.

Page 24: ALLOW CAMPING DEPARTMENT TO DIRECT MARKETING

Answer: This is absurd. The camping staff has no expertise in marketing. The marketing department meets with the camping staff regularly to discuss marketing objectives and strategies. The camping department has direct input into the marketing strategy for its programs. The marketing department supports all revenue generating elements of the operation. In every case the “line” department reviews and approves all marketing programs. (What I said was misinterpreted, that various departments add to an ongoing list of road shows to attend, which is maintained by the Marketing department. The question came up as a “budget question”, about who decides what shows are attended and which staff members attend. My response was Camping picks Scout Shows to attend and submits for agency director’s approval so that travel is funded in our annual FY budgets. input from Marketing helps us to determine where we have been and what areas we probably need to target (for larger markets). The Camping Department decides on which Scout shows to attend, not the Marketing Department.)

Page 31: FOOD SERVICE

Answer: We have a catering contract. It has more than two years before it expires. We intend to consider major changes when it expires. Catering for Patriots Point services is very complicated. The audit did not choose to discuss these complications with the Executive Director for some reason. When we have the opportunity we will consider changes to the catering services contract comprehensively until then it is what we have. It is not true that pushing business to our caterer is automatically in the best interests of Patriots Point. Most of our larger events are brought to us by outside caterers.

Page 32: FLIGHT SIMULATOR

Answer: We are evaluating the flight simulator and all concession contracts. The simulator equipment is very expensive to purchase and maintain. We do not wish to own and maintain this equipment. It is much better with our volume of customers to contract this service and allow to contractor to make the capital investment.

Page 33: ECOMMERCE FOR EVENT RENTALS

Answer: We are developing a broad plan for E-Commerce. It will likely not be very effective for event rentals. Our rental customers wish to see the space, tour the space, and discuss our special services including catering. This is not a generic purchase of services like buying a ticket. Event rentals are very customized.

Page 33: REASSIGN MARKETING STAFF TO EVENTS COORDINATOR

Answer: Group sales staff of the marketing department makes sales calls to outside customers, they attend trade shows, they assist with marketing, and they assist with road shows which promote all facets of Patriots Point. The Events Coordinator just received an additional employee. The Marketing staff regularly assists the Events Coordinator with sales calls, development of marketing materials, development of target market receptions events. The marketing department manages a budget of more than \$700,000. Every dollar of this budget is used to promote revenue generation in every business area of Patriots Point. The Event Coordinator employed an assistant in 2012.

Page 47-49: FUNDRAISING

Answer: We concur with comments generally. Our business plan addresses this as a major objective by the end of FY 2013. We explained this to the audit team several times. We have worked diligently to assist the

Yorktown Association in becoming a 501(c)3 by January or February. Again, this is a key component of our business plan and should not be viewed as a new revelation. We cannot accomplish this goal without willing partners who are the organizers of the nonprofits. We cannot dictate their strategies. It is a matter of convincing and negotiating.

Page 44: MEDAL OF HONOR MUSEUM

Answer: There are many legal, financial, and political considerations relative to the PPDA board's final decision. The central issue is developing a strategy that will make Patriots Point a national destination. Negotiations with the Medal of Honor Society and the Medal of Honor Museum Foundation are deliberate and focused on both short and long term opportunities. Again, it is easy to sit on the sidelines and say what play should be called. This decision will involve PPDA staff, PPDA board, leadership in the SC General Assembly, the SC Budget and Control Board, the state legislative staffs, the Medal of Honor Society and the Medal of Honor Museum Foundation. This is not a decision by just one entity. The PPDA board is in the best position to decide what is best for this agency. They will act prudently and decisively when we have all the necessary critical information and they will then make a recommendation to the SCBCD.

Page 53: PATRIOTS POINT AS A 501(C)3

Answer: Being a functioning 501(c)3 nonprofit as recognized by the US IRS is not an option. We will rely upon the Yorktown Association and the Patriots Point Foundation for nonprofit fundraising support. We recognize, as it is detailed in the Business Plan, that these organizations must develop a capital campaign plan, strategy and staff capability if we are to achieve all of our financial goals. This will be a priority of the PPDA board before the end of FY 2013.

