

Office of the City Auditor

Marine Bureau Contracts, Leases & Permits Audit

October 2014



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Executive Summary

Our Office received a request from the Parks, Recreation and Marine Department (PRM) to identify operations within the Marine Bureau (Bureau) where internal controls could be strengthened to reduce the risk of fraud or error. We focused on two areas. This report covers internal controls over administration of contracts, leases, and permits. The other operational area we identified focuses on the Bureau's cash handling and revenue collection process and was issued under a separate report.

This audit identified 54 Marine Bureau contracts, leases, and permits (hereinafter referred to as contracts) that provide a number of retail, commercial, and not-for-profit services, including beach equipment rentals, concessions, a recreational vehicle park, and yacht brokers. For a selected sample of contracts, we reviewed the processes by which existing terms and conditions were developed, renewed or terminated. In addition, we evaluated vendor performance and compliance, and assessed the effectiveness of contract oversight responsibilities for the selected sample.

Overall, we found that through the years, contracts have been initiated and extended in a haphazard way, resulting in inconsistent contract terms and conditions, and providing an opportunity for past management to provide exceptions to vendors based on their discretion. In addition, the budgetary reduction of PRM personnel in recent years has left the Department with limited personnel to oversee contracts. Therefore, only the minimal amount of oversight and monitoring is taking place.

Given the economic value and importance of services provided by these contracts, the Department has an opportunity to revamp its approach to contract management and create a strategic plan and standardize processes that could increase revenue and provide optimal services to the public. At a minimum, PRM must clarify roles and responsibilities, create a centralized contract database, ensure that all contract language is current, verify revenue and required services, and open contracts to competitive bidding.

We would like to thank Marine and Business Operations Bureau staff of the Parks, Recreation and Marine Department, along with the Asset Management Bureau of the City Manager's Office for their cooperation and assistance throughout the course of the audit.

Background

The Marine Bureau in the City's Parks, Recreation and Marine Department (PRM) is responsible for the management and development of navigable waterways, launch ramps, beach facilities, and the City's three marinas. Alamitos Bay Marina, Shoreline Marina, and Rainbow Harbor, are located adjacent to the City's downtown waterfront and Alamitos Bay, and enhance the economic value of these areas.

A number of economic activities in these areas are provided in part by a variety of retail, commercial, and not-for-profit services established in City agreements with the Marine Bureau. These agreements include contracts, leases, and permits (hereinafter referred to as contracts). The contracts include services such as beach equipment rentals, concessions, and collegiate or educational programs. In addition, there are contracts for a recreational vehicle park and a number of yacht brokers.

Because a centralized or complete list of Marine Bureau contracts does not exist, we searched the City's Legistar database and interviewed staff of PRM's Marine and Business Operations Bureaus to identify a total of 54 Marine Bureau contracts. A list of the contracts and a brief service description is provided in Appendix A. Based on our review of contract terms, these agreements generate at least \$570,000 in revenue each fiscal year.¹ A partial list of the contracts, shown in Table 1, depicts the ten with the highest annual minimum lease amount.

Table 1.
Top Ten Contracts with Highest Annual Minimum Revenue

	Contract, Lease or Permit (Contract)	Annual Minimum Revenue
1	Indel Engineering, Inc. (Marina Shipyard)	\$ 138,984
2	Alamitos Bay Landing (Bancap Seaport Village, Inc)	75,000
3	Long Beach Anglers	60,000
4	Beach Ventures Enterprises, Inc.	35,000
5	Spirit Cruises	35,000
6	Golden Shore Recreational Vehicle Park, Inc.	30,000
7	Hornblower Yachts, LLC	30,000
8	Heritage Yacht Sales, Inc.	24,000
9	Bolder Group Alamitos Bay Marine	21,182
10	Gondola Getaway	18,000
...	Subtotal	\$ 467,166
54	Other Contracts	106,489
	Total	\$ 573,654

¹ Auditor review of limited contracts with terms including an established annual minimum rate.

The general process of developing, monitoring, and renewing or terminating contracts is a collaborative effort between PRM's Marine and Business Operations Bureaus, and the Asset Management Bureau (Asset Management) of the City Manager's Office.

