

STATE OF LOUISIANA

OFFICE OF STATE INSPECTOR GENERAL



LOUISIANA NAVAL WAR MEMORIAL COMMISSION

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BOBBY JINDAL
GOVERNOR



STEPHEN B. STREET, JR.
STATE INSPECTOR GENERAL

State of Louisiana
Office of the Governor

Office of State Inspector General

June 5, 2015

Honorable Bobby Jindal
Governor of the State of Louisiana
P.O. Box 94004
Baton Rouge, LA 70804-9004

Re: Case No. 14-0020-1

Dear Governor Jindal:

This report details our investigation of the Louisiana Naval War Memorial Commission and its former Executive Director Maury Drummond. The report identifies several examples of the improper use of public funds between 2011 and 2013.

This report does not include recommendations because new management has put controls in place to prevent the problems of the past from recurring. Mr. Drummond's response to the report is included in Appendix A.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Stephen B. Street, Jr.", written over a printed name.

Stephen B. Street, Jr.
State Inspector General

SBS/js

Enclosure

Executive Summary

The Louisiana Office of Inspector General received a complaint concerning several issues related to the lack of oversight of public and donated funds utilized by the Louisiana Naval War Memorial Commission and Louisiana Naval War Memorial Foundation. Our investigation focused on transactions which occurred between January 1, 2011 and December 13, 2013, during the tenure of former Executive Director Maury Drummond. The following was revealed:

- Mr. Drummond used \$4,860 in public funds to write checks from the Commission's Operating and Foundation accounts directly to himself and to his personal credit card provider when no public purpose could be identified and for which he provided no receipts.
- Mr. Drummond used public funds to pay for his wife to accompany him to conferences despite acknowledging this practice as an improper use of public funds after a 2006 audit finding. The total amount paid for his wife's travel equaled \$1,179.
- Mr. Drummond authorized travel payments to himself that he was not entitled to receive. He further ignored Louisiana state travel guidelines concerning meals and lodging, and paid himself \$1,671 above what he was entitled to receive under these guidelines.
- Mr. Drummond charged \$3,547 to the Commission's credit card for meals while not on travel status. He did not submit receipts for these meals, and no public purpose was identified.
- Mr. Drummond donated \$2,295 in public funds to various charities and organizations which may be a violation of Article VII, Section 14 of the Louisiana State Constitution. These donations were listed as office supplies in the general ledger.
- After having been repeatedly brought to the attention of the Commission and its Director since 1995, the tax exempt status of the Louisiana Naval War Memorial Commission versus the Louisiana Veterans Memorial Foundation was just recently addressed. The failure to address these issues in the past has the potential of causing significant tax issues for Foundation donors.

Background

The Louisiana Naval War Memorial Commission was created under La R.S. 25:1001 in order to secure the U.S.S. Kidd as a tourist attraction and to honor the Louisianans who participated in the naval efforts of World War II. The Commission is composed of seventeen members: The Secretary of the Department of Culture, Recreation and Tourism, or his designee, The Secretary of the Department of Veterans' Affairs, or his designee, and fifteen gubernatorial appointees.

The Louisiana Naval War Memorial Foundation was created shortly after the Commission. It was established as the fundraising arm of the Commission and has raised funds by offering memberships to the public, hosting events, and soliciting donations. It is governed by a board of trustees and is located within the Louisiana Naval War Memorial Museum.

The Commission is a public body and subject to all laws governing public bodies. The Commission's immediate past Director, Maury Drummond, was hired in 1991 and had signatory authority on all of the Commission and Foundation bank accounts. He had the ability to write himself checks without any oversight from the board of commissioners.

Mr. Drummond retired on December 13, 2013, and a new Director took over on December 14, 2013.

Scope and Methodology

We conducted our investigation in accordance with Principles and Standards for Offices of Inspector General as promulgated by the Association of Inspectors General.

The scope of the investigation included the following:

- Interviews with Commission staff and Commission members
- Review of mileage reimbursements
- Review of travel reimbursements
- Review of credit card purchases and payments
- Review of other operating expenses
- Review of Commission meeting minutes
- Review of past financial statement audits
- Interrogatory questionnaire which was answered by Maury Drummond. Due to Mr. Drummond's health issues, written questions were submitted to his attorney.

Reimbursements

From January 1, 2011 through December 14, 2013, Maury Drummond wrote reimbursement checks totaling \$13,324 to himself, his wife, and directly to his personal credit card accounts. Checks written directly to Mr. Drummond's personal credit card accounts totaled \$6,921. Of this amount, \$3,813 lacked receipts or reasons for the reimbursements.

Checks written directly to Mr. Drummond and his wife totaled \$6,403. Of this amount, \$1,047 had no receipts or reasons for the reimbursements. In his response to written questions from the Inspector General's Office, Mr. Drummond indicated that Commission checks were written to his wife so that they could be deposited directly into their personal account. Mr. Drummond gave no response to inquiries relating to the existence of procedures for the review and approval of reimbursements that he made to himself.

