



CITY OF LONG BEACH **R-19**

Attachment

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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

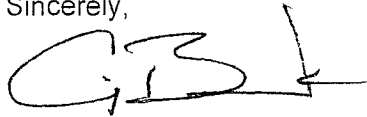
Summary results of confirmation of 154 fixed assets.

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
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Cc: Patrick H. West, City Manager
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