



OFFICE OF THE CITY AUDITOR
Long Beach, California

R-19

LAURA L. DOUD, CPA
City Auditor

January 6, 2009

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file the attached Queen Mary Inventory Audit.

DISCUSSION:

Subsequent to the November 2007 purchase of the Queen Mary lease by Save the Queen, LLC, the Office of the City Auditor was requested by the City Attorney's Office to conduct an inventory of the physical assets on the Queen Mary. The objective of this audit was to physically observe specific City-owned fixed assets on the Queen Mary and to reconcile those assets to the City of Long Beach Fixed Asset Property Report.

Our audit recommends that the City develop fixed asset management policies for third party contractors managing City assets, and that a full inventory be completed of the Queen Mary detailing all of the historic items on the ship, including those with historical significance and a value less than \$5,000. Management has indicated in their response that they agree with these recommendations and plan to implement them. Additionally, we recommend that the City amend the Queen Mary lease to include a provision for the oversight of City fixed assets. The City Attorney's Office has indicated that it will include such a provision in its upcoming lease with Save the Queen. Further recommendations and management's responses are attached for your consideration.

Pursuant to a request from the City Attorney's Office, the City Auditor's Office is currently planning a new audit of capital improvements made on the Queen Mary in calendar year 2008. As part of this audit, which will occur in the first half of 2009, we will verify that the current tenant made contractually required capital improvements. This new audit is unrelated to the attached report. The City Auditor's Office looks forward to continuing to verify that appropriate safeguards are in place for this important City asset, and that the City is receiving all it is owed under the lease provisions.

TIMING CONSIDERATIONS:

This item is not time sensitive.

FISCAL IMPACT:

The attached audit report details ways the City can improve oversight of its fixed assets both internally and by outside contractors. Such controls help prevent loss or damage to the City's assets.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

A handwritten signature in cursive script that reads "Laura L. Doud".

LAURA L. DOUD, CPA
CITY AUDITOR

Attachment



**City of Long Beach
Office of the City Auditor**

**Queen Mary Inventory
Audit Report**

December 2008

Laura L. Doud, CPA
City Auditor

Queen Mary Inventory Audit Report

December 2008



Audit Staff

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Executive Summary

The objective of this audit was to physically observe specific City-owned fixed assets on the Queen Mary and reconcile those assets to the Fiscal Year 2007 City of Long Beach Fixed Asset Property Report (2007 Report). In conjunction with the purchase of the leasehold interest in the Queen Mary, the Office of the City Auditor was asked by the City Attorney's Office to conduct an inventory of the physical assets on the Queen Mary. Our inventory audit noted the following issues:

- The City lacks policies and procedures for contractors who manage City assets under City agreements; such policies and procedures need to be established.
- City records of fixed assets aboard the Queen Mary are incomplete.
- The Lease and Operations Agreement for the Queen Mary contains no provisions for proper safeguarding, oversight and regular inventories of City-owned fixed assets.
- A listing of the City-owned assets was excluded from the Lease and Operations Agreement.
- There is no evidence of proper retirement for 439 City fixed assets on the Queen Mary following the City's conversion to a new fixed asset system.

Additionally, we made the following observations regarding the assets on the Queen Mary:

- We observed fixed assets that are not recorded in the City's Fixed Asset System. They should be assessed for historical significance to determine if they should be added to the System.
- We observed and confirmed 137 of the 154 fixed assets listed on the 2007 Report. Six of the remaining 17 assets were unrelated to the Queen Mary and should be reclassified in the City's Fixed Asset System; 3 items were unobserved and 8 items were observed. We recommend further confirmation of these 11 items. Of these 11 assets:
 - We verified one of the three unobserved items, "refurbishments" listed at \$4.7 million on the 2007 Report by reviewing over 56% of corresponding invoices. These invoices were for heating, ventilation and air conditioning, fire and life safety systems and hazardous material removal.
 - The former operator was unable to definitively identify that the 8 items we observed were those listed on the 2007 report.
- We identified 12 fixed assets that were damaged or had missing components.
- We noted that City inventory tags were generally not affixed to art pieces.

Details of the issues noted above, as well as additional background information and a discussion of audit methodology, are provided in the body of the report.

