

REPORT

OF

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PREPARED FOR:

LAURA DOUD

LONG BEACH CITY AUDITOR

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I. Scope of Assignment

1. The Long Beach City Auditor, Laura Doud, engaged Hemming Morse, LLP (“Hemming”) and me to perform an analysis of the financial transactions and activity between the City of Long Beach (“COLB” or “City”) and the Lessees and Operators of the Queen Mary. Hemming’s engagement letter is dated February 26, 2020.

II. Sources of Information and Documentation

2. Pursuant to the analysis in this matter, City Auditor Doud, staff working under my supervision and at my direction, and I requested documentation from various stakeholders, including:
 - Urban Commons, Queen Mary, Eagle Hospitality Trust (“EHT”), and FTI Consulting (EHT’s Consultants) (together, the “UC Entities”)
 - COLB Departments including:
 - City Auditor’s Office
 - Economic Development (“ED”)
 - Tidelands CIP Group
 - Select vendors who performed work on the Queen Mary related to the use of \$23 million in existing reserves and bond funds for Historical Preservation Capital Improvement Projects (“HPCIP Projects”).
3. Shortly after Hemming’s retention, “safer at home” orders related to the COVID-19 epidemic limited the ability to meet in person, as would typically occur in this type of matter.



4. Given the circumstances, requests for documents and information were made via teleconferences, email correspondence, and the US Postal Service. However, after numerous requests and follow-up requests, significant relevant documentation and information has not been received and remains outstanding.
5. My analysis focused on the \$23 million spent on HPCIP Projects at the Queen Mary from late 2016 through 2018, because, while the information received related to these projects was not complete, it was more complete than the information received related to other aspects of COLB's financial relationship with the UC Entities.

III. Summary of Observations

6. My observations based on the analysis performed to date by me and staff working at my direction are:
 - UC Entities provided COLB documents stating it had paid vendors which had not been paid.
 - UC Entities have not provided sufficient detail supporting cash disbursements in response to requests for information.

IV. Background

7. In December 2019, City Auditor Doud announced that she had notified City management and Urban Commons that she intended to “conduct [an] audit in partnership with a forensics accounting firm”¹ and stated:

The iconic Queen Mary has for generations been a significant and meaningful part of our City's history, but the ship has gone through some very challenging times... Since I was first elected to this office, I have tracked the Queen Mary's developments, voiced my concerns about the progress of capital improvements as well as City oversight

¹ “Press Release: Long Beach City Auditor to Conduct Audit of Queen Mary Lease Agreement,” December 3, 2019, <<https://www.cityauditorlauradoud.com/wp-content/uploads/2019/12/Long-Beach-City-Auditor-to-Conduct-Audit-of-Queen-Mary-Lease-Agreement.pdf>>.



of the ship, pushed for reporting transparency, and conducted a number of audits of the Queen Mary. This latest audit is a continuation of our work to ensure good stewardship of this historical asset.²

8. Section 4.3 of the City’s Lease Agreement with Urban Commons, entered into on November 1, 2016 (“Lease Agreement”) provides the City with rights to audit the books and records of Urban Commons.
9. Prior to the City and Urban Commons entering into a Lease Agreement on November 1, 2016 (“Lease Agreement”), outside consultants Simpson Gumpertz & Heger Inc. (“SGH”) were engaged to undertake a marine survey of the Queen Mary. The results of this survey were documented and reported by SGH in September 2016 with a subsequent “Final Report” dated January 25, 2017 (together, “Marine Survey”).³ The stated “primary objectives” of the Marine survey were:
 - To evaluate the historic vessel’s current condition, especially its structural stability and watertight integrity;
 - To recommend additional technical assessments that are needed to finalize repair scope, options, and costs;
 - To predict the ship’s life span for current uses;
 - To provide prioritized options for efficient repairs that preserve the values and significance of the historic vessel, and serve the ship’s present functions; and
 - To provide an opinion of probable cost for the repair recommendations.⁴

² “Press Release: Long Beach City Auditor to Conduct Audit of Queen Mary Lease Agreement,” December 3, 2019, <<https://www.cityauditorlauradoud.com/wp-content/uploads/2019/12/Long-Beach-City-Auditor-to-Conduct-Audit-of-Queen-Mary-Lease-Agreement.pdf>>.

³ “FINAL REPORT: Marine Survey of the Queen Mary,” Simpson Gumpertz & Heger, January 25, 2017, and attachment dated September 2, 2016.

⁴ “FINAL REPORT: Marine Survey of the Queen Mary,” Simpson Gumpertz & Heger, January 25, 2017, for example, p. 1.



10. The results of the Marine Survey identified repairs estimated to cost approximately \$235 to \$289 million which were estimated to take approximately five years to complete after funding was secured.⁵
11. In connection with the Lease Agreement and the results of the Marine Survey, the City agreed to use approximately \$23 million in bond funds and existing reserves to fund some of the most “urgent” and “critical” repairs at the Queen Mary.⁶

V. Analysis Completed

12. A significant portion of the work my team performed under my direction included obtaining relevant records and information. This work included:
 - Formulating requests
 - Tracking responses
 - Following up to obtain additional information.
13. As part of these requests, I sought information typically relevant to performing analyses of financial transactions and activities. These requests included cash disbursement detail from the UC Entities.
14. With respect to the \$23 million of HPCIP Projects:
 - I and staff working at my direction selected and reviewed invoices covering \$18.6 million of the \$23 million spent on the projects:
 - Invoices from the four contractors / vendors with the highest total billings.
 - Invoices were issued by contractors / vendors to Urban Commons.
 - These four companies performed work on 11 of the 27 HPCIP Projects.

