



# **Long Beach Sea Festival Association Contract Performance Audit**

***Presented by Laura L. Doud, City Auditor  
Tuesday, April 15, 2008***

# **OBJECTIVE OF LONG BEACH SEA FESTIVAL CONTRACT PERFORMANCE AUDIT**

- Assess the performance of Sea Festival Association in fulfilling the City's intent and goals under the existing agreement between the City and the Association.
- Overall findings indicate Sea Festival is doing well, but there are areas for improvement.

# BACKGROUND

- For more than 50 years, the City has hosted a series of summer community events along its waterfront, known as Sea Festival.
- Prior to 2004, public interest and financial support for Sea Festival declined.
- The City began investigating the revitalization of Sea Festival resulting in the creation of Sea Festival Association (Association).

## BACKGROUND - *Continued*

- The Association operates as a nonprofit entity with goals to revitalize the Sea Festival and promote the Long Beach “Brand” through increased visibility, generation of sponsorships, and enhancement of the quality and variety of festival events.
- The private-public partnership between the City and Association supports the mutual goals of marketing the City, attracting visitors, bringing quality events to City residents, and boosting economic benefits.
- The scope of our audit included reviewing financial data of the Association from calendar years January 1, 2005 through September 30, 2007.

# ASSOCIATION'S PROGRESS

- Association's progress during first two years of contract
  - Number of events has steadily increased, and festival visibility has improved
    - 29 events in 2005, 43 events in 2006, and 54 events in 2007
  - Private sponsorships have increased
    - Key sponsors: Charter Communications, CMA/TranSystems, Home Depot, Coca-Cola, St. Mary Medical Center
  - Economic impact not determined at time of our audit, but early indicators show positive returns to City

# OVERVIEW OF AUDIT RESULTS

- The audit report identified 6 issues within three broad categories
  - City's Revenue and Expenses Related to Sea Festival
  - Policies and Procedures
  - Contract Clarification

# TIMELINE

## 2005

- No contract
- No fees paid to Long Beach

## 2006

- Contract signed
- No fees paid to Long Beach
- \$37,000 owed
- Sea Festival Association has asserted that City Council gave the previous City Manager authority to waive this fee
- We found no evidence to support a waiver by the City Council

## 2007

- \$32,000 (estimated) due and paid
- Documents supporting Sea Festival Association's 2007 payment show it was made for Summer 2007, not Summer 2006
- Summer 2006 fees of \$37,000 are still due to the City

# RESULTS AND RECOMMENDATIONS

## *City's Revenue and Expenses Related to Sea Festival*

**Issue #1: City Permit Fees are waived with the intent that the Agreement Fee will offset the loss of permit fee revenue. However, the 2006 Agreement fee was not collected.**

- The waiving of the permit fees provides an incentive for the event operators to include their events as part of the Sea Festival.
- Under the contract, the 2006 Agreement Fee is still collectible.

### **RECOMMENDATION:**

**Collect the 2006 Agreement Fee of \$37,000 or approve waiver of fees.**

# **AGREEMENT FEE**

*The contract requires the Association to pay the City the compensation listed below on December 1 of each year.*

**Year 1 (2006): Greater of 20% of gross revenues or \$0**

**Year 2 (2007): Greater of 20% of gross revenues or \$20,000**

**Year 3 (2008): Greater of 20% of gross revenues or \$40,000**

**Year 4 (2009): Greater of 20% of gross revenues or \$80,000**

**Year 5 (2010): Greater of 20% of gross revenues or \$150,000**

# RESULTS AND RECOMMENDATIONS

## *Policies and Procedures*

**Issue #2: There is no assurance the City is capturing and recovering all costs for special events. In addition, there is no current policy in place to determine what costs should be recovered.**

- Our review found that City staff do not record work time by event or specific activity. Thus, specific data was not available to ascertain the City-related costs for Sea Festival activities or other special events.
- Through the permit process, the City can recover from event operators the incremental costs of providing the needed City services for events; yet of 24 events with permits for 2006, only five (5) included incremental costs.
- City Departments do not always identify and provide the Office of Special Events & Filming (OSEF) with an invoice to bill back costs to event operators.
- Although OSEF bills the event operators, the operators pay the City Departments directly and no reconciliations are being performed to determine if the City is recovering its costs.