Background

The City of Long Beach (City) purchased the Queen Mary in 1967, and has since leased the operations of the ship to several companies. On February 1, 1993, the City entered into Lease and Operations Agreement #22697 with the RMS Foundation, Inc. (RMS), a California non-profit public benefit corporation, whose Chief Executive Officer had overseen the ship's operations under the Wrather Corporation from 1983 to 1988. The term of the lease with RMS extended from February 1, 1993 through January 31, 1998. The lease includes approximately 9.29 acres of water surrounding the Queen Mary, 11.55 acres of water northwest of the Queen Mary and approximately 43.38 acres of land including the Dome and the Queen's Marketplace.

In 1995, the Chief Executive Officer of the RMS Foundation incorporated Queen Seaport Development, Inc. (QSDI), a for-profit California corporation, as his operation's profit-making arm. In August 1995 the City entered into the Lease and Operations Agreement of Queen Mary, Adjacent Lands and Improvements, Dome and Queen's Marketplace #24121 to recognize QSDI as the master lessee and extend the lease terms to a 20-year term. QSDI then subleased the Queen Mary's operation back to RMS. On October 29, 1998, the City entered into an amended and restated lease with QSDI, #22697 First Amended Lease and Operations Agreement (Lease), extending the terms to 66 years to assist QSDI in obtaining financing to develop the waterfront property.

On February 24, 2005, the City issued a notice of default under the Lease with QSDI for QSDI's failure to pay percentage rent due under the Lease. Prior to the end of the period wherein QSDI could cure its defaults to the City, on March 15 2005, QSDI filed a voluntary petition for relief with the United States Bankruptcy Court for the Central District of California under Chapter 11 of Title 11 of the United States Code. The City filed a proof of claim against QSDI's bankruptcy estate for amounts due to the City under the Lease through the fiscal year ending December 31, 2004, in the amount of approximately \$4,529,662. The City's claim increased during the bankruptcy case based on percentage rent owed for fiscal years 2005, 2006 and 2007, interest, attorneys' fees, accountant's fees, costs and other fees, including applicable transfer fees.

Because QSDI could not reach an agreement with the City and the other parties in the Bankruptcy Case regarding various disputes, Howard Ehrenberg was appointed as the Chapter 11 Trustee for QSDI on April 12, 2006. On November 21, 2006, the Trustee and the City entered into a settlement agreement, which substantially resolved all claims between the Trustee and the City. The settlement agreement was approved by the Bankruptcy Court on February 22, 2007.

In July 2007, the Bankruptcy Court approved the sale of the Trustee's right, title and interest in the Queen Mary leasehold. An auction was held on August 14, 2007, and Save the Queen, LLC (Save the Queen) was the successful bidder at \$43 million. The sale of QSDI's right, title and interest in the Lease to Save the Queen closed on November 6, 2007, and Save the Queen is now the lessee under the Lease. Save the Queen has notified the City that it has terminated the sublease with RMS. On November 7, 2007, the Trustee paid the City its priority claim in the amount of \$8,647,823. The City still maintains

an unsecured claim in the Bankruptcy Case pursuant to the court-approved settlement agreement that the City entered into with the Trustee.

This audit of City-owned fixed assets on the Queen Mary is permitted pursuant to the Lease and was conducted with the cooperation of the Trustee.

Audit Objective, Scope and Methodology

The objective of this audit was to physically observe specific City-owned fixed assets on the Queen Mary and reconcile those assets to the Fiscal Year (FY) 2007 City of Long Beach Fixed Asset Property Report (2007 Report). Our procedures focused on capital assets (fixed assets with a value of \$5,000 or greater and historical artifacts).

In conjunction with the purchase of the Lease, the Office of the City Auditor was asked by the City Attorney's Office to conduct an inventory of the physical assets on the Queen Mary. Section 2.2 of the Lease makes reference to a "Fixed Asset Report" initialed by the Landlord and Tenant; however, this report was not included as an attachment to the Lease. Accordingly, we conducted our inventory audit using the 2007 Report. A meeting was held with the City Attorney and the court-appointed Trustee to coordinate the review.

Five members of the City Auditor staff conducted the inventory of the City of Long Beach fixed assets on the Queen Mary and were accompanied by two employees of RMS. City Auditor staff made two follow-up visits to the Queen Mary to observe fixed assets that were not accessible on their original visit.