Page 55 and 56: MARKETING AND GROUP SALES DEPARTMENT

This department has a staff of three full-time employees and one temporary part-time employee. Two of these employees do not work on marketing tasks: they are handle Group Sales and administrative tasks that support Group Sales and other agency-wide work. In actuality only one full-time employee, with the assistance of a part-time temporary employee, handles all planning and all tasks for marketing, advertising, and promotions for all five revenue-producing departments of PPDA. Outsourcing for some graphic services, printing, and other services is necessary because all resources needed to accomplish assigned marketing work is not found in-house at PPDA.

Page 55 and 56: CONSULTANT COST

The statement that the outside marketing firm cost for FY 11-12 was \$276,759 is incomplete and misleading. The \$276,759 paid for advertising, printing, production, and creative services procured by the outside marketing firm at the direction of PPDA, as well as for consulting time applied to specific projects.

Page 57 and 58: AGENCY WEBSITE

The reference to \$45,000 cost to maintain the website is partially incorrect. The website is maintained and managed by the PPDA Communications department, not by the Marketing department. The \$45,000 cost was correct for FY 11-12, but it comes from the Communications budget, not the Marketing budget. Progression to full in-house maintenance of the agency website is being made by the Communications department: the website will be fully managed in-house by the start of FY 13-14. This has for some time been part of Phase 2 of the two-phase website plan.

Page 55 and 56: MARKETING DEPARTMENT AND CONSULTANT

The observation that having a marketing department and a marketing consultant is a duplication of costs and efforts is evidence of a lack of understanding of the roles and functions of both the PPDA marketing department and the consultant. The work between them is in no way duplicative. The agency's Marketing

department guides and determines the key elements of marketing programs and plans, and performs the many day-to-day administrative tasks involved in marketing and advertising coordination; while the consultant works on delegated projects at the direction of the Marketing staff, and provides services and access to outside resources that complement in-house capabilities.

It would be imprudent to assign all of the Agency's marketing work to the consultant. It would be much more expensive to do so, due to the numbers of tasks and hours involved in conducting day-to-day marketing activities for all PPDA revenue areas. Examples of the many current marketing activities that are more efficiently handled with in-house staff range from inter-department coordination, budget formation and updating, and facilitating website and media relations work; to identifying new opportunities and oversight of marketing plan progress so that work progresses on schedule.

The consultant (RawleMurdy marketing firm) provides marketing/advertising services for many clients, including several in the travel/tourism business sector. Bruce Murdy, president of RawleMurdy, says, "In each of our client relationships, the client has an identified marketing director. It is our experience that many strategic, as well as day-to-day marketing activities are more cost- efficiently handled in-house." RawleMurdy currently works directly with three other state Agencies, and in each case, the Agency has a marketing director in place as the liaison between the Agency and consultant. RawleMurdy reports that this structure is "established, successful, and efficient."

PPDA has had a marketing team in place for less than two years, and in that time **the Marketing department has been instrumental in increasing ticket sales by 7%; and events rentals have nearly doubled.** A blend of experienced in-house staff members with marketing expertise, supplemented by consultant services, is the best means of achieving the Agency's goals.

Page 56: GROUP SALES

It is correct that the majority of groups booked by this department are school field trips for which education programs are supplied by the Education department. However the suggestion that Education handle all of its bookings displays a lack of understanding of the current booking processes, as well as a misunderstanding of the respective functions of the Group Sales and Education departments. Group Sales' primary function is to sell and book reservations for all incoming groups, regardless of type; and if a group requests Education programs, the group is then referred by Group Sales to the Education department to fulfill those components. The Education department has acknowledged since the 2011-12 fiscal year that group reservations are best handled by the Group Sales department, so that Education department can focus on devising and delivering its programs.

