



A father and his sons walk past the Queen Mary in Long Beach, Thursday, June 10, 2021. Photo by Brandon Richardson.

QUEEN MARY

NOV 15 10:00 AM

Long Beach overpaid for Queen Mary repairs, didn't vet subcontractors, city auditor says

 Kelly Puente

  

A long-awaited city auditor report has found that Long Beach failed to properly oversee \$23 million in critical repairs for the Queen Mary, leading to excessive subcontractor markups, unnecessary projects and overpayment for some work.

- ADVERTISEMENT -

The [report's release Monday](#) follows a nearly two-year investigation by City Auditor Laura Doud into how former Queen Mary operator Urban Commons spent \$23 million in city-issued funds for urgent repairs on the aging ocean liner.

Among the concerns, the report found that subcontractor markups in some cases were 40% higher than the original cost, which the city has said is typical of public construction projects.

In all, Doud on Monday said she [can't be assured that the \\$23 million was spent as intended](#) 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 know the City paid more than necessary for some of the projects due in part to the excessive markups and management fees," Doud said in a statement. "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 report included several recommendations for changes in city oversight moving forward, and the city, for its part, has agreed to implement those changes. Meanwhile, Urban Commons is no longer at the helm of the Queen Mary. It gave up the lease in bankruptcy court earlier this year, leaving the city alone to manage the ship for the first time in 40 years.

In a written response to the audit, City Manager Tom Modica said Long Beach is now negotiating a new operating plan as it considers the Queen Mary’s future.

“Urban Commons [proved ultimately to be a bad partner](#) who did not meet expectations or operate to the City’s standards and expectations,” Modica wrote. “While the public-private partnership model has been effective at creating strong partnerships with private and non-profit entities at other assets like the Convention Center, Aquarium, ranchos and museums, history has shown over the past 40 years that a new model is warranted for this asset.”

Among the findings in the audit:

- The city’s lease agreement with Urban Commons did not address markups or a management fee for projects, and in some cases, the fees appeared to be excessive. For example, an invoice for a fire safety project showed the city paid an additional \$30,490.80, or 39% more, for materials purchased after markups were added. Urban Commons also charged a 5% management fee on all subcontractor invoices for a total of \$1.1 million. The city, in its written response, said it is typical for construction projects to have markups and other additional fees. Costs for publicly run projects can run up to 40% higher than the original quote, the city’s response said.
- The lease did not require Urban Commons to vet subcontractors or have a competitive bidding process. In one case, it was found that former Urban Commons development chief Dan Zaharoni had relationships with two subcontractors: Maxon Technologies and Cal Building & Maintenance, which were paid \$220,000 and \$65,000, respectively. Maxon Technologies, a company in which Zaharoni’s father is listed in public records as the CEO, supplied a rust-prevention primer, while Cal Building is noted as Zaharoni’s [construction company on his website](#). Zaharoni in an email [denied any conflict](#) of interest, saying he did not financially benefit from the contracts.
- Although the \$23 million provided by Long Beach was intended for critical repairs, some of it went toward other purchases. For example, the city paid

\$300,000 for visitor attraction items in the Ghosts & Legends tour area, though the project was described as being for “construction, boiler rooms demolition and rust repair.” The city in its response said staff reviewed the items and determined they could help Urban Commons generate revenue and were in keeping with the general goal of improving the ship.

Long Beach provided the \$23 million to Urban Commons after a long history of deferred maintenance on the ship. The city has owned the iconic Queen Mary since 1967 and for decades leased it to a string of private operators who struggled financially and neglected critical repairs.

The city in 2016 issued \$23 million in bonds and Tidelands funds to Urban Commons for 27 urgent projects. The money ran out before most projects were finished and Urban Commons later declared bankruptcy, [leaving a barrage of lawsuits and debt](#).

Doud, [who had originally voiced concerns over the city](#) issuing the upfront \$23 million payment to Urban Commons, said the city risked its own funds in the deal and ended up having to foot a \$2.4 million bond payment last year after the intended revenue from Carnival cruise passenger fees dried up in the COVID-19 pandemic.

Doud said her investigation was slow because the company didn't [provide some documents](#) and detailed financial records. Previously, she found that the Urban Commons had lied about its payments by asking to be reimbursed by the city for critical repair work before it [paid contractors to perform the jobs](#).

Overall, she said the city will likely never know exactly how the \$23 million was spent due to vague and missing financial information from Urban Commons and its subcontractors.

Of the four contractors with the highest billings—F. Roberts Construction; Benson Systems; Industrial Coatings and Fireproofing; and Vendo Oceanwide Repair—only two responded to her audit with more information.

The city in its response said all payments required review by multiple departments. And the city in 2019 began placing Urban Commons in default for failing to provide some financial information and not fulfilling its lease obligations.

The audit's recommendations include: requiring a competitive bidding process for future work, better tracking of projects against original scopes of work and requiring detailed scopes of work to be submitted by subcontractors.

The city noted that many of Doud's concerns deal with city practices in using a public model with city project management staff. By contrast, the Queen Mary lease agreement was a public-private partnership in which a private operator takes on the responsibility for performing work and maintenance on a city asset.

Doud in an interview said she disagrees with the city's assumption that Urban Commons was mainly responsible for oversight, considering the company was using public funds.

"When the city has provided the funding, it's the city management's responsibility to ensure the funding is being used as agreed upon," she said.

Moving forward, the city said it will use a different form of management as it considers the millions of dollars in funding required to keep up the Queen Mary. The city is considering [transferring control of the ship to the Harbor Commission](#), which oversees the Port of Long Beach, but those negotiations could take up to a year, officials have said.

In the meantime, an April report from a city-hired naval architecture and marine engineering firm said the city would need an additional \$23 million in urgent safety repairs [to keep the ship "viable"](#) over the next two years.

The Queen Mary remains closed as the city considers funding for several safety repairs, including removing corroded lifeboats that are in danger of falling.

Doud said she's disappointed the original \$23 million provided by Long Beach has already been spent while much of the critical repair work has yet to be addressed.

"It's just unfortunate," she said.