To complete the observation and verification of the City's fixed asset property on the Queen Mary, we performed the following procedures:

- Obtained and reviewed the 2007 Report dated 9/07/2007;
- Compared and reconciled the 2007 Report to fixed asset property reports for fiscal years ending 9/30/2004, 9/30/2005, and 9/30/2006 for consistency and completeness;
- Compared and reconciled the 2007 Report to the fixed asset property report for fiscal year ending 6/30/1998 (1998 Report) for consistency and completeness. (The effective date of the City's amended and restated lease with QSDI was October 29, 1998. The 1998 Report lists fixed assets that existed near the time of the effective date of the City's amended and restated lease with QSDI);
- Performed an on-site observation of fixed assets that included the following procedures:
 - Identified the object by the asset's description from the 2007 Report;
 - Located the permanent City inventory tag on the object, when possible, and noted when there was no City tag;
 - Compared the object's physical location to that noted on the 2007 Report and noted any changes in location;

- Noted damages to fixed assets observed, when applicable;
- Photographed fixed assets observed (See Attachment 2);
- Obtained one signature from RMS Foundation staff and two signatures from City staff confirming each asset observed;
- Inquired of Financial Management about the tracking of fixed assets in the City's System.

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

Audit Results

Issue # 1 –Fixed Asset Policies and Procedures for Contractors Who Manage City Fixed Assets Are Needed

The City's Financial Policy and Procedure FPP 7-1 *Accounting for Fixed Assets* establishes uniform policies and procedures for the accounting and safeguarding of City fixed assets. This policy includes requirements for recording fixed assets, record keeping, transferring and retiring fixed assets, and conducting a physical asset inventory at least once per year. The regulation is applicable to all City departments and offices responsible directly to the City Manager.

The City lacks standard fixed asset policies and procedures pertaining to contractors who manage City assets under City agreements or leases. Standard policies and procedures are necessary to ensure that proper internal controls over City assets are incorporated into agreements between the City and contractors who manage City fixed assets. A lack of standard fixed asset language could result in minimal or no provisions in contractor agreements, resulting in insufficient oversight of City assets, and potential loss of City property.

Recommendations:

1. Develop standard fixed asset policies and procedures pertaining to contractors who manage City assets under City agreements or leases. Policies should address recording and tracking City fixed assets, providing fixed asset reports, transferring or retiring fixed assets, reporting damage and losses, conducting physical inventories, and safeguarding City assets.
2. Incorporate standard fixed asset policies and procedure language into agreements between the City and contractors who manage City fixed assets.
3. Update the City's Financial Policy and Procedure FPP7-1 to define the City's responsibilities for monitoring City fixed assets managed by contractors.
4. Complete a physical inventory prior to transferring City assets to contractors.

Issue #2 - No Provision in the Queen Mary Lease for the Safeguarding and Oversight of Inventory on the Queen Mary

The Lease and Operations Agreement of the Queen Mary lacks provisions for the safeguarding and oversight of City-owned fixed assets on the Queen Mary. In addition, a listing of the City-owned assets was excluded from the Lease and Operations Agreement.

A lease provision for fixed assets is necessary to ensure that the lease operator establishes adequate internal controls to account for, monitor, and safeguard City fixed assets.

In November 2007, the interest in the Queen Mary leasehold was sold to a new operator. The City is in the process of amending the Queen Mary lease.

Recommendations:

- Amend the Queen Mary lease to include a provision for oversight of City fixed assets. The provision should address recording and tracking City fixed assets, providing reports, transferring or retiring fixed assets, reporting damage and losses, conducting physical inventories, and safeguarding City assets.

Issue #3 - Need to Evaluate and Determine if Unrecorded, Observed Fixed Assets have Historical Significance and Should be Tracked

The City's Financial Policy and Procedure # FPP 7-1 *Accounting for Fixed Assets* states the following regarding historical items, "Non-depreciable fixed assets include land and historical artifacts. There is no fixed asset capitalization minimum amount for non-depreciable assets." For purposes of this report, historical artifacts are objects shaped by human craft that are important to the Queen Mary's history, and may include artworks, semi-permanent fixtures, decorative items, furnishings, tableware, historical clothing, and other items.

The objective of our procedures was to observe and confirm the existence of the 154 City-owned fixed assets listed on the 2007 Report. Our on-site visit revealed significantly more fixed assets on the ship than are recorded on the 2007 Report. These additional fixed assets observed include affixed but detachable items, such as etched glass and ornate railings, removable assets like art-deco cabinet tops, period clothing, musical instruments, and furnishings. The fixed assets we observed that are not included on the 2007 Report are listed on Attachment I.