Page 56: EDUCATION DEPARTMENT/SCHOOL GROUP MARKETING

It is incorrect that the Education department solely handles all of its school group marketing. This is a responsibility shared by the Marketing & Group Sales department and the Education department, although each department largely performs different marketing tasks. Over the last 20 months, the Marketing & Group Sales department has supplied budget, advertising, new materials, participation in conferences & shows, and e-newsletter activity to support Education.

Page 55-57: GROUP SALES AND EDUCATION

It would be counterproductive to eliminate Group Sales from the Marketing department and bring it under the direction of the Education department. As noted above, this recommendation demonstrates a lack of understanding of the respective roles of Group Sales and Education as well as Group Sales' current scope of work that generates group sales, events rentals sales, and Camping sales. The Education department does not have the resources or the expertise to direct these types sales activities.

Page 57: LOCAL AND NATIONAL MARKETING

The online buy one-get one “deal” referenced was a Groupon promotion that was the most successful online promotion of its type for the Agency in the last three years. There was no advertising investment in this promotion: the promotion was conducted at no charge to PPDA, and generated revenues of more than \$9,000.

Although PPDA advertising in “Southern Living” magazine is mentioned, there is no mention of the rest of the comprehensive strategic advertising plan for FY 11-12 that was shared with LAC staff. The ad plan included more than 50 media components that support all of the Agency’s revenue-producing areas.

We currently have marketing partnerships with other state entities, including the SC PRT and SC State Museum. The SC PRT ad co-op opportunities were not made available by SC PRT until FY 12-13.

Page 57-58: WEBSITE AND E-COMMERCE

In addition to events and general admission ticketing, which have been part of Phase 1 (content development) of the Agency’s website plan, there is Phase 2, which focuses on other e-commerce. Phase 2 has for some time been part of the website development plan composed by the Communications department, and falls under their work plan. The Communications department was not queried by LAC about their plans in this area. Also part of Phase 2 is that the website’s maintenance and management is transitioning to completely being handled in-house by the start of FY 13-14.

There is no advantage to the Agency or to visitors this time to enabling parking pass ticket sales at the website. It will save neither time nor money for visitors, and will not create additional revenues for PPDA.

Newsletter signup at the website is offered under different department sections because that process best serves our audiences’ interests and the Agency’s need to organize its e-newsletters lists for those specific target audiences. There should not be a ‘one size fits all’ e-newsletter approach. This approach is consistent with the Agency’s strategic marketing plan, which addresses the revenue areas individually.

Page 56, 57, 59: TRAFFIC SURVEYS

It is incorrect to say that there are no traffic surveys of walk-in visitors. In fact, a copy of the most recent onsite visitor survey report conducted with the assistance of the College of Charleston was shared with the LAC, demonstrating that surveys are being done. It is correct that surveys have not been conducted continually/year ‘round due to budget constraints. The Agency is planning to increase the frequency of survey distribution in the coming year.

Page 61-70: MAINTENANCE OF VESSELS

Answer: Clearly, not enough has been done over the past 38 years to adequately maintain the vessels at Patriots Point. The founders of Patriots Point greatly underestimated the amount of money that would be needed to maintain ships. Patriots Point has never been able to generate enough funds to address the maintenance issues.

With our three year business plan, we are now proactively working to turn this around. We are making changes that will allow at least half of the lease income to be applied towards a maintenance fund that could be used to address these issues. Working with the Clemson Conservation Institute, we have begun the process, with the environmental assessment, to determine exactly what needs to be accomplished, to prioritize these needs, and to obtain cost estimates. With the data obtained from the follow-on structural

assessment that our Board of Directors has committed to completing, we will be able to develop a plan for fixing the Yorktown's structural issues.

The environmental assessment is the critical first step in this process. We must determine what the hazardous materials are that the Navy has left on the ship, how much of it there is, where it is, and develop a plan for disposal. This will clear the way for the structural assessment which will directly lead to the plans for repairs. Patriots Point staff is of the opinion that the board should strongly consider eliminating the Clamagore from its inventory. It is endanger of becoming a fiscal and physical liability in the short term.

