

## **\$1.5 MILLION GONE**

# **Audit Says Museum Far In Debt**

**By Harry Saltzgaver**  
Executive Editor

A city audit says Long Beach Museum of Art staff improperly spent more than \$1.5 million raised to pay off construction bonds and now only has \$388,000 in its capital account — with a \$3.06 million bond payment due on Sept. 1, 2009.

City Auditor Laura Doud's report also says auditors found evidence of inappropriate use of assets, including improper cash advances and use of a museum credit card to pay personal expenses. While the audit stops short of recommending criminal prosecution for the improprieties, it does "recommend the Foundation perform a thorough investigation of the improprieties identified throughout the report, quantify the Foundation's losses, and recover those moneys, if possible."

This capital campaign audit is one of two being completed by the city auditor's office. The other, which includes a complete inventory of art in the city's and the museum's collections, should be done in July, Doud said.

This audit follows one done in 2006 that questioned about \$600,000 raised to pay for construction of the new museum gallery but apparently used for

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operating expenses. The second audit came about in early 2007, when current museum management approached the city with a concern that, to quote the report, "there may have been a misuse of Capital Campaign funds by the Foundation's previous management and that there were insufficient Capital Campaign funds to repay the Bonds due to mature in 2009."

The Museum of Art is owned by the city of Long Beach, but operated by the nonprofit Long Beach Museum of Art Foundation. In November 2006, the foundation board terminated then-executive director Harold "Hal" Nelson's contract with little explanation, saying there was a difference of opinion regarding artistic direction.

Nelson since has filed a lawsuit claiming wrongful termination. In that suit's filing complaint, Nelson says he was a victim of age discrimination and that the board had failed in its obligation to raise money.

The saga began in 1999, when the foundation board went public with a plan to build a second gallery building and refurbish the historic house and carriage house at 2300 E. Ocean Blvd., as well as landscape the grounds and a nearby parcel leased from the city for a parking lot. The total cost of the project was \$6.5 million.

After raising \$3.5 million of the money, the museum went to the city to help finance the rest with a bond, assuming that more money could be raised once construction had begun. That

was the case, and while the capital campaign fund never reached the necessary \$3 million, almost \$2 million was raised.

Then hard economic times hit. In October 2001, the museum management let the city know some of the capital campaign money had been used for operating expenses. Donors were asked to temporarily suspend the restricted use of their money, with the promise it would be repaid.

But, according to the audit, the city was never asked for its approval, as was required. Further, only \$787,000 was released through the donor letters, not the \$1,588,000 spent.

Current museum director Ron Nelson concurs with the findings and acknowledges that the museum must find a way to make the bond payment. He says in his response to the audit that he and foundation board leadership will continue to meet with city management to explore strategies to raise the money, and will give frequent updates on its progress.

Nelson was on the foundation board during the period in question, and served as board president in 2003 and 2004. He resigned from the board to become development director at the museum, and was asked to become acting director after Hal Nelson was terminated. He was named permanent director this spring.

Nelson also said that financial management policies have changed significantly to address the inappropriate use of museum assets cited in the auditor's report. The finance director during the period the audit covers, Knut Thune, no longer is with the museum.

According to the report, auditors found instances where the company credit card was used by the finance director to "purchase airline tickets for family members, as well as pay for non-business hotel, restaurant, and clothing charges."

Also discovered were altered cash deposit slips, improper cash advances to the finance director and other employees and at least one instance where a requirement to get two signatures for large checks was circumvented by writing several smaller checks to the same person.

Doud said that, while auditors talked to current museum management, no attempt was made to contact Hal Nelson or Thune.

"We did the audit according to government standards, which requires us to obtain a response from responsible officials," Doud said. "We did that with current museum management and the city's finance director. Also, there was pending litigation. And finally, Hal had an opportunity to respond to the 2006 audit."

The complete audit report, including responses from Nelson, Foundation Board President Roberta Jenkins and Finance Director Lori Ann Farrell, is available on the city auditor's Web site at [www.cityauditorlauradoud.com](http://www.cityauditorlauradoud.com).