Contract Development

Over the years, the establishment of contracts in the Marine Bureau was primarily the result of prospective vendors submitting business proposals to Marine Bureau management for consideration. When necessary, management sought the guidance of the City Attorney's Office to determine whether a request for proposal was necessary to facilitate a competitive bid process. Also, if the contract involved the lease of a City building, structure or land (real property), then Asset Management evaluated the property and engaged an appraiser to estimate its fair market value.

Related to pricing, proposed City contracts and their agreed upon rate require approval of the City Manager and City Council. The rates charged for a permit or lease of slips are included in the Master Fees and Charges Schedule approved annually by City Council.

Contract Management and Oversight

Management of contracts and oversight responsibilities is also known as contract administration, facilitated by a Contract Administrator (Administrator). The customer service aspect of contract administration, including onsite interaction with the vendor, is addressed directly by Marine Bureau staff, who are typically closer to the day-to-day marina operations and activities. Conversely, the financial and administrative oversight, such as maintaining payment, communications and insurance records are managed by the Business Operations Bureau (Business Operations) within PRM. In addition, certain contracts concerning real property involves Asset Management in contract administration, as set out by City Administrative Regulation 8-5.

Contract Renewal, Renegotiation, or Termination

As a contract approaches its term or expiration, the Administrator must prepare to either renew, renegotiate or terminate the agreement. In part, the Administrator reviews the vendor's records to verify that payments are current and that the contract is in compliance with insurance requirements. The Administrator will also contact or meet with Marine Bureau management to discuss the vendor's performance and to determine whether management supports a renewal or renegotiation of the contract.

In addition, the Administrator is required to communicate with the vendor regarding the contract renewal process and if applicable, gathers the necessary information and documentation needed to proceed. If the contract involves a real property lease, then Asset Management is contacted again to obtain the current fair market value from an

appraiser.

Contracts are generally terminated when a vendor severely violates contract terms, such as failing to make required lease payments or provide services as set out by terms of the contract. According to Marine Bureau and Business Operations management, efforts have been made to reasonably accommodate vendors that were in default, particularly in the economic downturn in recent years. For example, some vendors have been allowed adapted payment plans on a temporary basis due to financial hardship. In addition, where a contract must be current in order to be renewed, vendors were afforded additional time to catch up on late payments before their contract was submitted to City Council for renewal consideration.

Audit Objective, Scope and Methodology

The objective of this audit was to review Marine Bureau contracts, leases, and permits (hereinafter referred to as contracts), including the process by which existing contract terms and conditions were established, and renewed or terminated. We also evaluated vendor performance and compliance for a selected sample of contracts, and assessed the effectiveness of contract oversight responsibilities. The scope of the audit included 54 Marine Bureau contracts as shown in Appendix A. To perform the audit work, we:

- Obtained key terms and conditions from 54 Marine Bureau contracts and accompanying amendments;
- Interviewed key personnel at the Marine and Business Operations Bureaus in PRM, as well as a Real Estate Officer in the Asset Management Bureau in the City Manager's Office; and
- Reviewed City Administrative Regulation 8-5, *Establishment of a Centralized Real Estate Services Operation in the Department of Community Development*.

A sample of ten contracts (including four yacht brokers) was selected and grouped by like-services for a focused review and comparison. We evaluated contract terms and conditions for consistency and equity, and reviewed vendor records maintained by the Administrators to verify contractor compliance. Similar work was performed on a selection of four yacht brokers. A list of the contracts included in our review are listed below.

Table 2
Contracts Sampled

I. Concessions	
1.	Beach Ventures Enterprises
2.	California Aquatics
3.	Gondola Getaway
II. Non-Profits and In-Kind Service	
4.	Long Beach Rowing Association
5.	U.S. Sailing Center (Pacific Coast Sailing Foundation)
III. Yacht Brokers	
6.	Flying Cloud Yacht Sales
7.	Heritage Yacht Sales, Inc.
8.	Long Beach Yacht Sales
9.	Stan Miller Yacht Sales
IV. Other	
10.	Golden Shore Recreational Vehicle Park

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), which require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results & Recommendations

Our audit identified 54 contracts that are associated with Marine Bureau (Bureau) operations. These contracts provide a wide range of services to the public and local organizations and bring in well over \$500,000 in annual revenue to the Department. However, we found that PRM does not give sufficient priority or attention toward contract management. As a result, there is little thought or planning concerning what services should be provided. Contract oversight is minimal and disjointed leaving opportunity for preferential treatment or inappropriate relationships to occur. This has contributed to inconsistent contract terms and conditions between vendors providing similar services.

