

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

P-554

REVIEW OF THE CALIFORNIA
MUSEUM OF SCIENCE AND INDUSTRY

JANUARY 1986



Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General
660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Thomas W. Hayes
Auditor General

January 13, 1986

P-554

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the California Museum of Science and Industry. The report indicates a need for the museum to ensure continued financial support for privately-financed expansions of the museum and to clarify the duties of its executive director. In addition, the museum should regularly review the accuracy of its attendance estimations and collect additional parking fees from the Los Angeles Clippers basketball organization. Finally, the museum should require the California Museum Foundation of Los Angeles to repay approximately \$15,000 that it collected from private organizations and individuals for the use of state property at or around the museum.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	i
INTRODUCTION	1
AUDIT RESULTS	
I PRIVATELY FINANCED EXPANSIONS OF THE MUSEUM MAY INCREASE STATE MAINTENANCE COSTS	9
II THE MUSEUM'S EXECUTIVE DIRECTOR AND THE ACTING CHIEF DEPUTY DIRECTOR HAVE VIOLATED TWO SECTIONS OF THE GOVERNMENT CODE	13
III THE MUSEUM IS OVERSTATING ITS ATTENDANCE	19
IV THE MUSEUM DID NOT RECEIVE AS MUCH AS \$140,000 IN PARKING FEES THAT THE LOS ANGELES CLIPPERS CHARGED THE PUBLIC	23
V THE FOUNDATION RECEIVED \$15,000 THAT SHOULD HAVE GONE TO THE STATE'S GENERAL FUND	27
VI CONCLUSION AND RECOMMENDATIONS	29
RESPONSE TO THE AUDITOR GENERAL'S REPORT	
State and Consumer Services Agency	35
APPENDICES	
A THE STATUS OF THE CALIFORNIA MUSEUM OF SCIENCE AND INDUSTRY'S IMPLEMENTATION OF PREVIOUS AUDITOR GENERAL RECOMMENDATIONS	A-1
B THE USE OF MUSEUM FACILITIES DURING SELECTED MONTHS FROM 1983 TO 1985	B-1
C CALIFORNIA MUSEUM OF SCIENCE AND INDUSTRY STATEMENT OF CHANGES IN FUND BALANCE CLEARING ACCOUNT GENERAL FUND FISCAL YEAR ENDED JUNE 30, 1985	C-1
D CALIFORNIA MUSEUM FOUNDATION OF LOS ANGELES STATEMENT OF CHANGES IN FINANCIAL POSITION FISCAL YEAR ENDED SEPTEMBER 30, 1984	D-1

SUMMARY

Since 1982, the California Museum of Science and Industry (museum) has raised \$36 million in private donations. Using these donations, the museum has added three buildings and has updated many of its exhibits. Museum officials plan to raise an additional \$20 million to further improve the museum's buildings and exhibits. However, privately financed expansions of the California Museum of Science and Industry may increase the museum's maintenance costs and, therefore, require the State to increase the museum's budget. In addition, two museum officials, who also hold positions in the California Museum Foundation of Los Angeles (foundation), have been in violation of the Government Code. One receives expense reimbursements from the foundation, and the other, before May 1985, performed duties for the foundation that conflicted with his museum duties. In addition, the museum is overstating its attendance. Also, the museum has not enforced its parking facilities agreement with the Los Angeles Clippers basketball organization and may have allowed this organization to charge as much as \$140,000 more for parking than it should have been allowed to charge. Finally, the foundation received payments for the use of state property totaling approximately \$15,000 that should have gone to the State's General Fund.

Privately financed expansions of the museum may increase state maintenance costs. The museum plans to raise \$20 million in private donations for museum expansions. However, the museum has not estimated how much this expansion will increase the need for state funding. If the foundation is unable to raise money for exhibit maintenance, the State must either increase the museum's budget or allow the museum to fall into disrepair.

The museum's executive director has received reimbursements from the foundation for expenses he incurred as executive vice president of the foundation. However, serving as the foundation's

executive vice president is one of the job duties of the museum's executive director. In addition, until May 1, 1985, the museum's acting chief deputy was responsible for ensuring that the foundation complied with its contract with the museum. At the same time, he served as the administrative vice president of the foundation. The Government Code prohibits state officials and employees from receiving outside perquisites for their official jobs or from engaging in any employment which is clearly in conflict with their state duties. Therefore, the museum's executive director is, and its acting chief deputy director has been, in violation of the Government Code.

Also, the museum is overstating its attendance. The museum estimates its attendance using a formula based on attendance studies done just before, during, and just after the 1984 Summer Olympics. However, museum officials fail to accurately apply the formula, and they do not appear to have regularly reviewed its accuracy. Using the museum's formula, we determined that between July 8 and August 25, 1985, the museum overestimated its attendance by over 20,000. In addition, the museum may use an inaccurate formula to estimate attendance. Therefore, the museum may be misrepresenting its popularity to the Legislature and to private donors.

In addition, the museum did not receive as much as \$140,000 in parking revenues that the Los Angeles Clippers basketball organization charged the public. The agreement between the museum and the Clippers organization stipulated that this organization would not charge more for parking than it paid the museum. However, the museum allowed the organization to charge and keep as much as \$140,000 more in parking fees than it should have. In addition, the Los Angeles Clippers did not pay all of the money owed the museum for this parking agreement until September 1985.

Finally, the foundation received approximately \$15,000 for the use of state property at Exposition Park by private organizations and individuals. This money should have been paid to the State's General

Fund. According to two representatives of organizations that used museum property, the policy of the museum's executive director is that private organizations filming at the museum first make a payment to the foundation.

INTRODUCTION

The California Museum of Science and Industry (museum) is an educational institution dedicated to developing the knowledge, the interest, and the exposure of the general public to current contributions to science, industry, and economics. In a number of state-owned and privately owned buildings, the museum presents a series of exhibits and conducts programs centering on the scientific and industrial development of the State.