### **RECOMMENDATIONS:**

- **Establish policy and procedure to ensure all appropriate costs are captured and billed to the event operator.**
- **Coordinate the billing and collection of City costs.**

# RESULTS AND RECOMMENDATIONS

## *Policies and Procedures*



# WHO PAYS FOR SEA FESTIVAL?

## SOURCES OF SPONSORSHIPS

	Season (Calendar Year)		
	2005	2006	2007
Private Sponsorships	\$ 28,000	\$ 94,000	\$ 117,000
City Sponsorships	\$ 35,000	\$ 127,250	\$ 111,050
Total Sponsorships	\$ 63,000	\$ 221,250	\$ 228,050

\* Per City Department sponsors, funds provided to the Association are special funds earmarked for community outreach projects.

# RESULTS AND RECOMMENDATIONS

## *Policies and Procedures*

**Issue #3: The City has no formal policy prohibiting City staff from soliciting sponsorships on behalf of Sea Festival.**

- If City employees are allowed to solicit financial support from City vendors or contractors, sound public policy dictates that formal rules be established and followed.
- Allowing these activities without rules, oversight, and reporting could create a perception of conflict of interest.
- We found no evidence that City employees acted inappropriately.

### **RECOMMENDATIONS:**

- **Establish guidelines regarding solicitation of sponsorships by City employees.**
- **Define acceptable and unacceptable practices related to solicitation of sponsorships.**
- **Distribute guidelines to all City employees.**

# RESULTS AND RECOMMENDATIONS

## *Policies and Procedures*

**Issue #4: The Association does not currently have controls in place to properly track third party compliance with the Association's contract with the City. In addition, responsibilities of insurance and other documentation requirements are not clearly defined between the City and Association.**

- The contract requires the Association to:
  - Ensure event operators, suppliers, and sponsors comply with the Association's agreement with the City.
  - Act as the middleman for obtaining insurance and other required contracts from event operators, official suppliers, and sponsors.

### **RECOMMENDATIONS:**

- **Develop uniform processes and procedures to ensure the Association's contracts with third parties align with its contract with the City and that all parties are operating as intended.**
- **Define their responsibilities and amend contract language to reflect such responsibilities.**

# RESULTS AND RECOMMENDATIONS

## *Contract Clarification*

**Issue #5: The contract is vague with respect to Association-operated event profits and losses when calculating the Agreement Fee.**

- Contract stipulates that profits from events are included in gross revenues.
- Contract does not allow for losses when calculating Gross Revenues.
- When calculating the 2007 Agreement Fee, the Association reduced its Gross Revenues by its event losses.

### **RECOMMENDATION:**

**Clarify contract on whether or not to allow for both Association-operated event profit and loss when calculating the Agreement Fee amount.**

# RESULTS AND RECOMMENDATIONS

## *Contract Clarification*

### **Issue #6: The contract needs clarification.**

- The contract is silent with respect to the treatment of multi-period receipts when calculating the Agreement Fee.
- The contract does not address the priority of creditors and the consequences of late Agreement Fee payments to the City.
- The contract language is contradictory with respect to the number of Level Three events allowed.
- The financial reporting period defined in the contract does not agree with the Association's reporting period.

### **RECOMMENDATION:**

**Clarify contract to better align with the City's intent.**

# CITY AUDITOR RECOMMENDATION FOR ALL ISSUES

- Request City Council to direct City Management and the Long Beach Sea Festival Association to review recommendations, develop comprehensive strategies consistent with these recommendations and advise the City Council and City Auditor as to progress and plans for implementation in six months and one year from the date of receipt and filing of the Long Beach Sea Festival Contract Performance Audit Report.



# Office of the City Auditor

*Laura L. Doud, CPA*

## ***Long Beach Sea Festival Association Contract Performance Audit***

Presented to the Mayor and City Council

Tuesday April 15, 2008