Travel Reimbursements

Annapolis, MD (2011) – Mr. Drummond, who was a Board Member of Historic Naval Ship Association (HNSA), traveled to the 2011 HNSA Board Meeting in Annapolis, MD on March 13, 2011 through March 15, 2011. Mr. Drummond's wife accompanied him on this trip. Her airfare and baggage fees totaled \$538 and were paid with public funds.

The Executive Director of HNSA stated that the host hotel for the meeting was the Navy Lodge, which offered rates within state travel guidelines. Rather than staying at the Navy Lodge, Mr. Drummond stayed at the Loews Hotel, which resulted in lodging fees that exceeded those allowed by Louisiana Travel Policy in excess of \$223. Mr. Drummond also received reimbursement for meals which exceeded the amount allowed under state regulations by \$254.

Lake Charles, LA – Mr. Drummond traveled to the U.S.S. Orleck in Lake Charles, LA from April 9, 2011 through April 10, 2011. He stayed in a suite at the L'Auberge Hotel, which resulted in lodging costs exceeding state guidelines by \$222. Records demonstrate that Mr. Drummond also exceeded his meal allowance on the same trip by \$118.

On April 23, 2011, Mr. Drummond wrote a \$471 check to himself for out of pocket expenses during the Annapolis and Lake Charles trips. There were no receipts or justification provided for \$172 of the reimbursement.

Key West, FL – Mr. Drummond registered himself, his wife, Foundation member Janet Broussard and her husband for an HNSA Conference on September 19, 2012 through September 22, 2012 at the USCGC Ingham Memorial Museum. Registration and airfare were paid with Mr. Drummond's personal credit card on July 17, 2012. Due to an illness, Mr. Drummond and his wife did not attend the event, but Mrs. Broussard and her husband did attend.

Records dated December 22, 2012 indicate that Mr. Drummond reimbursed himself for the airfare to Key West, leaving the Commission with an airline credit

because the tickets went unused. Mr. Drummond also reimbursed himself \$430 for his and his wife's conference registration. Mr. Drummond requested and received a \$430 refund from the event's sponsor, which was deposited into his personal bank account on January 22, 2013. The memo line of the check read, "HNSA Refund". As a result, Mr. Drummond was reimbursed for the registration costs that were ultimately refunded to him as well.

The 2012 HNSA Key West trip was discussed at the Commission's quarterly meeting on February 23, 2013. The minutes from the meeting indicate that Mr. Drummond sent Mrs. Broussard instead of himself; however, the fact that the flights and registrations were purchased for all four on the same day suggests that Mrs. Broussard would have attended the event regardless of Mr. Drummond's ability to attend. The minutes also show that Mr. Drummond offered to repay the \$1,500 for Mrs. Broussard's travel expenses, but a motion was passed to not accept payment.

After local news reports criticized the Key West trip, Mr. Drummond repaid the commission \$1,900 for the Broussards' expenses, in spite of the decision by the board not to accept repayment.

Annapolis, MD (2013) – Mr. Drummond and his wife traveled to the 2013 HNSA Board meeting on March 10, 2013 through March 12, 2013. Records indicate that Mr. Drummond reimbursed himself \$218 in trip related expenses that he also charged to the Commission's credit card.

In response to a written inquiry, Mr. Drummond stated that the Board approved travel expenses for Margaret Drummond. Mr. Drummond stated that because of his health, he needed his wife's assistance to travel. Commission minutes between January 1, 2011 and December 13, 2013 contained no discussion of Mrs. Drummond's travel being approved.

In addition, a finding from the 2006 financial audit states that the Commission authorized payment for travel costs for the family member of an employee to attend a conference. In that case, the audit recommended that \$1,418 be paid back as soon as possible. Management's response was, "The Commission did not intend to use public funds inappropriately. The Louisiana Veterans Memorial Foundation – a not for profit organization will repay the amounts in question to the Commission." Since the Commission and management were aware of the finding in 2006, it appears that Mr. Drummond deliberately used \$641 in public funds in violation of Louisiana travel policy.

Mr. Drummond also stated that Louisiana travel policy was not followed because the Commission did not receive any state funding. According to PPM 49, the state's guide for official travel, its regulations apply to all boards and commissions created by the legislature or executive order and operating from funds appropriated, dedicated, or self-sustaining.

Credit Cards

Mr. Drummond had full access to the Commission's FIA credit card, which had a \$15,000 limit that was increased to \$25,000 in July 2011 after the original limit was exceeded. Mr. Drummond used the credit card at his own discretion with no oversight from the Board of Commissioners or other staff.