⁵ “FINAL REPORT: Marine Survey of the Queen Mary,” Simpson Gumpertz & Heger, January 25, 2017, for example, p. 4.

⁶ “FINAL REPORT: Marine Survey of the Queen Mary,” Simpson Gumpertz & Heger, January 25, 2017, for example, p. 4. See also, Amended and Restated Lease and Operations Agreement of Queen Mary, Adjacent Lands and Improvements, Dome and Queen’s Marketplace (Lease No. 22697) by and between City of Long Beach and Urban Commons Queensway, LLC, Dated as of November 1, 2016, Sections 7.3.2 and 7.3.3.



- Reviewed scope and budget documentation, such as contracts and change orders, for select HPCIP Projects and vendors.
- Reviewed COLB processes and procedures for review of invoices received from UC entities and for payment of those invoices to UC Entities. As part of this, I and my staff working at my direction:
 - Gained understanding of the actual processes and procedures undertaken by City departments with respect to the HPCIP Projects.
 - Had discussions with various COLB departments and reviewed memoranda prepared by those departments.

VI. Observations With Respect to UC Entities

A. UC Entities Provided COLB Documents Stating It Had Paid Vendors Which Had Not Been Paid

15. The UC Entities provided COLB vendor invoices marked with a “PAID” stamp when submitting those invoices to COLB for payment. Available documents and information show these vendor invoices had not yet been paid by Urban Commons when the UC Entities submitted their payment requests to COLB, despite having been stamped by the UC Entities as “PAID”.
16. During discussions between ED, me, and my staff, ED staff described this “PAID” stamp as a self-certification by UC Entities that the amounts had been paid by Urban Commons to the underlying vendors.
17. My and my team’s review of documents and information on this issue indicate that, in general, the UC Entities had not paid vendors prior to stamping the vendor invoices as “PAID” and submitting them to the City for payment. 89 out of 93 reviewed invoice packages provided to the City by the UC Entities contained a “PAID” stamp.
18. 87 of the 89 UC Entities’ invoices submitted to COLB with a “PAID” stamp were dated prior to the date shown on an Urban Commons prepared tracking document as



having been the date it paid the vendors. Each of these invoices was dated at least two weeks prior to the date Urban Commons recorded as paying the vendors. On average the UC Entities invoiced the City 51 days prior to paying the vendor.

19. Other documents and information I have received also show the invoices marked as “PAID” from UC Entities to COLB preceded the City’s payments to Urban Commons and Urban Commons’ payments to the vendors.⁷ These other documents are consistent with the information provided in Urban Commons’ tracking document.

B. UC Entities Have Not Provided Sufficient Detail Supporting Cash Disbursements in Response to Requests for Information

20. COLB, Hemming staff working at my direction, and I have requested documentation from UC Entities to support the cash disbursements it purportedly made related to the HPCIP Projects and for other purposes. These requests were made through letters, phone conversations, and by follow up emails.
21. The UC Entities have not provided documentation or information sufficient to support or document cash disbursements to vendors were made in the amounts or on the dates asserted by Urban Commons.
22. COLB and I were not provided with requested third party-prepared documentation such as bank statements, canceled checks, or wire transfer notices. We were also not provided Urban Commons-prepared evidence of disbursements such as a check register or other listing of payments which should have been maintained by Urban Commons or another of the UC Entities in their normal course of business.
23. I recognize that providing bank statements, copies of canceled checks, and wire transfer notices may have been time consuming. However, my understanding of the Lease Agreement, is the City was entitled to obtain and analyze such documents, if

⁷ This information includes payment dates provided by select vendors and City payment dates.



requested. Additionally, it has been more than a year since our original requests for information to Urban Commons.

24. To date, I have not received sufficient information to complete an analysis of disbursements for HPCIP Projects or other payments made by UC Entities.
25. In an effort to obtain this information through other sources, staff working at my direction and City Auditor Doud prepared and sent letters to the four largest vendors on the HPCIP Projects requesting confirmation of amounts and timing of payments received from Urban Commons. Below summarizes the status and results of the analysis related to these requests:

- Vendor A:
 - Vendor A received approximately \$11.5 million in HPCIP Funds.
 - Documents have not been received from Vendor A despite multiple requests and follow-up requests in which staff working at my direction and City Auditor Doud's staff have been assured by Vendor A that its response to the requests is in process.⁸
- Vendor B:
 - Vendor B received approximately \$3.9 million in HPCIP Funds.
 - Documents have been received and reviewed with no discrepancies identified between Vendor B's records and the information in Urban Commons' tracking document.
- Vendor C:

⁸ Initial request was made on February 2, 2021. No response was received from Vendor A until a second request was made on March 17, 2021. Since that time, there have been at least two emails from Vendor A and one phone call between Vendor A and City Auditor Doud's staff in which Vendor A indicated its intention to provide responsive information. The most recent email received from Vendor A was May 5, 2021 in which the president of the company stated "I will make sure we make this a priority to get it over to you right away." This request should have taken no more than half a day to fulfill if the company maintained even very rudimentary accounting information.



- Vendor C received approximately \$2.6 million in HPCIP Funds.
 - Vendor C has not responded to requests for information.
 - Vendor D:
 - Vendor D received approximately \$660,000 in HPCIP Funds.
 - Documents have been received and reviewed with no discrepancies identified between Vendor D's records and the information in Urban Commons' tracking document.
26. This report summarizes my findings based on the information received and analyzed to date.

A handwritten signature in blue ink, appearing to read 'David W. Callaghan'.

David W. Callaghan, CPA

May 25, 2021