Many, if not most, of these vendors have been doing business with the City for many years. Yet, little has been done to ensure that PRM is receiving market revenues from the vendors and that the public's experience with the services provided is optimal. If it is possible to increase PRM's administrative oversight of vendor contracts, we believe there is the opportunity for both increased revenue to the Department and enhanced services for the public.

1. The Marine Bureau Lacks a Comprehensive Strategic Plan for Vendor Services

For the most part, PRM does not actively pursue vendors. Vendors wanting to do business with the City approach the Department with a proposal. If PRM determines the proposal to be of benefit to the City, it enters into an agreement. The Department does not have a comprehensive strategic plan that identifies the types of services or experience it wants to offer to the public.

Under the current method for awarding vendor contracts, the Department has little assurance it is receiving competitive market rates and maximizing revenue to the City. In addition, it is difficult to determine if the services provided are desired by the public or that they are adequate compared to similar operations in other cities. This haphazard approach to contract oversight also creates inconsistent contract terms and conditions providing the opportunity for inappropriate relationships or contract manipulation to occur.

a. Contracts not being bid out

As mentioned above, new business is usually generated by vendors approaching the City with a service proposal. If agreed, a contract is initiated and no competitive bidding occurs. Without competition among vendors, the City is unable to identify the best supplier based on a variety of criteria such as qualifications, experience, operational longevity, financial stability, and cost.

For existing contracts, the majority are automatically renewed with no competitive bidding and little, if any, updating of contract language. Many of the contracts are for long-term durations which provides the vendor with the advantage of not having to compete against

similar businesses. Currently, the Department has contracts that approach 20 years or more. The long duration of the contracts seems to be for convenience. Operating conditions and issues facing the City can change dramatically over that many years, leaving the City locked into a contract that no longer fits the need of the Department or the public.

Examples:

- *Beach Ventures and Gondola Getaways have ten year contract terms with two five-year options, bringing the potential terms to 20 years each. Both of these vendors have had contract compliance issues, yet continue to be extended.*
- *Long Beach Rowing Association and U.S. Sailing Center are not-for-profits which are supposed to be providing educational services to the public. Both of these contracts are for 25 year terms.*

b. Contracts based on informal discussions and agreements.

The lack of a standard process for initiating contracts has resulted in some contracts of similar nature having significantly different documentation and agreement language. It appears the final agreement and terms of some contracts were based on informal discussions or relationships between prior management and the vendors. This is particularly true with regards to the vendors classified as yacht brokers.

Yacht brokers lease slips to house vessels they are currently selling. The slip rentals should be based on the City's Master Fees and Charges Schedule (MFCS); however, it appears that rates were arbitrarily established by prior management and are heavily discounted. Table 3 below shows the difference in MFCS rates and billed rates based on agreement terms. In four years, the Department discounted rates by more than \$685,000.

Table 3.
Yacht Brokers Slip Rental Fees
Invoiced Amount vs. Master Fees and Charges Schedule

Slip Rental Fees	Stan Miller Yacht Sales	Long Beach Yacht Sales	Flying Cloud Yacht Sales	Heritage Yacht Sales, Inc.	Total Variance
2014					
Invoiced Amount*	\$ 34,640	\$ 32,542	\$ 3,572	\$ 7,500	\$ 78,254
MFCS Amount*	52,897	64,810	6,789	39,773	164,268
Variance	(18,257)	(32,267)	(3,217)	(32,273)	(86,014)
2013					
Invoiced Amount	81,667	77,435	8,487	18,000	185,588
MFCS Amount	126,117	153,019	20,233	94,504	393,873
Variance	(44,450)	(75,584)	(11,746)	(76,504)	(208,284)
2012					
Invoiced Amount	79,985	77,435	1,908	18,000	177,328
MFCS Amount	123,705	149,778	6,678	92,658	372,818
Variance	(43,720)	(72,343)	(4,770)	(74,658)	(195,490)
2011					
Invoiced Amount	82,951	74,934	8,111	18,000	183,995
MFCS Amount	128,934	142,548	19,219	88,777	379,478
Variance	(45,983)	(67,615)	(11,108)	(70,777)	(195,483)
TOTAL	\$ (152,410)	\$ (247,809)	\$ (30,841)	\$ (254,211)	\$ (685,272)
* Jan - May					

The long duration of many of the Bureau's contracts has allowed informal relationships to evolve, resulting in significant leniency with some vendors. Of the contracts that we reviewed in detail, it appears the Department has been tolerant in allowing many vendors to slip into non-compliance.