Fixed assets that are not properly tracked and periodically inventoried are vulnerable to theft or loss.

During our audit, we were unable to confirm whether the additional items we observed were historical artifacts. A comprehensive inventory covering all areas of the ship may identify additional fixed assets that should be evaluated by a professional curator for historical significance. If these items are determined to be historical artifacts, they should be earmarked as historical and tracked on the City's Fixed Asset System.

Recommendations

1. Conduct a comprehensive inventory to record and report all City-owned fixed assets on the Queen Mary in accordance with the City's Policy and Procedure for Accounting for Fixed Assets.
2. Track all City-owned Queen Mary fixed assets worth \$5,000 and over and all historical artifacts on the City's Fixed Asset System.
3. Identify and earmark historical artifacts to ensure that such items are retained on the City's System and not depreciated, in accordance with the City's Financial Policy and Procedure for Accounting for Fixed Assets.
4. Enlist the help of a professional historical curator, as needed, to determine whether additional fixed assets identified should be earmarked as historical artifacts.

Issue #4 - No Evidence of Proper Retirement for Fixed Assets Following the Conversion to A New Fixed Asset System

The City's Financial Policy and Procedure # FPP 7-1 *Accounting for Fixed Assets* requires the City Department (Department) responsible for the fixed asset to properly document the asset's retirement and disposition. When retiring and disposing a fixed asset, the Department must complete the appropriate fixed asset retirement forms and work with Technology Services to arrange for the pick up and public auction of the retired fixed asset.

In April 1999, the City revised the fixed asset capitalization policy changing the minimum dollar amount from \$1,000 to \$5,000 to be classified as a capital fixed asset. Therefore, any City-owned fixed asset under \$5,000 and not earmarked as a historical artifact would no longer be tracked in the City's Fixed Asset System.

We performed procedures to compare and reconcile the 2007 Report to the 1998 Fixed Asset Property Report (1998 Report) for the Queen Mary for consistency and completeness. The 1998 Report listed fixed assets that existed near October 29, 1998, the effective date of the City's amended and restated lease with QSDI. We noted that the 1998 Report listed a total of 591 fixed assets. After 1998, two fixed assets were added in 2001, and 439 assets were removed from the Fixed Asset System (see below) resulting in the 154 total number of fixed assets on the 2007 Report.

When the City converted to a new fixed asset tracking system in October 1999, the 439 assets that were below the \$5,000 capitalization minimum were removed.

We asked Financial Management for the City Fixed Asset Retirement Forms corresponding to the removal of the 439 assets from the City's Fixed Asset System, and we were told that there were no fixed asset retirement forms filed for the Queen Mary between 1998 and 2007. Therefore, we are unable to ascertain whether some of the 439 assets removed from the System are historical artifacts and whether they should be currently tracked on the City's System.

Recommendations

- As previously mentioned, conduct a comprehensive inventory to record and report all City-owned fixed assets on the Queen Mary and enlist the help of a professional historical curator to determine whether additional fixed assets identified during the comprehensive inventory should be earmarked as historical artifacts.
- Follow the City's established Financial Policies and Procedures for fixed asset retirements, before retiring Queen Mary assets and removing them from the City's Fixed Asset System.

Issue #5 - Summary Results of Confirmation of 154 Fixed Assets

Based on procedures performed, we have provided the following summary of our results:

- We identified 12 fixed assets that were damaged or had missing components.
- We noted that City inventory tags were generally not affixed to art pieces.
- We observed and confirmed 137 of the 154 fixed assets listed on the 2007 Report. Six of the remaining 17 assets were unrelated to the Queen Mary and should be reclassified in the City's Fixed Asset System; 3 items were unobserved; and 8 items were observed. We note the following regarding the 3 unobserved items:
 - One item, "refurbishments," listed at \$4.7 million on the 2007 Report, was not observed; however, we verified refurbishments by reviewing over 56% of corresponding invoices. These invoices were for heating, ventilation and air conditioning, fire and life safety systems and hazardous material removal.
 - One large painting was fully enclosed within the walls, prohibiting our observation and confirmation of the asset;
 - One chandelier listed as being located in the Queen's Salon was not observed. A similar chandelier was observed in the Veranda Grill;
- We observed the 8 fixed assets noted below; however, the former operator was unable to definitively identify that the 8 items we observed were those listed on the 2007 Report:
 - We observed and photographed five items that appeared to be the Bow Float, Radio Antenna, three units that control the Cathodic system, the Energy Plant, and Shipside Utilities.
 - The City fixed asset inventory tags on one game table and one conference table did not match the Fixed Asset Inventory Report. The inventory tag on a second conference table was missing.