Charges for meals in and around Baton Rouge between January 1, 2011 and December 31, 2013 were reviewed. Mr. Drummond charged thirty meals totaling \$3,547 to the card on days that he was not on travel status. No receipts were submitted with the bills to support the charges. Eleven of the charges had guests' names written next to the charge on the credit card statement, but no public purpose for the expenditures was defined. Most of the dining took place at Shuck's Restaurant located inside the Belle of Baton Rouge Casino, which is adjacent to Mr. Drummond's office at the Naval War Memorial Museum. Other dining was at Juban's, ACME Oyster House, and TJ Ribs, all located in Baton Rouge.

In a response to a written inquiry, Mr. Drummond stated that he did not submit receipts because he thought that the credit card bill would be sufficient. However, a finding from the Commission's 2003 financial audit recommended that a standard reimbursement form be created and that original receipts be attached for each item on the reimbursement request. Mr. Drummond's response to the finding was that a policy would be implemented that includes a standard form to address all issues raised. In 2010, a mileage and expense form was created, but Mr. Drummond did not use this form for his reimbursements.

Donation of Public Funds

Article VII, Section 14, of the Louisiana State Constitution states, "The funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private."

Between January 1, 2011 and December 31, 2013, Mr. Drummond donated \$2,295 in public funds from the Louisiana Naval War Memorial Commission to charities and other organizations. These funds were coded as office supplies in the general ledger.

In his response to a written inquiry concerning the donations, Mr. Drummond stated that the donations gave the Commission advertising recognition. However, no advertising was identified, and the donations were listed as office supplies and not advertising expenses. No public purpose for the donations and gifts was identified.

Tax Exempt Status

Section 501(c)(3) of the Internal Revenue Code allows for the federal tax exemption of nonprofit organizations considered public charities, private foundations, or private operating foundations. Federal law provides a tax deduction for some donors who make contributions to such organizations.

The Louisiana Naval War Memorial Foundation was created as the fundraising arm of the Commission. The Foundation raises money with the implication that it has 501(c)(3) status. The Commission's 1995 financial audit pointed to a determination letter from the IRS dated June 23, 1995 in which the *Commission* is recognized as being tax exempt, and also mentions that private donations are made to the Foundation. The letter states, "It is important that the Foundation be recognized as a 501(c)(3) organization to allow donors to claim a charitable deduction." The audit recommended that the Foundation obtain a federal identification number. Management's response was that the 501(c)(3) application will be examined and that it will "straighten out" the matter.

The finding appeared again in the 1996 – 1997 audit, which was done as a single audit in 1998. The finding was resolved after confirmation that the 501(c)(3) status belonged to the Commission. However, the Foundation continued to accept donations which were incorrectly advertised as tax exempt.

The 1998 audit mentioned that it was unclear whether the Commission or the Foundation owned the tax identification number (EIN) which both entities used. Corrective action stated that the Commission would obtain an EIN. The financial audit for 1998 – 1999 reported a resolution of the issue, but did not explain how it was resolved. The auditor stated that after determining that the EIN belonged to the Commission, there was no longer an issue with payroll reports being submitted under that EIN. However, the Foundation's acting as a non-profit with a 501(c)(3) status, using the Commission's EIN on its tax returns, and soliciting donations never appeared as a finding on another audit.

The Commission again requested information on its tax exempt status in 2014. Another determination letter from the IRS stated that the Commission is indeed recognized as exempt under section 501(c)(3). Therefore, donations made to the Commission are tax deductible. The IRS also reported that it had no record of the Foundation as a non-profit, a 501(c)(3), or as any organization. Therefore, without a 501(c)(3) status, donations made to the Foundation would not have been qualified tax deductions on donors' tax returns.

Henson Moore, the Foundation's vice president, stated that the Foundation will be dissolved, and a new one with a separate EIN number will be created. Mr. Moore also stated that new donations to the Foundation are being held until the new foundation is created. The Foundation president stated that she plans to inform the donors that their checks will be returned.

Risk Management

When the Commission's new director started on December 14, 2013, the amount owed to the Office of Risk Management for insurance was \$334,440. This debt was incurred as a result of not paying the insurance premium in full dating back to 2006. Mr. Drummond questioned the premium increase when an additional bill for \$15,315 arrived on November 1, 2006 with no explanation for the additional charge. Then in 2007, a new line item for First Layer/Excess Property was added to the premium. This increased the premium by \$19,162, which Mr. Drummond also questioned. In 2011, a line item for Excess Boiler was added to the premium. Despite the increase in premiums, the Commission submitted monthly payments for what it could afford. A March 14, 2008 letter from Risk Management to Mr. Drummond stated, "While your commission's self-generated funds are not adequate to pay your premiums, the premium is still owed."