Page 66: YORKTOWN COFFERDAM

Audit implies permanent cofferdam as the only solution for restoring hull of the Yorktown.

Answer: A reasonable alternative for restoring the hull of the Yorktown is to use a portable cofferdam which would cost less than \$1 million. In fact, the USS North Carolina Museum has offered to rent their portable unit to Patriots Point. Savings would be almost \$20 million. If the funding was available, we would like to install a permanent cofferdam, but it is not necessarily the most cost effective alternative.

Page 73-78: LEASES

Answer: Lease Terms. The second paragraph states that there is limited ability to modify rent payments in situations where the land value of the leased property increases. The Golf Course lease and the alphabet parcel leases are based on percentages of gross revenue and therefore this rent mechanism has a built-in rent increase because as the revenue of the business increases, the rent will increase. The owner of the business has an incentive to increase revenue, so the Authority will be the beneficiary of this incentive. This percentage rent mechanism provides a hedge against inflation.

The description of the calculation of base rent and percentage rent is not accurate. The alphabet parcel leases rent provisions start with base rent being set for the first year of operations at 60% of the projected first year's rent based on the applicable percentages of gross revenue. At the end of the first year, the tenant pays the difference between the full calculated percentage rent and the base rent actually paid. The base rent for the second year is the greater of the base rent for the prior year and 60% of the prior year's calculated percentage rent. Base rent never decreases.

Page 80: COLLEGE OF CHARLESTON LEASE REGARDING USE OF LAND WITHOUT A LEASE

Answer: The College of Charleston constructed a parking lot on Patriots Point property over 15 years ago. The College of Charleston and the Town of Mount Pleasant, which has a sub-lease for use of ball fields with the College of Charleston, maintains the paved parking lot. Patriots Point benefits from the parking lot for overflow events approximately eight times each year. The Executive Director has met with the College of Charleston Athletic Director to discuss mutually beneficial partnerships. The College is very willing to amend the existing lease to include the paved area. It is actually good that there is no lease because the relocation of the entrance road to accommodate the Medal of Honor Museum will encroach onto the parking area. Since there is no lease Patriots Point is in a much better position to address the road encroachment.

We often share property with our tenants when it is beneficial to the Patriots Point family to do so. In fact, we should do more partnership activities. We assist the hotel and they assist us. The same is true with the College of Charleston, Town of Mt. Pleasant, and the golf course. Relationships are not built on contracts alone.

Page 86: PARKING

Answer: Patriots Point has embarked upon a new plan for managing parking revenue collections using the "Galaxy" software for point of sale and ticketing. This should be implemented for parking in the first of 2013. This system will allow us to better account for all parking receipts including the use of credit cards at the entrance gate and it will allow us to track parking patterns and parking revenue categories. This system will also provide us a reliable method of counting cars and to account for revenue accordingly.

Page 95: POINT OF SALE

Answer: Credit card processing integration into point of sale system is a planned element of the "Galaxy" project and is underway. Each request will have an integrated card processor and "swiper." Our current processing machine will serve as a backup.

Page 97: PROCUREMENT CARDS

Answer: PPDA's Executive Director has established a policy of addressing the issue identified by the audit. It should be noted that one of the hundreds of purchases made by procurement cards this was the only finding of an error. We work diligently to use procurement cards properly.

Page 98: PARKING LOT

Answer: As stated, we eliminated this project for being poor use of funds. Through the efforts of our staff we cleared and grassed a four acre area that serves as event space and overflow parking. The cost was approximately \$100,000. In the first year of its use we collected almost \$33,000 in revenue from at use.