We recommend further confirmation of the 11 fixed assets noted above. Details of the 17 items described above are included in **Attachment 1** of this report.

Recommendations

- Perform additional procedures to confirm the 11 fixed assets as noted above.
- Correct the fixed asset inventory tags in the City's Fixed Asset System as needed.
- Reclassify the fixed assets in the City's Fixed Asset System that are unrelated to the Queen Mary Lease.

Source: 2007 City of Long Beach Fiscal Year 2007 Fixed Asset Property Report

17 FIXED ASSETS REQUIRING MANAGEMENT FOLLOW-UP:

	City ID	Asset Description	Location	Acquisition Date	Amount
Land Improvements Unrelated to Queen Mary Lease					
1	LB05480301	TRAVEL LODGE VISCOUNT STORM DRAIN TRANSF'D FROM HARBOR	TRAVEL LODGE VISCOUNT STORM DRAIN	19770901	-
2	LB05480302	TRAVEL LODGE VISCOUNT UTILITIES TRANSF'D FROM HARBOR	TRAVEL LODGE VISCOUNT	19760601	-
3	LB05480400	TRAVEL LODGE VISCOUNT ROADS TRANSF'D BY HARBOR	TRAVEL LODGE VISCOUNT ROADS	19760601	-
4	LB05480901	TRAVEL LODGE VISCOUNT PROMENADE TRANSF'D BY HARBOR	TRAVEL LODGE VISCOUNT PROMENADE	19760601	-
5	LB054904	PARKING AREA-POINT PACIFIC @ REEF TRANSF'D BY HARBOR	PARKING, PACIFIC @ REEF	19710701	-
6	LB05500900	BOAT LANDING-REEF RESTAURANT TRANSF'D BY HARBOR	LANDING, REEF RESTAURANT	19670801	-

Unobserved					
7	LB021894	PAINTING, SCREEN	EXHIBIT HALL	19930101	\$8,000.00
8	LB022853	CHANDELIER	QUEEN'S SALON	19930101	3,500.00

Unobserved, Reviewed Invoices to Verify Refurbishment					
9	LBCDREFB	QUEEN MARY FY 2001 REFURBISHMENT	N/A	20010930	\$4,694,444.60

Observed: Confirmation by Management Required					
10	LB01020700	Q.M. BOW FLOAT TRANSF'D FROM HARBOR	BOW	19801001	-
11	LB016609	QM RADIO ANTENNA	ABOVE SPORTS DECK	19930101	-
12	LB04000202	QM CATHODIC SYSTEM	UNDERWATER	19930101	-
13	LB04000302	QM ENERGY PLANT	ADJACENT TO QUEEN MARY	19930101	-
14	LB04000301	QM SHIPSIDE UTILITIES	N/A	19930101	-

Non-Matching IDs					
15	LB023214	GAME TABLE, TABOURETTE STYLE	SUNDECK EXHIBIT	19930101	\$ 400.00
16	LB090043	TABLE, CONFERENCE	SUNDECK	19930101	2,400.00
17	LB023527	TABLE, CONFERENCE	SUNDECK	19930101	1,250.00

