January 30, 2014

Executive Summary of 60th Anniversary Event Findings

Background

On the last weekend in June 2013, the City of Costa Mesa held a three-day street festival to celebrate its 60th anniversary. By nearly all accounts, the event itself was a tremendous success, drawing more than 16,000 people to the Civic Center and bringing together our diverse community for a weekend of music, food, art and community pride on Fair Drive, which was closed to vehicle traffic for four days.

The City's 60th Anniversary Planning Committee and the Costa Mesa Foundation partnered with the City to put on the festival. The City wants to publicly thank those volunteers for their dedication and hard work on the celebration and also emphasize that those groups had no responsibility for any of the event's shortcomings.

After the festival, concerns arose over whether pertinent policies and procedures were followed in regard to the event's finances. Over the next six months, the City conducted several inquiries into the matter, including a financial audit, an independent analysis of revenues and expenses, an independent personnel investigation, a criminal investigation, and a review of the City's current purchasing policies and procedures. The City has produced 1,051 pages of public documents related to the event.

The City wants to thank the public for its patience while the various investigations and audits took place over the past six months. It was time consuming, but the City wanted to make sure the process was thorough and fair to all involved.

Preliminary findings

The multiple investigations have found no evidence to date that public funds were used for personal gain or were unaccounted for. However, purchasing policies and procedures were not

adhered to in many cases. Time constraints and lack of familiarity with internal City-purchasing procedures were the primary reasons given for the apparent violations. City staff and the volunteer 60th Anniversary Committee planned, staged and put on the major event—the largest in city history—in five months. But whatever the causes, the City fell short of the high standards the City Council and community expects it to meet.

Specifically, the City did not receive bids as required by city policy or ordinance in nine instances. The City did not have required purchase orders in 30 cases. The city also did not have proper contracts in place for six vendors. (All apparent violations are listed individually in a section below.)

The event's finances showed an $84,000 difference between expenses and income (including sponsorships), which the City has paid out of existing General Funds without use of reserves. Independent auditors also concluded that the City needed better controls on cash collection during the festival.

The results of the personnel investigations are confidential by law. The Police Department has forwarded the results of its criminal investigation to the District Attorney's Office for review because of a variety of possible municipal code violations.

Financial summary

Here's a summary of the financials for the 60th anniversary event:

- $84,000 budget overage (paid from existing General Funds without use of reserves).
- $209,000 in city money used (includes $84,000 budget overage).
- $232,000 in revenue was received the Costa Mesa Conference and Visitor Bureau, whose mission is to promote and market Costa Mesa as a destination.
- $78,000 in revenue was generated from other sources.
- $518,000 in total expenses.

(Revenue and expense summary on following page.)

COSTA MESA 60TH ANNIVERSARY EVENT				
FY 12/13 TO FY 13/14				
		City/Community Foundation	Visitor's Bureau	Total
Revenues:				
Concert Tickets		$ 39,327		$ 39,327
Merchandise Sales		2,395		2,395
Vendor Booths		4,250		4,250
Sponsorships:				
CM Conference & Visitor Bureau		148,092	83,413	231,505
Edison International	5,000			
Orange County Taste Fest	3,260			
Straub Distribution	3,000			
Arnel Commercial Properties	2,500			
Care Ambulance	2,500			
Mesa Water District	2,500			
Other (Less Than $2,500)	11,850			
Total Other Sponsorships		30,610		30,610
Miscellaneous		925		925
City Contributions		208,659		208,659
				-
Total Revenues		$ 434,258	$ 83,413	$ 517,671
Expenses:				
Advertising/Marketing		$ 33,166		33,166
Event Production		16,089		16,089
Entertainment:				-
Bands		117,018		117,018
Fireworks		18,000		18,000
Other		4,277		4,277
Materials & Supplies		12,064		12,064
Rentals		143,266		143,266
Security		19,064		19,064
Insurance		16,401		16,401
Event Staffing (Non-City)		36,216		36,216
Committee/Staff Meetings		703		703
Miscellaneous		3,052		3,052
Visitor's Bureau direct expenses			83,413	83,413
Expenses post-closing		14,942		14,942
Total Expenses		$ 434,258	$ 83,413	$ 517,671

City shortcomings

In putting on the 60th event, the City fell short in several areas, including:

- **Unbudgeted event growth:** The three-day event was originally budgeted for $315,000 with the city paying $125,000, but overly ambitious plans resulted in unauthorized event growth, especially in terms of entertainment. For instance, the preliminary budget earmarked $35,000 for entertainment; $117,000 was the final figure. The preliminary budget showed $62,500 in rental costs for the venue; $143,200 was the final figure. The expansion of the event's entertainment was predicted to be covered by increased ticket sales. That didn't happen. The festival ended up costing $518,000 with the city paying $209,000. The majority of the increased costs were covered by the Costa Mesa Conference and Visitor Bureau, which contributed $232,000.

- **Unbudgeted costs**: This was the first time the City put on an event of this magnitude and didn't budget adequately for a number of vital expenses, including insurance (budget: $1,500; actual: $16,400) and security (budget: $9,000; actual: $19,000). The City also believed that the Orange County Fair and Event Center would donate its parking lot for a concert venue. That cost to the City was nearly $18,500.

- **Violations of purchasing policies and procedures:** In many cases, the City didn't follow its own purchasing policy and procedures while securing vendors. These lapses were apparently related to time constraints and lack of familiarity with the policies. However, to date, the investigations have found no evidence of funds being spent on improper purposes. During the investigations, a discrepancy in competitive-bid requirements was found between City policy and the Municipal Code. The City policy requires competitive bids for any purchase over $1,000, while the Municipal Code requires competitive bids for any purchase over $5,000. A newly formed City Purchasing Committee is currently meeting to reconcile this conflict and will be making its recommendations to the City Council. For these findings, the City considered any purchase over $1,000 that didn't receive three competitive bids to be an apparent violation.