Page 99: AGENCY EMPLOYEES AND CONTRACTORS

Answer: Contract Legal Services. The draft report contains the following inaccuracies in this section:

Page 99 and 100: Associate Attorney

The draft report states that an associate of the Authority's "attorney has submitted hours for payment even though that attorney was never approved by the S.C. Attorney General's Office to work as counsel for PPDA." The Authority's current general counsel has been engaged by the Authority since the beginning of fiscal year 1998-99. He and his firm consistently been approved as counsel annually by the Attorney General's office. During these 14 years, other lawyers in his firm have performed services at the same rate as our general counsel and the bills have been approved by for payment by all those who are required to approve them in Columbia. Our audit is scrutinized in Columbia and our practice never has been questioned. Counsel's rate has been increased twice during this time and approved by the Attorney General's office and this issue never has been raised. Not until this year when our annual approval form that was submitted to the Attorney General's Office was returned to us was anything ever raised by the Attorney General's Office. On this year's form, it was noted that the rate was approved only for Mr. Craver. This note is a clear statement by the Attorney General's Office that our past practice had never been an issue, but that they were changing the practice as of the 2012-13 fiscal year.

The same procedure was followed by our prior outside counsel, and it was never questioned. The Authority's position is that the work performed by the associate attorney was authorized at the rates at which it was billed. It would be inappropriate for the Authority to seek reimbursement and the Authority will not do so. We request that the audit team re-write this section as it implies that some agent of Patriots Point have purposely done something wrong.

Page 99: In-House Counsel

The Authority's legal bills for the 2010-2011 fiscal year were \$ 242,258.23, and for the 2011-12 fiscal year were \$ 75,764.83. The Authority's budget for legal fees for the 2012-13 fiscal year is \$90,000. The amount

expended in attorney's fees in the past was a reflection of how the leadership at Patriots Point wished to use the attorney. The current leadership views the role of the attorney in a more defined manner. The result is a more modest budget for legal services to earn than \$100K per year which is entirely reasonable. The Authority currently does not have enough legal work to keep a full time attorney busy. Basically, we would have a full time attorney sitting around 4 to 5 hours each day doing relatively little. The Authority would still have to associate outside counsel to provide the expertise and experience of a seasoned attorney for the Authority's complex matters. In-house Counsel would not be cost-effective for the Authority.

Page 100: EMERGENCY PROCUREMENT

Answer: Patriots Point will use emergency procurement pursuant regulations of the state. The agency head has the authority under certain circumstances to procure goods and services as emergency actions. This authority will be in the future used judiciously in the future, but it will be used if necessary to protect the interests of the agency, in accordance with state regulation.

Page 90: GIFT SHOP

Answer: All "on site" employees receive 40% discount. Tin Can Sailors show a "Tin Can Sailor" issued card that gets them a 25% discount. We don't control those cards. Membership Cards that have varied discounts from 10% & up should be barcoded designating discount.

Page 89-93: GIFT SHOP MANAGEMENT

Answer: An employee is ALWAYS designated to be in charge when the gift shop manager is absent.

Page 89: GIFT SHOP

Answer: We do need our credit card scanner integrated with our POS system. All items purchased are deducted from the inventory currently by adding one extra step in the process. We will work with IT/Communications Department to resolve this problem.

Page 103: EMPLOYEE COMPENSATION

Answer: The Executive Director has recently received permission from SCHR to retain consultant services to complete a market analysis for all positions at Patriots Point. They will be pursued in 2013/14.

Page 93: GIFT SHOP

Answer: It does not make sense to not adjust an inventory level when it is found to be "incorrect", regardless of the circumstance. Incorrect inventory levels can cause "out of stock" and "overstock" occurrences.

Page 93: GIFT SHOP

Answer: We strive to deter shoplifting opportunities every day by merchandise placement, fixture placement, signage and "fake" monitoring equipment. I do not want to apprehend anyone for shoplifting in the Ship Store. We want to simply prevent it.

Page 93: GIFT SHOP

Answer: We need more support from the I.T. department before and immediately after inventory to support and accurate inventory. This has been resolved for the 2013 inventory.

Page 93 and 94: GIFT SHOP

Answer: We need our debit/credit card system integrated with our POS system. All items purchased are deducted from the inventory currently by adding one extra step in the process. We will work with IT/Communications Department to resolve this problem.

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