Example:

- *Beach Ventures currently owes the City over \$63,000 in outstanding rent and late payments from 2007 through 2013. The vendor states he had an understanding with prior management that he would not have to pay the minimum guarantee, only the percentage of gross, but the contract was never amended. It should be noted that PRM has recently issued a notice of default.*

c. Inconsistent contract terms and conditions

We found that contracts established over the last twenty years were written inconsistently, with vague definitions of terms, dissimilar contract stipulations and compensation types for like services, and varying degrees of pricing. These conditions are mainly due to different methods used over time to develop contracts, as well as a lack of written

procedures and standardized processes. Ambiguous terms are more likely to be misinterpreted or misunderstood by both PRM and the vendor, making it difficult for the City to compel their compliance.

Examples:

- *The definition of “gross receipts” in the California Aquatics contract is vague, stating it includes all monies from operations outlined in the contract. This leaves room for interpretation of what “gross receipts” may include. On the other hand, the language in a similar type of contract for Beach Ventures is much more specific in its definition of “gross receipts” listing type of sales, allowable deductions and method of payments, leaving little need for clarification of what types of revenue would be included.*
- *Only three out of five contracts for beach equipment rental require that patrons fill out a waiver form or a customer satisfaction survey. The other two do not stipulate such a need. However, all five vendors offer services that have potential liability concerns for the public.*

The lack of competitive bidding and a standard process for initiating and developing contracts also has resulted in differences in pricing for similar services.

Examples:

- *Two not-for-profit organizations that provide educational classes for the public are paying very different rents. Long Beach Rowing Association is required to pay \$1,000 per month, while U.S. Sailing Center is \$1 per year. Yet they are both required to provide educational programs to the public.*
- *Long Beach Yacht Sales is billed on a fixed monthly rate, while Flying Cloud Yacht Sales is billed only on the number of slips used per month, even though the unused slips are not rented to others.*

Language dealing with other terms, such as verification of services provided, audit clauses, and submittal of financial information also varies in the contracts we reviewed. The lack of consistency creates difficulties for staff in effectively monitoring contracts, particularly when staff must use their judgment to interpret vague language and terms.

RECOMMENDATION: *The Department could benefit from the development of a strategic plan that would address the type of services it wishes to provide the public. This would include defining long-term service goals, performance measures, and pursuing quality business opportunities for enhanced revenues. At a minimum, the Department should establish a process for developing and renewing vendor contracts, which includes competitive bidding and*

standardization of contract terms and conditions.

2. Contract Oversight Is Not Sufficient to Ensure Compliance

Prior to the economic downturn, contract oversight was handled exclusively by the Marine Bureau. In the late 1990s, there were approximately six full time equivalents (FTEs) in the Bureau that developed and monitored contracts and regularly interacted with vendors. Due to budgetary shortfalls prior to 2009, PRM shifted the majority of contract administrative duties from the Bureau to PRM's Business Operations, which also monitored the Department's other contracts. PRM Business Operations assigns two and a half FTE's to monitor all Department contracts, significantly fewer than when the Bureau monitored just those contracts assigned to them.

The PRM Business Operations handles the majority of the administrative tasks, but requires assistance from the Marine Bureau to maintain customer service responsibilities as well as a few administrative responsibilities. In addition, the Asset Management Division in the City Manager's Office oversees some contracts that involve property valuation.

The limited number of contract administration staff and fragmented roles among multiple City areas has resulted in a number of inefficiencies, including inconsistent management of like contracts, limited documentation and communication between bureaus, key terms not monitored, and contracts not renewed timely.

a. Inconsistent oversight responsibilities

Currently, there are three City sections handling Marine Bureau contract oversight – PRM's Business Operations and Marine Bureaus; and the City Manager Office's Asset Management Division. The actual administration of a given contract is assigned to the appropriate section based on type. However, we found the assignment by type was not always consistent.

