



## PRESS RELEASE

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Contact: Meghan King, Communications Manager, 562.570.6726, [Meghan.King@longbeach.gov](mailto:Meghan.King@longbeach.gov)

For Immediate Release

### **Long Beach City Auditor's Report Finds the City Cannot Be Assured the \$23 million for Queen Mary Urgent & Critical Repairs Was Spent as Intended**

Long Beach, CA – Long Beach City Auditor Laura Doud today released her [Queen Mary Report](#) to verify that Urban Commons, the previous leaseholder and operator of the Queen Mary, used the \$23 million as agreed upon to fund the 27 urgent and critical repair projects and to determine whether the City of Long Beach (City) provided sufficient oversight of the funds for these projects.

The Long Beach City Auditor's Office (Office) directed the forensics accounting firm, Hemming Morse, to perform an analysis of financial transactions and activity between Urban Commons and the City. Based on this analysis, the report includes the Office's conclusions and recommendations.

The key issues of the report were the following:

- Missing payment information;
- Excessive subcontractor markups and management fees;
- Items purchased were not for urgent and critical repair projects;
- Lack of vetting subcontractors and a competitive bidding process; and
- Lack of consistency regarding scopes of work and subcontractor invoices.

"We know the City paid more than necessary for some of the projects due in part to the excessive markups and management fee," said Long Beach City Auditor Laura Doud. "We cannot tell in detail how much or where all the repair money went due to a combination of missing payment information from Urban Commons and subcontractors and the lack of detail in subcontractors' vague invoices breaking down labor and material costs. We do know that only seven of the 27 repair projects were completed and that a lack of sufficient management oversight contributed to these problems. The City's funds were at risk, because the City used its own cash as well as City issued bonds for the \$23 million in upfront funds and ultimately ended up making the bond payment for \$2.4 million when it came due last year since revenues expected to fund this payment were not realized."

The report recommendations focus on how the City needs to ensure lease agreement terms and oversight are aligned with City policies and procedures.

"Moving forward the City needs to fully implement our recommendations to ensure that the issues detailed in this report are not repeated and that any future funds allocated for the Queen Mary are safeguarded and spent according to best practices," said Long Beach City Auditor Laura Doud.

The complete Long Beach City Auditor's Queen Mary Report can be viewed [here](#).

#### **About the Long Beach City Auditor's Office**

The Long Beach City Auditor's Office's mission is to make Long Beach better through independent audits and fraud investigations. The Office works to provide assurance City funds are spent as intended, promote transparency and accountability of City operations, and prevent fraud, waste and abuse of City resources. For more information visit [CityAuditorLauraDoud.com](http://CityAuditorLauraDoud.com) and connect with the Office @LBCityAuditor on [Facebook](#), [Instagram](#) and [Twitter](#). Sign up to receive email [updates](#) and download the MyAuditor App at the [App Store](#) or [Google Play](#).

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## **Background Information**

The report highlights the following key issues:

### **Missing Payment Information:**

Urban Commons and some subcontractors did not provide all necessary information to support that payments to subcontractors were made in the amounts or on the dates as asserted by Urban Commons. The City paid Urban Commons, however it could not be confirmed that Urban Commons passed all this money through to subcontractors. For example, two of the four largest subcontractors who worked on the repair projects did not respond with requested information, so it could not be confirmed they received payments.

### **Excessive Markups and Management Fee:**

The lease agreement did not address markups or a management fee. The lease agreement did not include limits for acceptable markup percentages, what was eligible for markups, or when markups could be charged. There were instances where markups seemed excessive and where markups were compounded on each other causing the total amount billed to grow even larger. For example, a Fire & Life Safety Systems project invoice showed that the City paid an additional \$30,490.80 or 39% more for materials purchased after markups were compounded. Additionally, although it was not included in the lease agreement, the City approved a management fee for Urban Commons, which amounted to 5% on all subcontractor invoices totaling \$1.1 million. The value expected from this management fee was not defined or detailed.

### **Items Purchased Were Not for Urgent and Critical Repair Projects:**

More than \$300,000 in payments were made by the City for visitor attraction items including a Tesla Coil, the Hollow Hallway, the Conjuring Video project equipment, and 18 Samsung tablets in the Ghosts & Legends project which was described as construction, demolition, and repair. The City reviewed and approved these visitor attraction items even though they were not in line with the intent of what the \$23 million designated for repair projects.

### **Lack of Vetting Subcontractors and a Competitive Bidding Process:**

Subcontractors should have been vetted so that the City was aware of their qualifications, reasonable rates, and whether related party transactions existed. For example, it was determined that Dan Zaharoni, Urban Commons' Chief Development Officer, had relationships with two subcontractors who received \$285,000, and due to this it is possible that they were not the most qualified subcontractors and charged inappropriate amounts. Additionally, a competitive bidding process should have been used for subcontractors to ensure that the City received the most competitive, fair pricing and contract terms. Only one component of one of the 27 repair projects was found to have received multiple bids.

### **Lack of Consistency Regarding Scopes of Work and Subcontractor Invoices:**

Scopes of Work (SOWs) submitted for the repair projects should have included details so that the contract, change orders, and invoices could all be compared to determine what was included and what was additional work. Some SOWs were vague, and it could not be determined if pricing was appropriate. For example, one SOW included a lump sum price without a breakdown of the costs related to labor and materials. Also, subcontractor invoices lacked sufficient detail making it difficult to verify whether the City received the materials and services for which it paid. A risk with this is that items may have been purchased and billed to the City that do not meet the lease agreement criteria. For example, one invoice had a total amount due per line item, such as \$125,000 for G&L Rust Inhibitor, however it did not show a breakdown of labor, material costs, or include backup such as receipts for materials or details of staff hours to complete the work.