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CITY OF LOS ANGELES  
DEPARTMENT OF RECREATION AND PARKS

June 18, 2008

TO: BOARD OF RECREATION AND PARK COMMISSIONERS

FROM:   
JON KIRK MUKRI, General Manager

SUBJECT: TERMINATION OF LICENSE AGREEMENT BETWEEN THE CITY OF LOS ANGELES AND HOLLYWOOD HERITAGE, INCORPORATED, FOR OPERATION AND RESTORATION OF WATTLES MANSION AND GARDEN

**Background**

The 3.4 acre Wattles Mansion and Garden, located within Wattles Gardens Park at 1850 Curson Avenue, Los Angeles, CA 90046, is owned by the City of Los Angeles and administered by the Department of Recreation and Parks. The Department acquired this property in 1968 with plans of restoring the facility and developing it into an attraction for public enjoyment. On February 10, 1983, the Board of Recreation and Park Commissioners accepted a proposal from Hollywood Heritage Inc., (HHI) a non-profit, tax-exempt (501c3) corporation in the State of California, to supervise the use of the restored facilities at Wattles Gardens Park under a three (3) year license agreement. The Board renewed that agreement on September 12, 1986 for a second three (3) year term, which ended on September 11, 1989. The Board did not formally extend the License Agreement again until March 22, 1993. The license agreement gives HHI permission to:

- Restore the City's Wattles Gardens Park mansion building to a condition similar to the original design and construction and in accordance with the Secretary of the Interior's "Standards for Rehabilitation and Guidelines for Rehabilitating Historic Buildings";
- Restore the grounds surrounding the mansion;
- Conduct fund raising activities in support of the restoration process in accordance with Department policies, including those policies relating to the use and consumption of alcoholic beverages;
- Coordinate community efforts for said restoration activities;
- Occupy both office and living space in the Wattles Gardens Park mansion building and caretakers quarters during the term of this license.

- Supervise the use of the restored facilities at Wattles Mansion and Garden in accordance with HHI's original proposal.

The term of the License Agreement was for three (3) years commencing retroactively to September 12, 1992, and ending September 11, 1995. HHI has since been operating under the terms of the License Agreement on a month-to-month basis.

### **Current Situation**

The Department's license agreement with HHI expired 13 years ago. The License Agreement provides that the Department may audit HHI's financial records and controls for HHI's operations. Department staff, in consultation with the City Attorney, concluded that it would be in the best interests of the City to conduct an audit of HHI's operation of Wattles Mansion and Garden to gather information for development of an action plan for future operation and restoration of this historic facility. To this end, in January 2008, Department staff identified \$20,000 in funding to secure the services of professional outside audit consultant Mayer Hoffman McCann P.C., an independent CPA firm, to conduct a financial and compliance audit of HHI's operation of Wattles Mansion and Garden for Fiscal Years 2004-05, 2005-06 and 2006-07. A copy of a Summary of Audit Findings is attached for your information (Attachment A).

The Department has appreciated HHI's many efforts to restore the historic Wattles site for future generations during its long tenure at the facility. However, based on audit results, and the protracted length of time during which HHI has been operating the facility under an expired license agreement, Department staff has concluded that it is in the City's best interest to terminate its license agreement with HHI. To do so, the Department must evoke Paragraph 18, SURRENDER OF PREMISES, from the License Agreement, which states:

Upon expiration, or prior termination of this License Agreement, HHI shall quit and surrender possession of the premises at Wattles Garden Park to the DEPARTMENT in as good and usable condition, subject to normal wear and tear, acceptable to the DEPARTMENT, as the same were in at the time of first occupation thereof by HHI. HHI shall remove from the premises all personal property within thirty (30) calendar days of said termination unless written permission to leave specific items on premises is first obtained from the DEPARTMENT.

Department staff has consulted with the City Attorney on this matter, who concurs with the legal basis for terminating the License Agreement as an administrative function of the Department under the terms and conditions of the expired License Agreement. Staff will provide the Board with a future Board Report discussing options for operation of Wattles Mansion and Garden with projected improvements, revenues, expenses and profits.

This report was prepared by Mary McFadden, Management Analyst II, CLASS Parks Program.