The museum is located in Exposition Park, a 104-acre tract that is owned by the State, just south of the central part of Los Angeles. In addition to presenting exhibits and programs centering on the scientific and industrial development of the State, the museum is responsible for maintaining the park and for operating parking facilities for visitors to the park, the museum, and the Los Angeles Coliseum and Sports Arena. Parking lots occupy a 26-acre area within Exposition Park.

The museum currently houses 21 permanent exhibits dealing with science, industry, and economics. In addition, each year the museum presents approximately 60 to 70 temporary exhibits. Museum officials estimated that, in 1983, more than 3 million people visited the museum. Museum officials estimated that during the 12-month period from July 1984 to June 1985, which includes the period when the 1984 Summer Olympics were held in Exposition Park, more than 5.2 million people visited the museum.

The museum has recently undergone a major expansion of its facilities and exhibits. Since 1982, the museum has completed the construction of two buildings containing aerospace and economic exhibits and one theater designed to exhibit special films on a large screen. In addition, the museum has replaced or renovated many of its existing exhibits. According to museum officials, this expansion cost over \$44 million; the State provided \$8 million of this total.

The museum is governed by a nine-member board of directors appointed by the Governor. These nine members establish museum policy, approve regulations regarding the museum's operations, and appoint the Director of Exposition Park and Museum Programs (executive director). The executive director is responsible for the administrative staff of the museum, which provides personnel, budgeting, planning, and clerical services in support of the museum program. This staff ensures the proper operation and maintenance of all facilities. The State and Consumer Services Agency has ultimate program and policy responsibility for the museum. As a state institution, the museum must adhere to the State Administrative Manual.

The museum's appropriations from the State have increased approximately 97 percent since 1982. Part of the 97 percent increase in the museum's budget between fiscal years 1982-83 and 1985-86 was due to an increase in the budget for the Afro-American Museum. The museum's allocation in fiscal year 1982-83 was \$3.8 million. In fiscal year 1985-86, the museum received approval for a budget totaling

\$7.6 million. The museum also receives donations from the private sector. Museum officials stated that they were successful in raising over \$36 million during the museum's 1984 fund-raising drive.

The museum receives financial support from the California Museum Foundation of Los Angeles (foundation). The foundation is a nonprofit corporation that functions as a membership auxiliary to the museum. Founded in 1950 to solicit and provide funds to acquire and maintain exhibits for the museum, it also assists in the establishment and operation of educational activities at the museum. In September 1982, the foundation entered into an agreement with the museum that specifies the responsibilities of each organization. The contract expires in September 1987.

The foundation is governed by a board of trustees that currently numbers 81, including 12 honorary members. Each member of the museum's board is also a member of the foundation's board of trustees. In addition, the museum's executive director and the museum's acting chief deputy director also work under contract to the foundation as the executive vice president and administrative vice president of the foundation, respectively.* Both officials receive an expense account from the foundation for performing their duties in these positions. Although the foundation has not paid them a salary

*The acting chief deputy director referred to in this report is currently the deputy director for educational programs. A new chief deputy director for the museum was appointed effective December 1, 1985.

for performing their duties in these positions since September 1984, the foundation has accrued their salaries on its financial records. They recently renewed their employment contracts with the foundation for these positions.

The foundation directly benefits from state resources. For example, the current contract between the foundation and the museum states that the museum will provide the foundation, free of charge, with office space that the museum determines is available and necessary for the purposes of the foundation. In addition to this office space, the foundation receives custodial and maintenance services, utilities, and telephone services. We estimate that in fiscal year 1984-85 the State paid approximately \$52,000 for these services to the foundation. However, the foundation is not a state institution and, therefore, does not need to adhere to the State Administrative Manual.

We also determined that the State could operate the museum and the foundation as one entity. However, we could not determine how successful the State would be in obtaining the volunteer support or soliciting the donations that the foundation currently handles. If the State had assumed the foundation's activities in fiscal year 1983-84 and if it had been as successful as the foundation was in raising money, the State would still have incurred over \$265,000 in expenses.

In April 1983, the Office of the Auditor General issued a report on the museum entitled "The California Museum of Science and Industry: A Limited Review," Report #245. In this report, the Office of the Auditor General concluded, among other things, that the museum's board needed to implement a plan to ensure that the museum's director and the foundation fulfill certain responsibilities pertaining to exhibit development, evaluation, and maintenance. Because the museum had no such plan before our report, certain exhibits failed to reflect a science or industry theme, and some exhibits were outdated or in disrepair. The report also stated that the director had instituted a plan for changing, improving, and expanding the exhibits. During our current review of the museum, we reviewed its effort to implement the recommendations from our last report. In Appendix A we list these recommendations and summarize the action taken by the museum to implement these recommendations.

During the course of this audit, we observed major improvements in the size and the quality of both the museum and its exhibits. Since the conclusion of our last audit, the museum has added three buildings and has updated many of its exhibits. Museum officials plan to raise approximately \$20 million to further improve the museum's buildings and exhibits. In addition, the museum plans to add more exhibits, including new exhibits on chemistry, physics, and biology.

SCOPE AND METHODOLOGY

The purpose of this audit was to determine how state funds and resources are controlled and coordinated with the activities and funds of the foundation. We interviewed museum and foundation officials who are responsible for administering the museum and its exhibits and reviewed the agreement between the museum and the foundation. We also reviewed museum policies, museum and foundation financial records, and the museum's policies for the use of the facility. (See Appendix B for a record of the use of the museum facility for selected months from 1983 to 1985.) We also reviewed the sources and uses of funds for both the museum and the foundation. (See Appendix C and Appendix D.) In addition, we reviewed parking agreements between the museum and other organizations that use Exposition Park.

To determine whether the museum ensures financial support for privately financed expansions of the museum, we reviewed the foundation's records for private donations. We reviewed the museum's plan to raise private donations and its plans to use those donations for future projects at the museum. We also reviewed contracts between the museum and private donors to determine the extent to which donors have funded buildings and exhibit maintenance at the museum.