Examples:

- *City AR 8-5 states Asset Management is responsible for the development of contracts related to property leases and clarifies that operational oversight is the responsibility of the department (in this case, PRM). However, Asset Management performs administrative oversight on nine contractors by collecting revenue on behalf of the Marine Bureau, primarily for convenience. Asset Management does not perform oversight on all property leases, as PRM Business Operations does handle similar contracts.*
- *Of the four yacht brokers we reviewed, three are managed by the Marine Bureau.*

The fourth broker, Heritage Yacht Sales, Inc. is managed by PRM Business Operations.

Having three parties involved in contract oversight, with the Marine Bureau handling the majority of customer service issues, creates a decentralized process that requires effective communication and documentation to keep all parties updated and aware of issues. However, monthly meetings to discuss the status of contracts is attended by PRM Business Operations and Asset Management, but a representative of the Marine Bureau has not attended since the departure of the previous Marine Bureau manager. Contract files are decentralized and located within the section having primary oversight. However, some contracts have multiple sections handling oversight issues over the same contract. Under this structure, it is unlikely all pertinent information about a vendor is recorded in the primary file.

b. Key terms are not being monitored

Good management and fiscal responsibility over contracts requires effective and consistent monitoring of key terms and conditions. This includes awareness of potential problems and follow-up of identified issues. The limited personnel available for contract administration and the involvement of multiple parties limits the effectiveness of efforts and does not provide assurance that the City receives appropriate payment and contracted services.

Many of the contracts use percentage of gross receipts as the compensation method. Gross receipts are self-reported by the vendors but are not verified in the oversight process due to a lack of available personnel. As a result, the Department can have no assurance it is receiving the correct amount of revenue. Similarly, vendors that are required to provide specific services in order to receive discounted rent are not being required to provide proof of scheduled programs.

Examples:

- *Contract Administrators indicated that non-for-profit contracts are not monitored since they do not generate a significant amount of revenue, even though these vendors are required to provide educational programs to the public. The U.S. Sailing Center is required to provide collegiate programs and high school sailing classes, but upon review of their website we found that the most recent registration information available for a high school was for Spring 2009; the most recent training clinics available were for Winter 2012; and, the most recent Kids Summer Sailing Camp information available was for Summer 2013. Therefore, it is unclear if they are actually supplying the programs required per the contract.*

c. Contracts are not renewed timely

We found there were five contracts where vendors are operating with expired contracts. These contracts have lapsed to a monthly term pending a decision to maintain, extend or terminate. Some of these contracts have past due accounts of which the Department has allowed them to go on payment plans until they are current. The vendors are still allowed to operate on a month-to-month basis while they make payments.

Examples:

- *Turomatic Machine's contract expired in 2009. The vendor owes \$4,352 to the City and pays \$300 per month to pay down the balance, in addition to any current monthly payments due.*
- *Spirit Cruises' contract expired in 2008. At the time, they owed money to the City but finished paying what was owed in 2013. PRM Business Operations has not decided whether to put out a Request for Proposal (RFP) for similar services (dinner cruises, yacht parties, whale watching, harbor tours and charters), or extend the contract. In the meantime, the vendor is on month-to-month terms.*

Without a standardized process for monitoring, assessing and renewing contracts in a timely manner, there is the possibility that contracts can expire without any communication to the vendor. The vendor could continue to operate without a valid contract with the City.

Example:

- *The contract with Gondola Getaway expired in April of 2012. However, PRM Business Operations did not contact the vendor for renewal. The vendor continued to operate, but ceased making payments to the City for three months until the Department initiated the renewal process.*

RECOMMENDATION: *The current structure where three parties monitor Marine contracts is not ideal and many times creates a disjointed process that results in poor contract oversight. Our primary recommendation would be to return contract administration to the Marine Bureau and add sufficient staff to make monitoring of the contracts a priority. As noted above with the yacht brokers contracts, there are opportunities for additional revenue that could pay for the additional staff.*

However, even if this recommendation is not implemented, immediate improvements within the current structure need to take place. The Department should develop policies and procedures over contract administration that include, but are not limited to, the following:

- *Categorize current contracts into types and clarify roles between the Marine*

Bureau, Business Operations Bureau, and Asset Management Division on which section will oversee particular contracts. In addition, clarify the responsibilities for handling each contract and the Marine Bureau's role in handling customer service issues.