12 DAMAGED FIXED ASSETS:

Damaged Pieces					
1	LB021778	CHAIR, W/ARMS, BROCADE W/COPPER (missing one leg)	STORAGE	19930101	\$ 275.00
2	LB021889	MAP, WORLD (scratches on painted map from SFO to San Diego)	M-DECK	19930101	1,000.00
3	LB022198	GRAND PIANO, STEINWAY (one broken leg on piano)	SIR WINSTON'S	19930101	30,000.00
4	LB090001	POSTER, 1930 (top right corner torn)	F-DECK STORAGE	19930101	750.00
5	LB090012	TORAH CROWNS (bell needs to be welded to piece)	F-DECK, ARCHIVE	19930101	160.00
6	LB090044	PANEL, GLASS (missing 2 of 4 panes)	R-DECK GRAND SALON	19930101	750.00
7	LB090045	PANEL, GLASS (missing 2 of 4 panes)	R-DECK GRAND SALON	19930101	750.00
8	LB090053	FLOOR LAMP (base only, missing lamp)	MAIN HALL	19930101	2,500.00
9	LB090058	MIRROR, WALL	QUEEN'S SALON	19930101	900.00
10	LB090064	GLASS PANELS, (23 of 24 see Note below) (cracks on two panels)	STAIR	19930101	5,000.00
11	LB090066	PAINTING, BIRDS (scratches on painting)	GRAND SALON	19930101	8,000.00
12	LB090067	PAINTING, BIRDS (scratches on painting)	GRAND SALON	19930101	8,000.00

Note: We observed 23 of 24 existing glass panels. One glass panel was in an inaccessible storage area and not observed during our audit.

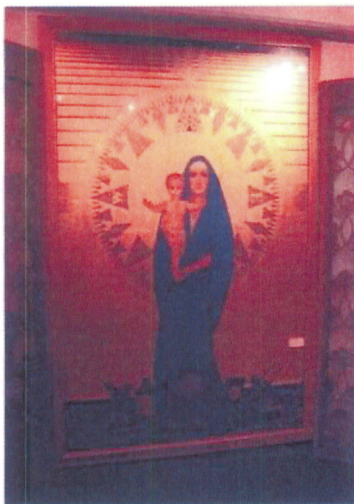
OBSERVED HISTORICAL ARTIFACTS NOT ON 2007 REPORT:

	City ID	Asset Description	Location	Acquisition Date	Amount
<i>Additional Items from 1998 Fixed Asset Report</i>					
1	LB0009352	GRAND PIANO, KAWAI, BLACK	OBSERVATION LOUNGE	19930101	\$0.00
2	LB0009423	PIANO, UPRIGHT, KAWAI W/ BENCH	R-DECK GRAND SALON	19930101	0.00
3	LB0059951	GRAND PIANO, BLACK, KAWAI W/ BENCH	QUEEN'S SALON	19930101	0.00
4	LB0022199	ORGAN, HAMMOND	SUNDECK	19930101	0.00
5	LB90064	GLASS PANELS, (2 of 24 see Note above)	STORAGE	19930101	0.00

<i>Additional Historical Artifacts Observed, not located on a Fixed Asset Report</i>					
6	Unknown	CABINET	M-DECK STORAGE	Unknown	Unknown
7	Unknown	CABINET TOP-ETCHED GLASS W. GOLD LEAF - 2	MAIN LOUNGE	Unknown	Unknown
8	Unknown	MATCHING CHAIRS W. ART DECO TABLE	MAIN DECK	Unknown	Unknown
9	Unknown	CLOTHS ON DISPLAY	MAIN DECK	Unknown	Unknown
10	Unknown	ETCHED GLASS PANEL DEER UNDER A TREE #1	MAIN DECK	Unknown	Unknown
11	Unknown	CHINA SIX PLACE SETTINGS ON DISPLAY	MAIN DECK	Unknown	Unknown
12	Unknown	CHINA FOUR PLACE SETTINGS ON DISPLAY	MAIN DECK	Unknown	Unknown
13	Unknown	JOHN BROWN DISPLAYED DRAUGHTING TOOLS	MAIN DECK	Unknown	Unknown
14	Unknown	FORMAL DRESS ON DISPLAY	MAIN DECK	Unknown	Unknown
15	Unknown	HISTORICAL EXERCISE EQUIPMENT & SCALE ON DISPLAY	MAIN DECK	Unknown	Unknown
16	Unknown	ETCHED GLASS PANEL FISH #1	MAIN DECK	Unknown	Unknown
17	Unknown	ETCHED GLASS PANEL FISH #2	MAIN DECK	Unknown	Unknown
18	Unknown	ETCHED GLASS PANEL FISH #3	MAIN DECK	Unknown	Unknown
19	Unknown	ETCHED GLASS PANEL FISH #4	MAIN DECK	Unknown	Unknown
20	Unknown	ETCHED GLASS PANELS VARIOUS	VERANDA GRILL	Unknown	Unknown
21	Unknown	GLASSWARE ON DISPLAY	GRAND SALON	Unknown	Unknown
22	Unknown	MISC. HOUSEHOLD ITEMS IN GLASS CASE	GRAND SALON	Unknown	Unknown
23	Unknown	MOLDED GLASS PANELS	GRAND SALON	Unknown	Unknown
24	Unknown	HISTORICAL OFFICE FURNITURE VARIOUS ITEMS	A-DECK	Unknown	Unknown