To determine whether the museum director and the acting chief deputy director are in violation of the Government Code, we reviewed the Department of Personnel Administration's current description of job

duties for the museum's director and chief deputy director. We also reviewed a resolution by the current museum board concerning the job description of the museum's director. We reviewed a joint legal opinion by the Department of Personnel Administration and the Attorney General's office, and we reviewed expense reimbursement receipts from the foundation to the museum's director. We also obtained a legal opinion on the legality of expense reimbursements from the foundation to state employees.

To determine whether the museum estimates its attendance accurately, we reviewed the formula that the museum director said he uses to estimate attendance at the museum. We then reviewed the accuracy of the museum's calculations using this formula. We also tested the accuracy of the formula by interviewing museum visitors to determine if they had patronized the museum's restaurant concession. We then compared our results to those of the museum.

To determine whether the foundation receives revenues that should have been paid to the State's General Fund, we reviewed the supporting documentation for payments made by private organizations to the foundation. We then contacted these organizations to determine why these payments to the foundation were made.

AUDIT RESULTS

I

PRIVATELY FINANCED EXPANSIONS OF THE MUSEUM MAY INCREASE STATE MAINTENANCE COSTS

Since 1982, the museum has raised \$36 million in private donations. The museum is planning to raise an additional \$20 million in private donations for museum expansion and exhibits. The museum has not determined, however, how much state funding this future expansion may require. If the foundation is not successful in its fund-raising efforts, the State may have to increase the museum's budget in the future or allow the museum to fall into disrepair.

Since 1982, the museum and the foundation have solicited private donations for new buildings and exhibits. According to the museum's executive director, this fund-raising effort has generated over \$36 million in private donations. In addition, the museum receives approximately \$8 million annually in state funds. The museum used the private donations to add three new buildings, replace some of the older exhibits with new ones, and make additions to other areas of the museum's grounds. The museum made use of the fact that the 1984 Summer Olympics were to be held in Exposition Park by promising donors to the museum special use of museum facilities during the Olympics.

Recently, the museum has started another fund-raising drive. The museum plans to raise approximately \$20 million in private

donations and will use these donations to make further improvements to both buildings and exhibits. In addition, the museum plans to add more exhibits, including exhibits on chemistry, physics, and biology.

To carry out its fund-raising drives, the museum has outlined a plan that describes the mission of the museum, the improvements that the museum will make to the buildings and grounds, the new exhibits and programs that the museum will introduce, and the methods the museum will use to assist the foundation in generating financial support for the museum and its program.

However, the museum may be unable to maintain its buildings, exhibits, and programs if the foundation cannot raise private donations for museum maintenance, particularly if the foundation fails to meet its goal to reserve funds for cost overruns on exhibits. Moreover, if the foundation encounters financial difficulties, the terms of its current loan of approximately \$1.8 million from Security Pacific National Bank prohibit it from pledging assets to borrow from others. The foundation does have nonrestricted funds that can be used for exhibit maintenance. However, these funds are much more difficult to obtain from donors than are funds that are restricted for the creation and maintenance of an exhibit. Therefore, as private donations increase and the museum expands, the State may have to increase the museum's budget to meet the maintenance costs of this expansion.

While the museum is effective in using the foundation to raise private donations for the expansion of museum buildings, programs, and exhibits, the museum may be forcing the State to incur increased museum maintenance costs in the future. The contract between the museum and the foundation for the exhibits under the foundation's management and control states that the foundation is responsible for keeping the exhibits up-to-date and making major repairs to the exhibits. The contract also states that the museum is responsible for providing routine maintenance, including janitorial services, security services, and utilities to areas of common use and to areas under the control of the museum. These areas include expansions to the museum that are financed by private donations.

The State may risk incurring increased costs because the museum does not always ensure that exhibit sponsors include money for exhibit maintenance. The museum sometimes enters into contracts with private donors who wish to sponsor an exhibit. These contracts often include a provision making the donor responsible for the maintenance of an exhibit for a specified period of time. For example, one contract that we reviewed requires the donor to make donations that will finance the maintenance of its exhibit for four-and-one-half years. However, not all of the exhibit contracts include such a provision. We reviewed the museum's ten exhibit contracts and found that although eight of these contracts have clear provisions for continuing maintenance, two of these contracts include maintenance provisions that are unclear. In addition, the museum must formally request yearly grants for the maintenance of three other exhibits.

In addition, the museum does not always determine the impact of private donations on state expenditures. In 1979, the museum developed a "planning overview" that outlined plans for the expansion of the museum. This document also outlined the expenditures that the State would incur with this expansion. The 1983 planning development document outlined the development of the museum but failed to specify the impact the further expansion of the museum would have on state expenditures. In 1983, the museum produced another document that outlined the cost to the State of museum expansion from 1982 through 1985. However, the museum could not produce such a document for the new fund-raising drive.

II

THE MUSEUM'S EXECUTIVE DIRECTOR AND THE ACTING CHIEF DEPUTY DIRECTOR HAVE VIOLATED TWO SECTIONS OF THE GOVERNMENT CODE

Section 18000 of the Government Code prohibits state officials from receiving outside perquisites for their official jobs. However, since October 1984, the executive director of the museum has received over \$15,000 from the foundation in reimbursement for his expenses as executive vice president of the foundation. In addition, Section 19990 of the Government Code prohibits state officials and employees from engaging in employment that is clearly in conflict with their state duties. However, until May 1985, the acting chief deputy director of the museum performed duties for the foundation as its administrative vice president that conflicted with his duties for the museum. On December 3, 1984, a joint legal opinion issued by the Attorney General and the Department of Personnel Administration declared both the executive director and the chief deputy director in violation of the Government Code.

Section 18000 of the Government Code prohibits state officials from receiving fees or perquisites other than their official salary for performing their job. This section of the Government Code states that the salary fixed by law for state officers, elected or appointed, is compensation in full for that office. The section further states that state officers may not receive for their own use any fee or perquisite for the performance of any official duty.

Before October 1984, the museum's executive director received, in addition to his state salary, both a salary of \$35,216 per year and an expense account of up to \$20,000 from the foundation. Since September 1984, the museum's executive director has not received any salary payments from the foundation, but the foundation has continued to accrue the executive director's salary on its financial records. However, the executive director has continued to receive expense reimbursements from the foundation for country club and health club membership dues, charges on credit cards, meals, and secretarial services. Between October 1, 1984, and September 30, 1985, these reimbursements amounted to over \$15,000. Recently, the executive director signed a new contract with the foundation to continue as its executive vice president through September 1986.