- ***Develop a centralized contract database that tracks key contract terms and records all pertinent administrative documentation.***
- ***Improve communication between the sections providing oversight and develop standard reporting for management review.***
- ***Develop clear criteria for considering contract renewals or extensions. Ensure contracts are updated to reflect current operating situations and City requirements.***
- ***Standardize and simplify contracts to minimize the degree of oversight required. For example, instead of compensation based on a percentage of gross receipts, which needs to be verified, move to a fixed rent payment. In addition, standardize rates when possible through the City's Master Fees and Charges Schedule.***

Appendix A

Marine Bureau contracts, leases, or permits included in the work of this audit.

	Contract, Lease or Permit (Contract)	Contract #	Service Provided
1	Alamitos Bay Landing (Bancap Seaport Village, Inc.)	24967	Real Property Lease
2	Alamitos Bay Partnership	15543	Boat Slip Rentals
3	Alamitos Bay Yacht Club	7681	Youth Sailing Classes
4	Bayshore Co-Op Preschool	19586	Cooperative Nursery School
5	Beach Ventures Enterprises, Inc.	31767	Multiple Concessions
6	Beach Ventures, Inc.	31244	Offshore Vessel Mooring
7	Beach Ventures, Inc.	29961	Multiple Concessions
8	Belmont Athletic Club	31794	Outdoor Fitness Program
9	Boat Rentals of America, Inc.	30686	Recreational Water Craft Rentals
10	Bolder Group - Alamitos Bay Marine	28350	Fuel Dock (Alamitos Bay)
11	Bolder Group - Shoreline Marine Fuel Dock	28350	Fuel Dock (Shoreline)
12	California Aquatics	30130	Aquatic Equipment Rentals
13	Children's Maritime Foundation, Inc.	30285	Harbor Tours, Whale Watching, Charters, Dinner Cruises, and Yacht Parties
14	Colorado Lagoon Playgroup	19015	Cooperative Nursery School
15	Conte Productions	33069	Arts and Crafts Market
16	Dadson Washer Service	31796	Coin Operated Washers and Dryers
17	Dockside Boat & Bed, Inc.	29998	Bed and Breakfast Operation
18	Flying Cloud Yacht Sales	MS208	Yacht Brokerage/Sales
19	Friends of Colorado Lagoon (FOCL)	32944	Educational/ Restoration Programs
20	Girl Scouts of Greater Los Angeles	27371	Educational Programs
21	Girl Scouts of Greater Los Angeles	21436	Educational Programs
22	Golden Shore Recreational Vehicle Park, Inc.	23858	Recreational Vehicle Park
23	Gondola Getaway	27959	Gondola Cruises
24	Grand Romance Riverboat	27350	Cruises and Private Events
25	Harbor Area Farmers Market (Bancap)	31413	Farmers Market

26	Harbor Breeze	27276	Harbor Cruises, Whale Watching and Charters
27	Harbor Breeze, Inc. (RMU)	30618	Retail Concession Stands
28	Heritage Yacht Sales, Inc.	28285	Yacht Brokerage/Sales
29	Hornblower Yachts, LLC	27552	Harbor Cruises, Whale Watching and Charters
30	Indel Engineering, Inc. (Marina Shipyard)	7632	Marine Service and Boat Repair
31	Juxtaflo, Inc. (DBA Crossfit Long Beach)	33394	Fitness Courses
32	Kitesurfari	31386	Recreational Water Craft Rentals
33	Little Ships Fleet Yacht Club	33070	Boat/Equipment Storage
34	Long Beach Anglers	26023	Commercial Area and Tackle Shop
35	Long Beach Area Council of Boys Scouts of America	20668	Educational Programs
36	Long Beach Rowing Association	28294	Educational Programs
37	Long Beach Yacht Sales	00044330	Yacht Brokerage/Sales
38	Marina Pacifica LLC	17525	Vessel Berthing
39	Marina Sailing Charters	33123	Sailboat Charters
40	Marine Stadium Parking Lot	32338	Farmers Market
41	Melina Fitness (Bluff Park)	32910	Fitness Courses
42	Moving Forward Fitness (Marine Stadium)	32688	Fitness Courses
43	Navy Yacht Club	30620	Club Meetings and Social Events
44	Ocean Blvd HOA	ML 153	HOA
45	Pacific Sailing/Catalina Charters (Integrity Ventures)	33038	Sailboat Charters & Club, and Boat Brokerage/Sales
46	Rakh Solid Fitness (Beach east of Junipero)	33373	Fitness Courses
47	Shoreside Fitness (Bluff Park)	33212	Fitness Courses
48	Southern California Kiteboarding	32773	Recreational Water Craft Rentals
49	Spirit Cruises	30180	Harbor Tours/Whale Watching
50	Stan Miller Yacht Sales	Not available	Yacht Brokerage/Sales
51	Tole Mour	27917	Educational Programs, Harbor Cruises, Whale Watching, & Charters
52	Turomatic Machine (dba Sight Instruments)	29711	Coin-Operated Telescopes
53	U.S. Sailing Center (Pacific Coast Sailing Foundation)	23228	Educational Programs
54	Wake Experience, LLC	32214	Recreational Water Craft Rentals