On August 26, 2014, Risk Management sent a letter to self-funded small boards and commissions stating that premiums would be reduced. As a result, commercial excess insurance is no longer applicable. This removed \$17,039 from the insurance premium for FY 2014 – 2015, which is what Mr. Drummond had questioned since 2006. However, the past excess insurance totaling \$179,911 is still owed. The Commission has been making monthly payments of \$5,000, but the amount due as of April 22, 2015, was \$324,730.

Stronger Controls Established

In an effort to strengthen controls and reduce mistakes of the past, the Commission has created new policies and procedures which are listed below:

- Timely reconciliation of the general ledger accounts
- Annual review of inventory and capital assets
- Quarterly review of accrued expenses and related party transactions by the Executive Director and the Commission
- Supporting documentation for disbursements is maintained and reviewed by the Business Manager, in some cases the Gift Shop Manager, and the Executive Director prior to payment
- Invoices and receipts are retained to document all expenditures
- Capital assets are inventoried and tagged to indicate ownership
- Authorization, recording, and custodial functions are now separated among different employees for cash disbursements.
- Checks over \$2,000 must have the signatures of the Executive Director and Commission Chairman or his/her designee.
- All payroll checks and reimbursements to the Executive Director are now signed by the Commission Chairman and/or his designee.

APPENDIX A

Response



MANASSEH | GILL | KNIPE | BÉLANGER
A PROFESSIONAL LAW CORPORATION

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June 4, 2015

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VIA REGULAR MAIL AND EMAIL TO:
stephen.street@la.gov AND greg.phares@la.gov

Office of the Inspector General
150 3rd St., #3
Baton Rouge, LA 70801

RE: *Response to Inspector General Report on behalf of Maury Drummond*

To Whom it May Concern:

We represent Maury Drummond and have reviewed the draft report and have conferred with Mr. Drummond and others. We request that this response be attached to the report in the event your office decides to release it.

Mr. Drummond worked as the Executive Director of the Louisiana Naval War Memorial Commission for more than twenty years, after having worked for several years in a volunteer capacity. As Director he was primarily responsible for taking a fledgling initial project to a well-respected local historic institution. He was also ex officio the Director of the Louisiana Naval War Memorial Foundation, which acted as the primary fundraising arm of the Commission. His duties, as defined in the bylaws of the Commission were very comprehensive, including being “responsible for the welfare of USS KIDD and all improvements that constitute the Memorial, the Commission, projects, public relations, employees, and volunteer groups.” Over the years, his work expanded to include many other activities, including but not limited to directing the Fourth of July for the City, museum exhibits such as the Hall of Honor, the USS Baton Rouge, the USS Constitution, as well as ship visits to the city such as the Elissa, the Nina, the Bounty, and the Golden Hinde. These events over the years raised between 4 and 5 million dollars which were necessary for the Commission which operated on self-generated funds.

In spite of some deficiencies in record keeping, Mr. Drummond never personally profited beyond his agreed upon compensation as a result of his conduct of his office. The expenses he incurred were in each and every instance to promote the Commission and its work, including travel and entertainment expenses for contributors, employees, agencies that promoted tourism, and the many volunteers who assisted along the way. Any credit card purchases where reimbursement was made were for Commission related expenses. His wife Margaret worked as an unpaid volunteer for most of the time Mr. Drummond was Director. She in fact coordinated volunteer activities, which sometimes included over 100 volunteers, and marketed, coordinated, and supervised numerous overnight camping programs and group tours, as well as the Historic Naval Ship conference the year it was held in Baton Rouge.

Office of the Inspector General

June 4, 2015

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Mr. Drummond's health deteriorated in 2011 when he had knee replacement surgery. Not long after he developed heart problems which required stents, a pacemaker, and defibrillator. Some or the deficiencies in record keeping can be attributed to his health problems. He has been bedridden and prescribed serious medication for pain and his heart and back ailments for several years.

It is our position that Mr. Drummond was a valuable asset to the Commission and the community and has not violated the trust the Commission Board placed in him when it hired him in 1991.

Thank you for your attention to this matter.

Sincerely,


John E. Di Giulio
James P. Manasseh

JED/tnp

Cc: Mr. Greg Phares
Mr. Maury Drummond, Client

Nine copies of this public document were published in this first printing at a cost of \$45.85. The total cost of all printings of this document, including reprints is \$45.85. This document was published by the Office of State Inspector General, State of Louisiana, Post Office Box 94095, Baton Rouge, LA 70804-9095 to report its findings under authority of LSA-R.S. 39:7-8. This material was printed in accordance with the standards for printing by state agencies established pursuant to LSA - R.S. 43:31.

A copy of this report has been made available for public inspection at the Office of State Inspector General and is posted on the Office of State Inspector General's website at www.oig.louisiana.gov. Reference should be made to Case No. CID-14-0020-I. If you need any assistance relative to this report, please contact Stephen B. Street, Jr., State Inspector General at (225) 342-4262.

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