Section 19990 of the Government Code stipulates that state officers or employees shall not engage in any employment, activity, or enterprise that is clearly in conflict with their duties as state officers or employees. State officers or employees also are prohibited from engaging in any employment or activity that is in conflict with the duties, functions, or responsibilities of their appointing power or the agency by which they are employed.

Before May 1, 1985, duties of the museum's chief deputy director, who is currently the deputy director for educational programs, included, among other things, directing the administrative and fiscal services for the museum and negotiating contracts with

private entities. He also had the responsibility for ensuring that the foundation complied with its contracts with the museum. At the same time, he was under contract to the foundation as its administrative vice president. His job duties at the foundation included negotiating contracts for exhibit development. On May 1, 1985, the museum's board of directors gave the industry program administrator the responsibility for ensuring the foundation's compliance in its contracts with the museum. In this capacity, he reports directly to a committee of the board.

Prior to September 1984, the acting chief deputy director received from the foundation \$8,400 per year in salary and up to \$1,200 in expense reimbursements. Since then, however, he has not received any salary payments from the foundation, but the foundation has continued to accrue his salary on its financial records. He has, however, received from the foundation reimbursements for expenses of \$154.94. Although he states that he is no longer the museum's acting chief deputy director, he recently has signed a new contract with the foundation to continue serving as its administrative vice president through September 1986.

On December 3, 1984, the Attorney General's office and the Department of Personnel Administration issued a joint legal opinion to the Legislature stating that the Government Code prohibited the dual compensation arrangement for the museum's executive director and the museum's chief deputy director. This legal opinion stated that

Section 18000 of the Government Code prohibits the museum's executive director from receiving any compensation in addition to the salary fixed by law for the performance of his official duties and that his official duties include serving as the foundation's executive vice president. In addition, this legal opinion stated that Section 19990 of the Government Code prohibits the museum's chief deputy director from serving as the administrative vice president of the foundation since his foundation duties conflict with his responsibility as the museum's chief deputy director to ensure the foundation's compliance with its contract with the museum

Our legal counsel has also ruled that payment for the museum's executive director's expenses by the foundation violates Section 18000 of the Government Code since the executive director is an appointed state officer, he receives the payment for the performance of an official duty, and he receives the payment for his own use. Our legal counsel identified as perquisites expense reimbursements such as country club and health club membership dues and charges on certain credit cards that are received for personal use. Although the executive director incurs these expenses while entertaining potential donors, he receives reimbursement for his own expenses as well as those of the donors.

In addition, before May 1, 1985, the museum's acting chief deputy director was in violation of Section 19990 of the Government Code. The legal opinion issued by the Attorney General's office and

the Department of Personnel Administration determined that there is a conflict of interest in the job duties of his position with the foundation and the duties of his position as chief deputy director with the museum. On May 1, 1985, the museum's Board of Directors relieved him of these conflicting duties through a resolution.

The museum's executive director is in violation of Section 18000 of the Government Code because the museum has not sent a revised statement of job duties for this position to the Department of Personnel Administration. The foundation pays the executive director perquisites for his duties as foundation executive vice president, which are part of his state job duties. Although the museum's board of directors has passed a resolution stating that the executive director's current job description is inaccurate, Department of Personnel Administration officials state that they must receive official notification from the museum that it has changed this job description.

In addition, up to May 1, 1985, the museum's acting chief deputy director was in violation of Section 19990 of the Government Code because he was under contract to the foundation as its administrative vice president at the same time that he was serving as the museum's chief deputy director. Even though he did not receive compensation for his foundation position, his duties with the foundation conflicted with his duties for the museum. However, after May 1, 1985, the museum assigned to its industry program administrator the responsibility for ensuring that the foundation complied with its contract with the museum.

Currently, the Legislature is considering a bill that would allow the museum's executive director and its chief deputy director to receive compensation from both the museum and the foundation. Senate Bill 947 would add Section 18000.5 to the Government Code. This section would allow any officer or employee of the State to receive compensation from any nonprofit corporation formed exclusively to assist a state museum.

III

THE MUSEUM IS OVERSTATING ITS ATTENDANCE

The museum estimates its attendance using a formula based on attendance studies it made in 1984. However, the museum has not regularly reviewed the accuracy of this formula, and it does not accurately apply the formula. Therefore, the museum may be overestimating its popularity to the Legislature and to private donors.

Since attendance is one of the factors that the museum uses to judge its popularity, the museum's executive director developed a formula for estimating attendance based on the results of an attendance count that his staff conducted for two weeks before the Olympics, during the Olympics, and two weeks after the Olympics. The executive director estimated that 12.24 people visited the museum for every purchase recorded at the museum's restaurant concession. In October 1985, the executive director adjusted the ratio used in the formula from 12.24 to 10.44. In November 1985, the executive director adjusted the ratio from 10.44 to 9.2. However, he was unable to provide us with any documentation to indicate that he had reviewed the formula before October 1985. The executive director was also unable to provide us a copy of the attendance formula.

Using the museum's formula, we estimate that between July 8 and August 25, 1985, the museum overestimated its attendance by over

20,000. We made this determination by checking the number of purchases recorded at the museum's restaurant concession during these weeks and multiplying this number by the 12.24 ratio used by the museum's executive director at that time. He reported an attendance figure of 953,100 for this period. Our calculations indicated an attendance figure of 932,515, a difference of 20,585.

In addition, we found that the museum's current formula to estimate attendance may be inaccurate. The museum currently estimates that 9.2 people attend the museum for each purchase made at the museum's restaurant concession. We tested the executive director's attendance ratio by questioning visitors to the museum during nine different 15-minute periods on four separate days of the week. During these periods, we questioned 276 visitors to the museum; 40 of these visitors stated that they bought something at the restaurant concession and received a cash register receipt. Our sample indicated that 6.9 people visit the museum for every purchase recorded at the museum's restaurant concession. Although caution must be exercised in drawing conclusions from such a small sample, our results indicate that the museum should regularly review the accuracy of the ratio used to estimate its attendance.