Appendix B – Management Response

The Marine Bureau (Bureau) Audit included the review of two operational areas of the Bureau, and separate reports were issued. This report covers internal controls over the administration of contracts, leases, and permits. The other report focuses on the Bureau's cash handling and revenue collection process. Both reports are available on the City Auditor's website at www.CityAuditorLauraDoud.com under the follow report titles:

- Marine Bureau Contracts, Leases, and Permits Audit
- Marine Bureau Cash Handling Operations Audit

The following Management Response Memo responds to both reports.



Date: November 14, 2014
To: Patrick H. West, City Manager *PLW*
From: George Chapjian, Director of Parks, Recreation and Marine *G.C.*
For: Laura L. Doud, City Auditor
Subject: Response to the Marine Bureau Audit Report

The Parks, Recreation and Marine Department (Department) would like to take this opportunity to thank the Office of the City Auditor (City Auditor) and staff for assistance in conducting the requested review of the Department's Marine Bureau (Bureau). The audit was conducted in a professional, productive, and collaborative way, and will serve to guide the Bureau as it continues its efforts in meeting the needs of Long Beach residents, visitors, and businesses.

The following provides a management response to the findings and recommendations of the subject audit. The Department apologizes that this response has been delayed, but can assure the City Auditor that the audit findings are well-received and, in fact, several have already been addressed.

CASH HANDLING OPERATIONS AUDIT

Issue One: The control environment over cash handling remains ineffective.

Recommendation: The Bureau should completely restructure its processes for handling revenue in order to ensure that all revenue collected is appropriately recorded and deposited. The Bureau should enlist the assistance of the PRM Business Operation staff to ensure that the Department's cash handling policies and procedures are implemented correctly to provide adequate internal controls.

Response: Management agrees with this recommendation. All items that could immediately be implemented, including changing codes and access for the safes and cash registers, have already been addressed. Marine Bureau management will consult with the Financial Services Division of the Business Operations Bureau to begin the process to evaluate and implement new processes to ensure all components of the Department's policy are fully implemented to ensure policy compliance. Business Operations staff will also assist with the research and implementation of new hardware and/or software to help safeguard City resources and assist with ensuring adequate internal controls are implemented.

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Issue Two: An unsecured tabletop fund is used to manage short-term key deposits.

Recommendation: The Bureau should discontinue the use of the unauthorized tabletop box and attempt to adapt procedures to process the short-term key deposits through the cash register or imprest checking account. In addition, the Bureau should implement a key log that can be reconciled to key deposits.

Response: Management agrees with this recommendation. Marine Bureau management will work with the Financial Services Division of the Business Operations Bureau to develop new processes for deposits that adhere to Department policy. It is also management's goal to implement a process that is consistent with other processes already implemented in the Department. This process will include a method for reconciliation of receipts to the inventory of keys, as well as a process that will adequately secure the deposit. As stated earlier, Marine Bureau management has already altered the safe access to ensure compliance with department policy.

Issue Three: Controls over the imprest checking account could be improved.

Recommendation: The Bureau needs to provide adequate segregation of duties over the imprest checking account by eliminating the Bureau manager as the backup custodian. These duties should be given to someone that is not in a position to approve account reconciliations. In addition, the accounting clerk serving as the current imprest account custodian should not be preparing the monthly bank reconciliation. This should be given to another employee that has no access to processing transactions in the account.