**Attachment A  
Summary of Audit Findings**

**April 2008 Results of Audit of Hollywood Heritage Inc.'s Operation of Wattles Mansion and Garden: 15 Findings by Outside Audit Consultant Mayer Hoffman McCann**

▪ **Eight of 15 Findings: Direct Non Compliance with Provisions of License Agreement/ Government Auditing Standards**

**Finding 2, Failed to Maintain Documentation to Support Expenses,** as per Paragraph 15.A. of the License Agreement (Agreement) which states, in part, that "...All expenditures will be supported by properly executed payroll sheets, purchase invoices, signed receipts, itemized register tapes, or similar documentation..."

**Finding 3, Failed to Ensure Expenses Relate to Restoration,** as per Paragraph 15.C. of the Agreement which states that : "All fees collected by HHI, including those fees received for the production of motion pictures and television programs at Wattles Gardens Park, shall be expended exclusively for restoration, construction, repairs and maintenance at the licensed premises."

**Finding 7, Failed to Ensure Necessary Permits are Obtained by Users,** as per Paragraph 2 of the Agreement which states, in part: "HHI is hereby licensed to restore the Wattles Gardens Park mansion building to a condition similar to the original design and construction and in accordance with the Secretary of the interior's "Standards for Rehabilitation and Guidelines for Rehabilitating Historic Buildings"...to conduct fund raising activities in support of the restoration process in accordance with DEPARTMENT policies, including those policies relating to the use and consumption of alcoholic beverages..."

**Finding 8, Failed to Conduct Fund Raising Activities to Restore the Mansion Building,** as per Paragraph 2 of the Agreement which states, in part: "...HHI is hereby licensed to restore the Wattles Gardens Park mansion building to a condition similar to the original design and construction and in accordance with the Secretary of the Interior's "Standards for Rehabilitation and Guidelines for Rehabilitating Historic Buildings"; to restore the grounds surrounding the mansion; to conduct fund raising activities in support of the restoration process in accordance with DEPARTMENT policies..."

**Finding 10, Failed to Provide the Department with a Roster of Officers,** as per Paragraph 4 of the Agreement which states: "HHI shall provide the DEPARTMENT with a roster of HHI officers, including names, titles, addresses and telephone numbers. Said roster shall be updated as necessary to insure that the roster on file with the DEPARTMENT is current."

**Finding 11, Failed to Provide the Department with an Audited Financial Statement** as per Paragraph 15.A. of the Agreement which states, in part: "...Annually,

HHI shall provide the DEPARTMENT with an audited financial statement of its operations for the previous fiscal year (July 1 – June 30). This shall include, but will not necessarily be limited to, a summary of all revenues and expenditures...”

**Finding 12, Failed to Keep Department Informed of all Services Provided by HHI** as per Paragraph 20 of the Agreement which states, in part: “...HHI shall keep the DEPARTMENT informed, through the DEPARTMENT General Manager, of all services provided by HHI and shall place the DEPARTMENT on distribution lists to receive program schedules, newsletters and other information pertaining to all services and activities...”

**Finding 13, Failed to Maintain Proper Insurance**, as per the following paragraphs:

Paragraph 6.A.(1) of the Agreement which states, in part: “During the term of this License Agreement, HHI shall maintain general liability insurance...and shall include coverage for...contractual liability...”

Paragraph 6.A.(5) of the Agreement which states, in part:“...During the term of this License Agreement, HHI shall maintain on the building and other improvements that are a part of the premises a California Standard Fire and Extended Coverage Insurance policy...”

Paragraph 6.A.(6)B. of the Agreement, which states: “HHI shall include the CITY and its boards, officers, agents and employees as additional insureds in all Liability insurance policies required herein.”

▪ **Four of 15 Findings: Non Compliance with Government Auditing Standards /Material Weaknesses in Internal Control over Financial Reporting**

**Finding 1, Financial Statement Did Not Reconcile to the General Ledger (Fiscal Years 2005 – 2007)**

**Finding 4, Failed to Establish a Competitive Bidding Procedure**

**Finding 5, Failed to Ensure Blank Check Stock is Maintained in a Secure Location**

**Finding 6, Failed to Ensure All Documents Pertaining to an Event are Properly Executed**

Note: The remaining findings, numbers 9, 14 and 15, address the Department’s Failure to Clarify the Agreement Regarding HHI’s Use of Wattles Mansion and Garden (Finding 9), Failure to Update Agreement (Finding 14), and Failure to Properly Monitor HHI (Finding 15), respectively.