	City ID	Asset Description	Location	Acquisition Date	Amount
<i>Additional Historical Artifacts Observed, not located on a Fixed Asset Report continued</i>					
25	Unknown	PIANO WHITE LÁMINATE	D-DECK – QM HISTORIC EXHIBIT	Unknown	Unknown
26	Unknown	PEWTER RAILINGS	OBSERVATION BAR	Unknown	Unknown
27	Unknown	FIRST CLASS SUITE BEDROOM DISPLAY	D-DECK – TOWARDS ENGINE ROOM	Unknown	Unknown
28	Unknown	SECOND CLASS CABIN DISPLAY	D-DECK – TOWARDS ENGINE ROOM	Unknown	Unknown
29	Unknown	HAIR SALON CHAIRS – HISTORIC ON DISPLAY	D-DECK – TOWARDS ENGINE ROOM	Unknown	Unknown
30	Unknown	VARIOUS SERVING PIECES ON DISPLAY	D-DECK - QM HISTORIC EXHIBIT	Unknown	Unknown
31	Unknown	SIDE TABLE – 1 TIER	LOWER DECK STORAGE	Unknown	Unknown
32	Unknown	SIDE TABLE – 2 TIERS	LOWER DECK STORAGE	Unknown	Unknown
33	Unknown	SIDE TABLE – 3 TIERS	LOWER DECK STORAGE	Unknown	Unknown
34	Unknown	SILVER DINING ACCESSORIES IN DISPLAY CASE	D-DECK - QM HISTORIC EXHIBIT	Unknown	Unknown
35	Unknown	3-TIER SERVING TABLE	R- DECK ART GALLERY	Unknown	Unknown
36	Unknown	TITANIC MODEL	D – DECK ENTRANCE TO THE ENGINE ROOM	Unknown	Unknown

SAMPLE PHOTOGRAPHS OF OBSERVED ITEMS ON 2007 FIXED ASSETS REPORT:



City ID#: LB021893



City ID#: LB023229



City ID#: LB090012



City ID#: LB090022



City ID#: LB90064



City ID#: LB090070



City ID#: LB090080



City ID#: LB090090



City ID#: LB090098

**SAMPLE PHOTOGRAPHS OF OBSERVED ITEMS NOT ON 2007 FIXED ASSETS
REPORT:**



City ID#: LB0009352*

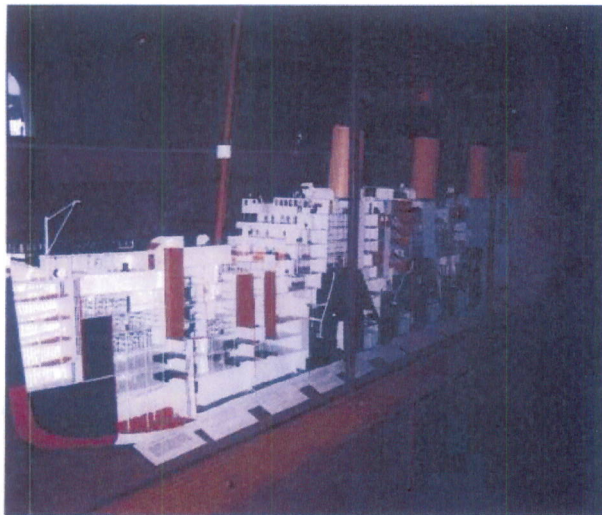
*Asset was on 1998 Report but not on 2007 Report



Etched Cabinet Top



Glassware on Display



Titanic Model

Molded Glass Panels



Chairs with Art Deco Table



CITY OF LONG BEACH

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August 29, 2008

Laura Doud, City Auditor
333 West Ocean Boulevard, 8th Floor
Long Beach, California 90802

Re: Management's Response – Queen Mary Inventory Audit Report Dated July 2008

Dear Ms. Doud:

We would like to thank the City Auditor for the work performed in this audit and the analysis regarding the City-owned fixed assets on the Queen Mary. The Community Development, Development Services and Financial Management departments, along with the City Attorney's Office, are already in the process of collaborating to address some of the issues noted. Other recommendations will be implemented as the City engages in future agreements.