The museum is overestimating its attendance for two reasons. First, its officials make errors in their calculations when using their formula to estimate attendance. In addition, in the past, museum officials have not regularly reviewed the accuracy of the attendance

formula. As a result, the museum is overstating its attendance and, therefore, may be overstating its popularity to the Legislature and to private donors.

IV

THE MUSEUM DID NOT RECEIVE AS MUCH AS
\$140,000 IN PARKING FEES THAT THE
LOS ANGELES CLIPPERS CHARGED THE PUBLIC

During 1984-85, the Los Angeles Clippers basketball organization entered into an agreement with the museum for the use of museum parking lots. The museum and the Clippers organization agreed that this organization would not charge more for parking than it paid to the museum for parking. However, the museum allowed the Clippers organization to charge as much as \$140,000 more in parking fees than it should have been allowed to charge because museum officials did not enforce its agreement with the Clippers. In addition, the Clippers organization did not pay until September 1985 all of the money that it owed the museum for the use of the museum's parking facilities in 1984-85.

In 1984, the museum entered into an agreement with the Los Angeles Clippers basketball organization. This agreement allowed the Los Angeles Clippers to use approximately 1,200 parking spaces in parking lot #6 in Exposition Park. The original contract erroneously stipulated that the cost would be \$1 per parking space for each of the 42 home games during the 1984-85 basketball season. However, according to the acting chief deputy director, the charge for each parking space was later corrected to \$2. The museum and the Los Angeles Clippers

agreed that the organization could not charge more for parking than it paid to the State for that parking and thereby receive a profit from the sale of parking spaces.

According to the museum's executive director, a parking committee, which consists of members of the museum's board of directors, determines the parking fee to be charged in Exposition Park. This committee designated a price of \$2 per parking space for events with an attendance of under 30,000 people. The museum normally charges this parking fee for any event with fewer than 30,000 spectators. The museum charges \$5 per parking space for events attracting more than 30,000 spectators.

During the 1984-85 basketball season, the Los Angeles Clippers sold season parking permits for parking lot #6, which has 1,200 parking spaces. According to the Clippers' general manager, the basketball organization sold these parking spaces for \$200 per season, or \$4.75 per parking space for each of the 42 games during the basketball season. If the Clippers organization sold season parking permits for all 1,200 parking spaces, it would have received \$240,000 and, therefore, violated the terms of its agreement with the museum. However, we were unable to confirm with the Los Angeles Clippers the exact number of parking permits sold.

In addition, the Los Angeles Clippers organization did not pay the museum in full the money that it owed for the 1984-85 basketball

season parking contract until September 1985. A Los Angeles Clippers official stated that the 1984-85 National Basketball Association season ended in April 1985. On June 17, 1985, the Los Angeles Clippers still owed the museum approximately \$59,000, and, as late as September 12, 1985, the organization owed the museum approximately \$20,000. This organization did not make the final payment of approximately \$20,000 until September 13, 1985.

Because the museum did not enforce the provision of the parking agreement that prohibited the Los Angeles Clippers organization from charging the public more for parking than it paid the State for use of the parking lot, the museum allowed the Los Angeles Clippers to charge up to \$140,000 more in parking fees than it should have charged. This \$140,000 represents the difference between what the Los Angeles Clippers charged for public parking and what it paid to the museum for parking. If the museum had charged this organization the same rate for parking that the organization charged the public, the museum would have collected an additional \$140,000 in parking revenues for the State's General Fund.

Finally, the museum initially charged the Los Angeles Clippers organization only \$1 per parking space instead of the \$2 per parking space the museum normally charges. According to the museum's executive director, the cause of this discrepancy was a clerical error in the writing of the agreement. Furthermore, the Los Angeles Clippers organization charged more for the parking spaces than it paid the

museum for these parking spaces because museum officials did not enforce the permit provision that prohibited the Clippers from doing so. The museum's chief deputy director stated that he did not know what parking prices were charged by the Clippers organization. He also stated that he did not know how many season parking permits the Los Angeles Clippers sold during each season.

A Los Angeles Clippers official stated that the 1985-86 basketball season began on October 25, 1985. According to the museum's chief deputy director, as of November 4, 1985, the museum did not have a parking contract with the Los Angeles Clippers organization. However, according to officials with the Los Angeles Clippers, the organization is using the parking lot and has already sold season parking permits. On November 13, 1985, the museum's executive director informed the Los Angeles Clippers organization that the museum's board of directors would not enter into a new parking agreement with the Clippers organization until it paid the museum the profits it earned in 1984-85 from the sale of these parking spaces.

THE FOUNDATION RECEIVED \$15,000 THAT
SHOULD HAVE GONE TO THE STATE'S GENERAL FUND

The State's General Fund should receive all payments made by private organizations for the use of state property. However, on at least three occasions the foundation received payment for the use of state property by private organizations. As a result, the State's General Fund lost approximately \$15,000.

On the three occasions that we could document, private organizations or individuals paid to the foundation money that should have gone to the State's General Fund. On October 27, 1984, a motion picture production company used the museum's facilities to film a movie. On this occasion, the production company donated \$1,500 to the foundation for the use of museum facilities. On August 23, 1985, another motion picture production company paid the foundation \$4,000 to film a movie on museum grounds. Finally, between August 6, 1984, and August 15, 1984, the foundation collected \$10,265 in fees from a parking lot belonging to the Department of Motor Vehicles. According to the department's regional manager, the museum had received free use of this parking lot during the 1984 Summer Olympics.

According to the Deputy Secretary of the State and Consumer Services Agency, which has ultimate program and policy responsibility for the museum, any revenues from the private use of state property

should be returned to the State's General Fund. All parking revenues collected by the museum from museum visitors are designated as revenues to the General Fund, including the parking revenue collected on the property donated by the Department of Motor Vehicles to the museum.