We would recommend the Bureau consider processing deposits originally taken by credit card back to the card and post them through the register instead of writing refund checks. Also, Bureau management should inquire with Financial Management about the possibility of using the future financial system to process imprest checking transactions.

Response: Management agrees with this recommendation with respect to the implementation of better internal controls and a more efficient and effective method to secure the imprest account's resources. It is important to Department management to create consistent, effective, and efficient processes throughout the Department. As an example, effective immediately, all bank reconciliations will be performed monthly and approved centrally by the Accounting Office Supervisor and then the Department's Financial Services Officer. This is

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consistent with all other Department imprest accounts. The Financial Services Division is in beginning stages of updating the Department's Refund Policy, and will work with Marine Bureau staff to ensure all necessary changes are included to update the process used for imprest in the Marine Bureau.

With regards to the use of Quicken, this program and its business version, Quickbooks, has been in use for the Department's other approved imprest accounts for over a decade. The programs were installed by the Technology and Innovation Department's (TID) assigned technician. TID has obtained the necessary licenses for the programs. It is a very simple program to teach staff and is in use in multiple areas in case there is a need for immediate training for staff due to a transfer or loss of staff. Financial Services Division staff has communicated the need for better imprest software to the Department of Financial Management staff responsible for preparing the requirements for the City's new financial system.

CONTRACTS, LEASES AND PERMITS AUDIT

Issue One: The Marine Bureau Lacks a Comprehensive Strategic Plan for Vendor Services

Recommendation: The Department could benefit from the development of a strategic plan that would address the types of services it wishes to provide the public. This would include defining long-term service goals, performance measures, and pursuing quality business opportunities for enhanced revenues. At a minimum, the Department should establish a process for developing and renewing vendor contracts, which includes competitive bidding and standardization of contract terms and conditions.

Response: The Department agrees that a strategic planning effort would benefit the Marine Bureau's operations. As it stands today, there is not an overarching plan that provides a direction for how the City programs/utilizes the waterfront. A strategic plan that includes a clear, long-term vision for the future, while adaptable to an ever-changing waterfront, beach and marina environment, will better position the Bureau for future. Said planning effort should help to define and align the often-competing interests of revenue generation with the need to provide recreational opportunities for the community.

As it relates to the completion of said plan, the Bureau is currently in the process of hiring a Marina Operations Superintendent. This position will be responsible for the day-to-day operations of the City's three municipal marinas and, as such, will be responsible for contributing to any future strategic planning efforts. It is anticipated that this position will be filled within the next 3-4 months. Once the position has been filled, the incumbent will work closely with the Bureau Manager and other Department management to begin the strategic planning effort.

Issue Two: Contract Oversight is Not Sufficient to Ensure Compliance

Recommendation: The current structure where three parties monitor Marine contracts is not ideal and many times creates a disjointed process that results in poor contract oversight. Our primary recommendation would be to return contract administration to the Marine Bureau and add sufficient staff to make monitoring of the contracts a priority. As noted above with the yacht broker contracts, there are opportunities for additional revenue that could pay for the additional staff.

However, even if this recommendation is not implemented, immediate improvements within the current structure need to take place. The Department should develop policies and procedures over contract administration.

Response: Management agrees that improvements to the Marine Bureau's current contract management structure need to be made to ensure effective and efficient contract oversight. With new leadership at the helm of the Marine Bureau, and participation from the Department's centralized Contract Management Division, there are already positive actions being taken, including:

- Better definition of contract management roles and responsibilities between the Marine Bureau and the Department's centralized Contract Management Division, while still enabling appropriate separation of duties;
- Development of a departmental contract management policy, which will include mechanisms for the solicitation, review, and processing of third party proposals and current service providers against set criteria designed to meet identified needs; and,
- Research and evaluation of a third-party contract management software product.

Conclusion

In conclusion, the Parks, Recreation and Marine Department would like to thank the Office of the City Auditor for this collaborative effort to review and improve the Marine Bureau's cash handling and contract management operations. Management agrees with the recommendations of the Audit and is confident that investments in better planning, systems, training, and internal controls will lead to improved operations on behalf of the City and its residents.

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