- **Controls over cash:** City staff and volunteers collected cash for food script, merchandise and other items, but failed to put appropriate procedures in place to ensure the accounting of that money. To date, the City's investigations found no evidence of missing money.

In sum, public monies were spent for public purposes. However, the safeguards necessary to ensure such result and to promote the most economical expenditure of public monies were not apparently adhered to in some cases.

Specific potential violations by city staff of Costa Mesa policies and procedures (listed by vendor)

- OC Fair and Event Center, aka 32nd District Agricultural Assn. (parking lot rental): Contract more than staff signing authority, no purchase order.
- Ames & Associates (public relations): No competing bids.
- Big Top Rentals (booth, stages, tables, chairs): Contract more than staff signing authority, no purchase order, no competing bids.
- Empire Ice Company (ice): No purchase order, no competing bids.
- Exterior Products (banner printing): No competing bids.
- Mouse Graphics (banners): No purchase order.
- Orange Coast College (cake): No purchase order.
- Orange County Register (newspaper insert): No purchase order.
- Pyro Engineering (fireworks): No purchase order, no competing bids.
- Rapid Notify (telephone notification): No purchase order.
- Shorebreak Electric (electrical services): No competing bids.
- TPSS Inc. (security services): No purchase order, no competing bids.
- U.S. Bank (credit card payment for entertainment): No purchase order.
- Sun Group: Significantly exceeded authorized amount in contract, no competing bids, unauthorized use of subcontractors, no purchase orders.
- Panache Booking (Bleached band): No purchase order.
- Bond Music Group (Jacques Renault band): No purchase order.
- Creative Artists Agency (Droog band): No purchase order.
- Ground Control Touring (Adam Green & Binki Shapiro): Contract more than staff signing authority, no purchase order.
- Ground Control Touring (Beach Fossils): Contract more than staff signing authority, no purchase order.
- HMBSMS (Danny Rose band): No purchase order
- Paradigm Talent Agency (Little Hurricane band): No purchase order.
- Eric Burdon Inc. (band): No purchase order.
- The Mob Agency (Berlin band): No purchase order.
- High Road Touring (The Soft Pack band): No purchase order.
- The Windish Agency (Jerome LOL band): No purchase order.
- The Windish Agency (Mr. Little Jeans band): No purchase order.
- Vern Altieri (Catalina Island All Star band): No purchase order.
- Wanda Jackson Entertainment: No purchase order.
- High Road Touring (White Arrows band): No purchase order.
- WME Entertainment (The White Buffalo band): No purchase order.
- WME Entertainment (Anna Lunoe): No purchase order.
- WME Entertainment (Chevy Metal): No purchase order.
- KB Event: Contract more than staff signing authority, no competing bids.

Reforms instituted

Even before the investigations were complete, the City began instituting several measures as precautions to ensure city purchasing policies and procedures were strictly adhered to in the future. For instance:

- The City is implementing a refresher training course for all employees involved in purchasing to ensure the standard purchasing process is followed from start to finish.

- The CEO and finance director are working with staff to ensure that the Finance Department acts as a strong check-and-balance mechanism related to approval of expenditures, and to require purchasing procedures are followed. Specifically, the message to the Finance Department staff is:

> "You, individually and as a group, are the financial eyes and ears for the city. The City depends on you to exercise positive financial control over purchases and to provide appropriate checks and balances with regard to the budgeting, managing, use and reporting of the City's financial resources. This includes ensuring that budget appropriations are not exceeded and at times assessing the legality and correctness of items processed and paid.
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> "As you carryout these responsibilities, please keep these things in mind:
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> - You have the ability and responsibility to halt items that are being processed incorrectly or where there are insufficient funds. No one can pressure you to bypass the rules and procedures; purchases or contracts made contrary to the rules and procedures will be considered null and void.
> - When problem situations arise, partner with the person or department you are working with to explain the situation and help them find solutions.
> - Advise your supervisor or management when there are situations where you and the department are having difficulty arriving at solutions to obtain appropriate direction.
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> "We are all seeking how to best balance our desire to serve and get the job done while observing and complying with the rules and procedures that provide our safeguards. Our purpose is to facilitate the efficient and economical administration of the city's financial resources."

- The City recently added a new "Buyer" position to provide an additional layer of review of purchasing activity and assist in training departmental staff in purchasing policies and procedures.

- The establishment of the Purchasing Quality Control Committee headed by the city's finance director and consisting of personnel from the Purchasing Department and representatives from other city departments. The committee meets monthly and performs a number of tasks, including reviewing the city's current purchasing policies and recommend any improvements, which will be forwarded to the Finance Advisory Committee and then to the City Council for consideration; and reviewing the city's purchasing records to provide another layer of quality control to ensure consistency in implementation of municipal policies and procedures.

The following documents available on the city's website (www.costamesaca.gov/60th)

- Executive summary of the 60th anniversary event findings (including income and expense summary
- Documents related to revenues
- Documents related to band/entertainment expenses
- Documents related to Sun Group expenses
- Documents related to other expenses
- Independent analysis of income and expenses
- Comprehensive Annual Financial Report letter regarding internal control and compliance
- Documents related to employee time sheets**

**The following information has been redacted from the public records: Personal and tax identification numbers; bank account numbers; personal addresses and telephone numbers; privileged and confidential information; and insurance certificates.*

***Various employees worked on the 60th anniversary event as part of their general duties.*