According to two representatives of movie production companies, approximately \$5,000 was paid to the foundation because the museum's executive director, who also serves as the foundation's executive vice president, required these movie production companies to make donations to the foundation before they could use state property for filming. The museum's executive director states that, on one occasion, revenues from a film production company went to the foundation because a foundation employee did not understand that these revenues should go to the museum. In addition, the foundation received fees from a parking lot belonging to the Department of Motor Vehicles that the museum was authorized to use because the museum's executive director instructed his staff to collect the parking fees and submit them to the foundation.

VI

CONCLUSION AND RECOMMENDATIONS

Since 1982, the California Museum of Science and Industry has been soliciting private donations for new buildings and exhibits. According to the museum's executive director, this fund-raising effort has generated over \$36 million in private donations and \$8 million in state funds. In addition, the museum currently has an annual allocation of approximately \$8 million from the State. The museum plans to raise an additional \$20 million in private donations. While the museum is effective in using the foundation to raise private donations for the expansion of museum buildings, programs, and exhibits, the museum may be forcing the State to incur increased maintenance costs in the future because the museum does not always ensure that private donors include money in their donations for future museum maintenance costs. In addition, the museum does not always determine the impact of private donations on state expenditures for the museum.

The museum's executive director is, and its acting chief deputy director has been, in violation of the Government Code. Section 18000 of the Government Code stipulates that state officials shall not receive fees or perquisites for their official jobs in addition to their official salary. Section 19990 of the Government Code stipulates that state employees shall not engage in any employment

that is clearly in conflict with their duties as state employees. Since September 1984, the museum's executive director has received over \$15,000 in expense reimbursements; some of these reimbursements are considered perquisites for his position as foundation executive vice president. This position is, however, included as part of his current state job description.

The museum's acting chief deputy director served the foundation as its administrative vice president. His foundation duties were in conflict with his former state duties as chief deputy director, according to a legal opinion from the Attorney General's office and the Department of Personnel Administration in December 1984.

Also, the museum's executive director is overstating museum attendance. Museum officials estimate museum attendance using a formula that the executive director developed before, during, and just after the 1984 Olympics. However, they do not regularly review the accuracy of this formula, and they make errors in their calculations when they do apply the formula. Therefore, the museum's executive director may be misrepresenting the museum's popularity to the Legislature and to private donors.

In addition, during the 1984-85 basketball season, the museum allowed the Los Angeles Clippers basketball organization to charge more for public parking in museum parking lots than the organization paid to the museum for the use of these parking lots. The museum failed to

enforce the provision of its agreement with the Los Angeles Clippers that prohibited the Clippers organization from charging more for parking than it paid the museum. Thus, the museum allowed the organization to charge \$140,000 more in parking fees than it should have been allowed to charge. In addition, this organization did not pay all of the money that it owed the museum for this 1984-85 parking contract until September 1985. The museum also failed to collect the money that the Clippers organization charged in violation of its parking agreement with the museum.

Finally, on at least three occasions, the foundation, instead of the State's General Fund, received payment from private organizations and individuals who used state property. As a result, the State's General Fund lost approximately \$15,000 because the money was paid to the foundation. According to two representatives of movie production companies, the museum's executive director, who is also the foundation's executive vice president, required these organizations to make donations to the foundation before they could use museum property for filming. In addition, the foundation received fees from a parking lot belonging to the Department of Motor Vehicles that the museum was authorized to use because the museum's executive director instructed his staff to collect the parking fees and submit them to the foundation.

RECOMMENDATIONS

To ensure continued financial support for privately financed expansions of the museum, museum officials should require that all contracts with private donors include provisions for the maintenance of the exhibit during the time that the exhibit is on display at the museum. Moreover, in its private fund raising attempts, the museum should designate funds to be used specifically for exhibit maintenance. The museum should hold these funds in a reserve account.

In addition, the Legislature should require the museum to report on its fund-raising goals and on the financial effect these goals will have on the State. The museum should annually report to the Legislature fiscal committees its status in achieving these fund-raising goals and should also identify each of those goals that will require an increased level of state funding and the estimated amount of additional funding.

To prevent any further violation of Section 18000 of the Government Code, the museum's executive director should receive no expense reimbursements from the foundation until the museum notifies the Department of Personnel Administration that the job description of the museum's executive director excludes the position of executive vice president of the foundation.

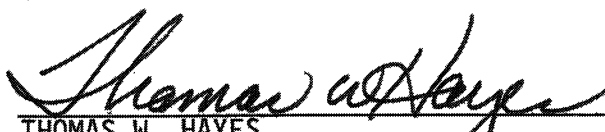
To accurately estimate museum attendance, the museum should regularly review its calculations to estimate attendance. In addition, the museum should regularly review the accuracy of the ratio it uses to estimate attendance and change this ratio if the review indicates that it is inaccurate.

In addition, museum officials should collect from the Los Angeles Clippers basketball organization as much in parking fees as the basketball organization charged the public in the 1984-85 basketball season. The museum should increase the parking lot fees for this event from \$2 per parking space to at least \$4.75 per parking space, the approximate fee that the Los Angeles Clippers successfully charged the public. The museum should also ensure that its parking committee reassess the reasonableness of the parking fees for other events.

Finally, the museum's executive director should require the foundation to repay to the State's General Fund approximately \$15,000 that it collected from private organizations and individuals for the use of state property at or around the museum. In addition, the executive director should ensure that any other payments that were inappropriately paid to the foundation for the use of state property be remitted to the State's General Fund. In the future, he should not permit funds due to the State to be collected by the foundation.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: January 6, 1986

Staff: Eugene T. Potter, Audit Manager
Mark A. Lowder
James Rostron, CPA
Keith Kuzmich

Mr. Thomas W. Hayes
December 18, 1985
Page 2

The recommendation that the Museum develop more accurate methods of estimating its attendance is consistent with the desires of the Board and Agency. As the report points out, the physical layout of the Museum and the dynamics of its programs compound the complexity of attendance monitoring; however, the Museum will develop more accurate methods of estimating attendance and validate it on a regular basis.