Issue #1

Fixed asset policies and procedures for contractors that manage City fixed assets are needed.

City Management Response:

The Department of Financial Management agrees with this recommendation and, in fact, requested the City Auditor to include this specific recommendation in its audit findings as existing policies regarding fixed assets do not adequately describe the procedures to be followed by third party administrators/contractors in the day-to-day management of City-owned assets.

While the City has existing fixed asset policies and procedures that protect the City's internally held and managed assets, specific policies and procedures do not exist that prescribe the inventory, valuation and day-to-day management responsibilities of City-owned assets under management by third party administrators or contractors under lease and operating agreements.

As such, the City will create a new Administrative Regulation that specifies the policies and procedures that third party administrators must follow to manage City-owned assets. In addition, the City will update Financial Policy and Procedure FPP7-1 to further define the City's oversight responsibilities for fixed assets managed by contractors.

In the future, Community Development will conduct complete inventories prior to transferring assets to contractors as necessary, and will incorporate language regarding the management of the City's fixed assets into the relevant agreements between the City and its contractors. In addition, when the Ground Lease between the City and Save the Queen, LLC (Tenant) is renegotiated in the near future, additional audit controls will be included.

Issue #2

No provision in the Queen Mary lease for the safeguarding and oversight of inventory on the Queen Mary.

City Management Response:

As the report notes, the City is in the process of amending the Queen Mary Ground Lease. The new Ground Lease will include a provision for oversight of City-owned fixed assets. It should be noted, however, that under the terms of the existing Ground Lease, the Tenant is required to annually verify and document the existence of items placed on the inventory. Due to the recently completed bankruptcy proceedings, this annual review was not conducted this year. It is expected that, as a part of the renegotiated Ground Lease, a specific exhibit identifying and cataloging the fixed assets, particularly those with historic value, will be included.

Issue #3

Need to evaluate and determine if unrecorded, observed fixed assets have historical significance and should be tracked.

City Management Response:

In connection with the preparation of a Draft EIR for development of the Queen Mary property, a historic resources consultant was hired to conduct a comprehensive inventory of historic artifacts. The Tenant is cooperating with plans to conduct this inventory. Once it is completed and a list of historical assets is agreed upon, the final inventory will be attached to the Ground Lease. Assets worth \$5,000 and over will be tracked in the City's Fixed Asset System. Assets worth less than \$5,000 but deemed to be historically significant will be separately tracked in the fixed asset accounting system, but excluded from financial statements.

Issue #4

No evidence of proper retirement of fixed assets following the conversion to a new fixed asset system.

City Management Response:

As the report notes, the Fixed Asset System was revised in 1999 to change the minimum dollar amount for capital fixed assets from \$1,000 to \$5,000. The total number of Queen Mary assets in the Fixed Asset System before its conversion was 586, as shown on the 1999 inventory. After conversion, the number was reduced by 395. Retirement forms were not required as these assets were not disposed. They are still part of the Queen Mary's fixed assets and were saved in the Access database. A copy of the database was provided to Community Development for inventory purposes.

As stated above, the City is collaborating with the Tenant to conduct a comprehensive inventory of City-owned fixed assets and those assets identified as historical will be appropriately tracked in the future. In addition, Community Development will work with Financial Management to ensure that established procedures are followed for any future fixed asset retirements.

Issue #5

Summary results of confirmation of 154 fixed assets.

City Management Response:

Financial Management has revised the total number of fixed assets from 154 to 193. Zero value assets were inadvertently excluded in the 2007 inventory report.

The forthcoming comprehensive inventory is expected to result in the confirmation of these assets as well as 17 unidentified assets from the Auditor's report. Community Development and Development Services will work with Financial Management to correct fixed asset inventory tags and reclassify fixed assets as needed.

Sincerely,



CRAIG BECK
DIRECTOR OF DEVELOPMENT SERVICES



LORI ANN FARRELL
DIRECTOR OF FINANCIAL MANAGEMENT/CFO



DENNIS J. THYS
DIRECTOR OF COMMUNITY DEVELOPMENT

LAF: DT: sj: aa
Queen Mary Audit Response 8-28-08.doc

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