The Museum executed a parking contract for the 1984-85 season with the Los Angeles Clippers Basketball organization. We now find that this contract was deficient in some details. The Board is currently negotiating with the Clippers organization for additional fees to be paid to the Museum for the 1984-85 basketball season and, as a result, the Board has held the 1985-86 contract in abeyance until this matter and other parking-related issues are resolved.

The concern raised over the use of the Department of Motor Vehicles parking lot during the 1984 Olympic Games was in part attributed to a need to provide security for the lot and adjacent facilities while at the same time providing needed parking for the Museum employees and patrons who were precluded from parking in Exposition Park due to the Olympic Games. The collection of parking fees and eventual payment to the Foundation were offset by costs borne by the Foundation to provide State employees transportation to and from the lot to the Museum. The Museum now has a contractual agreement with the Department of Motor Vehicles to provide security in exchange for use of this lot. Any profit from parking revenue is split between the Department of Motor Vehicles and the State Museum.

The recommendation that the Foundation reimburse the State for any fees inadvertently collected which should more appropriately be paid to the General Fund has been reviewed by both the Foundation President and the Museum Board of Directors. The Foundation has commissioned an audit of its collections for the past five years and is committed to reimbursing the State for such fees which were inadvertently paid to the Foundation instead of to the State for use of State property.

The Agency, as well as the Museum Board and its management, will pursue the adoption of these recommendations and is committed to ensure that the Museum is operating with high standards consistent with existing State policy.

We look forward to reporting our progress in the implementation of your recommendations.

Sincerely,



SHIRLEY R. CHILTON
Secretary of the Agency

cc: California Museum of Science and Industry

THE STATUS OF THE CALIFORNIA MUSEUM OF SCIENCE AND INDUSTRY'S
IMPLEMENTATION OF PREVIOUS AUDITOR GENERAL RECOMMENDATIONS

In April 1983, the Auditor General issued a report entitled "The California Museum of Science and Industry: A Limited Review," Report #245. Below is a list of the recommendations included in that report and, following each recommendation, a summary of the museum's actions in implementing that recommendation.

Recommendation No. 1

The Secretary of the State and Consumer Services Agency should require the museum's board of directors, in conjunction with the Department of Personnel Administration, the State and Consumer Services Agency, and the Governor's Office to establish written policy pertaining to compensation paid by the foundation to museum employees for performing consultant and other services. Also, the museum's board of directors should explore appropriate alternative methods for continuing the close relationship with the foundation without impinging on the intent of Government Code Sections 18000 and 19990. This written policy and any proposed methods for continuing the compensation relationship should be submitted to the Legislature by May 2, 1983.

Status

The deputy director for the State and Consumer Services Agency met with the museum's board of directors in May, June, and July 1985 to require the museum to resolve the issue of dual compensation of museum officials. However, the museum's board of directors has not adopted an official written policy pertaining to dual compensation for the museum's executive director and its chief deputy director. The board has, however, passed a resolution stating that the job duties of the museum's executive director and the chief deputy director do not include acting as the foundation's executive and administrative vice presidents. In addition, this resolution states that the industry program administrator is responsible for ensuring that the foundation complies with its contract with the museum. This responsibility was previously that of the chief deputy director. However, according to a Department of Personnel Administration official, the board of directors failed to notify the Department of Personnel Administration of this change in the official state job descriptions for these positions. Senate Bill 947 would allow dual compensation for these museum officials. However, the board of directors has not submitted to the Legislature any written policy or proposed methods for continuing the compensation relationship.

According to the museum's executive director, since September 1984, both the museum's executive director and chief deputy director have renewed their contracts with the foundation, but neither has accepted payment for salaries pursuant to those contracts. However, the executive director has continued to receive expense reimbursements. (See Chapter II of this report for further information on this issue.)

Recommendation No. 2

The Secretary of the State and Consumer Services Agency should direct the museum's board of directors to implement a plan that specifies appropriate types of exhibits for display in the museum. The plan should establish priorities for acquiring new exhibits and for providing maintenance and renovation of existing exhibits. These priorities should be periodically updated by the museum's executive director and approved by the board of directors. The executive director should coordinate the museum's priorities with the foundation's board of trustees in order to request the necessary donations to implement the museum's plan.

Status

The museum has adopted a plan that identifies the types of exhibits that the museum seeks to acquire. Immediately following our last audit, the museum did not attempt to establish priorities for exhibits because it was the policy of the museum's management and board of directors that all exhibits in the museum required updating and that they should update the exhibits as quickly as possible when funds were available. Since our last audit, the museum has extensively revised and updated its exhibits and expanded its facilities. In addition, museum officials have a new fund-raising plan that outlines the priorities for exhibit development. They are seeking donations with the active support and assistance of the foundation.

Recommendation No. 3

The museum's executive director, upon approval from the board of directors, should designate appropriate museum staff to evaluate all permanent and temporary exhibits periodically. The executive director should consider exhibit evaluations when periodically revising the museum's priorities for acquiring new exhibits or maintaining and expanding existing exhibits.

Status

According to the manager of exhibits, the museum's executive director has designated the appropriate museum program administrators to periodically evaluate all permanent and temporary exhibits. The manager for exhibits stated that the museum staff use exhibit evaluations when revising the museum's priorities for acquiring new exhibits or maintaining and expanding existing exhibits.

Recommendation No. 4

The executive director should designate appropriate museum or foundation staff to maintain each exhibit. The executive director should amend provisions of the agreement between the museum and the foundation to properly reflect the assignment of responsibilities relating to exhibit development, evaluation, and maintenance.

Status

The museum's executive director stated that he has designated the manager of exhibits, who is also the industry program administrator, to be responsible for the maintenance of each exhibit. However, the executive director has not amended the agreement between the museum and the foundation to reflect the assignment of exhibit development, evaluation, and maintenance responsibilities. (See Chapter I of this report for a further discussion of this issue.)

Recommendation No. 5

The board of directors should comply with the Supplemental Report of the 1982 Budget Act by establishing written policy regarding the use of museum facilities by outside organizations.

Status

The museum board of directors adopted a policy on the use of its facilities in 1983.

Recommendation No. 6

The museum board of directors should include in any parking lease a provision that permits the fee to be increased in the event the board increases the public parking rate. Any parking lease should also contain a provision that precludes the University of Southern California from charging persons who park in lots leased from the museum more than the university is charged by the museum.

Status

The current parking agreement between the museum and the University of Southern California for use of lot #4 states that "The rate may be increased if the museum increases its daily parking fee to the general public." All current museum parking agreements stipulate that the permittee may not charge more for the use of parking than the amount paid to the museum. (See Chapter IV of this report for a further discussion of this issue.)

THE USE OF MUSEUM FACILITIES
DURING SELECTED MONTHS FROM 1983 TO 1985

The following tables list all of the organizations that used facilities at the California Museum of Science and Industry during September 1983, September 1984, and September 1985. The tables also include the number of times each organization used the facilities during each of those three months.

1. Use of the facilities at the California Museum of Science and Industry--September 1983

<u>Organization</u>	<u>Number of Times Used Facilities</u>
Afro-American Museum	10
Staff meeting	4
Docents	4
Disabled Employee Committee	2
Bonsai Club	2
Security	1
Exhibit Planning Committee	1
Iglesia Bautista Hispana	1
Fair Political Practices	1
Art Council	1
Memorial service for Ted Gerptil	1
I-Max	1
Health Plan of America	1
Pacific Telephone	1
American Broadcasting Company	1
Western Electric	1
Agricultural Committee	1
Muses	1
Affirmative Action Committee	1
Exhibit Administration Committee	1
IBM	1
Society of Consumer Affairs	1
Mosaics	1
Air and Space Slide Show	1
LA County Women's Organization	1

2. Use of the facilities at the California Museum of Science and Industry--September 1984

<u>Organization</u>	<u>Number of Times Used Facilities</u>
Docents	3
Aerospace event	3
Education Committee	2
Muses	2
Staff meeting	2
Board of Directors	1
Advisory Board	1
Liaison meeting	1
Public Relations	1
Exposition Park Committee	1
Key Art Exhibit reception	1
Bonsai Club	1
Audit Committee	1
County Science Fair	1
Exhibit and Maintenance meeting	1
Family night	1
Executive Committee	1
American Broadcasting Company	1
Linder Collection reception	1
Taw Be Tapi	1
Mosaics	1
Southern California Regional McDonalds	1
Membership Committee	1
California Historical Society	1
Legislator Day	1

3. Use of the facilities at the California Museum of Science and Industry--September 1985

<u>Organization</u>	<u>Number of Times Used Facilities</u>
Docents	8
Staff meeting	3
Reserved for Carol Tanaka	3
Muses	2
President's Council	2
Los Angeles Unified School District	2
Bonsai	2
Mosaics	2
Board of Directors	1
United Way	1
AFL-CIO Union Artists	1
Development Committee	1
Advisory Board	1
Trefferton-Schramsberg	1
Executive Committee	1
Theresa Hughes	1
Lord Pitt reception	1
I-Max	1
Dr. Wolf	1
Bacchus Banquet	1
Health for Life	1
India Committee	1
Southern California Gas	1
Lanetta's meeting	1
American Institute of Architects	1
Sandra Burton meeting	1
Shaky-Quaky Van reception	1

Source: Events calendar maintained by the Plant Operations Manager for the museum.

APPENDIX C

CALIFORNIA MUSEUM OF SCIENCE AND INDUSTRY
STATEMENT OF CHANGES IN FUND BALANCE CLEARING ACCOUNT
GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 1985
(Unaudited)

Revenues:		
Parking lot operations	\$1,181,629	
Rentals	80,500	
Miscellaneous	22,318	
Total Revenues	<u> </u>	\$1,284,447
Other Sources:		
Appropriations	7,211,484	
Refunds to reverted appropriations	218	
Other	74,680	
Total Other Sources	<u> </u>	7,286,382
Total Revenues and Other Sources		<u>8,570,829</u>
Expenditures:		
Personal services	3,989,076	
Operating expenses	3,063,513	
Reimbursements	(8,604)	
Total Expenditures	<u> </u>	7,043,985
Other Uses:		
Transfer of accountability to the State Controller	1,378,378	
Total Other Uses		<u>1,378,378</u>
Total Expenditures and Other Uses		<u>8,422,363</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses		148,466
Fund Balance Clearing Account - July 1, 1984		<u>(388,774)</u>
Fund Balance Clearing Account - June 30, 1985		<u>\$ (240,308)</u>

APPENDIX D

**CALIFORNIA MUSEUM FOUNDATION OF LOS ANGELES
STATEMENT OF CHANGES IN FINANCIAL POSITION
FISCAL YEAR ENDED SEPTEMBER 30, 1984**

	<u>1984 Combined Total</u>
Working capital, October 1, 1983	<u>\$ 3,540,292</u>
Sources of working capital:	
Excess of support and revenue over expenses before capital additions	6,619,887
Add, Depreciation and amortization which do not involve working capital	<u>271,660</u>
Working capital provided	6,891,547
Increase in long-term notes payable	1,465,030
Sale of net assets	<u>64,101</u>
Total sources of working capital	<u>8,420,678</u>
Uses of working capital:	
Completed construction	7,633,017
Construction-in-progress	2,629,281
Purchase of foundation properties	20,736
Increase in long-term pledges receivable	264,846
Decrease in deferred revenue and support	<u>2,755,919</u>
Total uses of working capital	<u>13,303,799</u>
Decrease in working capital	(4,883,121)
Working capital, September 30, 1984	<u>(1,342,829)</u>
Changes in working capital components:	
Cash	(564,026)
IMAX Escrow	(70,000)
Pledges and note receivable	(1,349,231)
Prepaid expenses	20,445
Equipment deposit	(630,000)
Accounts payable	(1,879,018)
Accrued payroll	(11,954)
Notes payable	<u>(399,337)</u>
Decrease in working capital	<u>\$(4,883,121)</u>

Source: Report on Examination of Financial Statements and
Supplementary Information for the Year Ended
September 30, 1984, Coopers & Lybrand, Certified Public
Accountants.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps