



Independent Office of Audits and Investigations

December 6, 2021

Transmitted via email

Jeanie Ward-Waller
Deputy Director
Planning and Modal Programs
California Department of Transportation

Final Report - Port of Long Beach, Proposition 1B Audit

The Department of Finance, Office of State Audits and Evaluations completed a Proposition 1B audit of the Port of Long Beach. The audit was for project 0017000229, Middle Harbor Terminal Redevelopment Project Phase 2 with costs totaling \$15.44 million reimbursed by the California Department of Transportation (Caltrans). Enclosed is the final audit report.

The audit was performed to determine whether Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans and California Transportation Commission program guidelines, and applicable state and federal regulations. In addition, the audit included determining whether deliverables and outputs were consistent with the project scopes and schedules, and whether benefits and outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Report.

Since no findings were reported, no further action is required.

If you have any questions, contact Fabiola Torres, Audit Chief, at (916) 704-3628 or fabiola.torres@dot.ca.gov, or Jonathan Cox, Audit Manager, at (916) 704 3428 or jonathan.cox@dot.ca.gov.

Jeanie Ward-Waller
December 6, 2021
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Sincerely,

ORIGINAL SIGNED BY:

Diana C. Antony, CPA
Chief Deputy Inspector General

c: Mario Cordero, Executive Director, Port of Long Beach
Charlene Wynne, Manager of Harbor Grants, Port of Long Beach
Theresa Dau-Ngo, Manager of Transportation Planning, Port of Long Beach
Philip Hoebeke, Project Manager, Division of Rail and Mass Transportation,
California Department of Transportation
Tony Tavaréz, District Director, District 7, California Department of
Transportation
Stephan J. Novotny, District Local Assistance Engineer, Local Assistance,
District 7, California Department of Transportation
Gilbert Petrissans, Chief, Division of Accounting, California Department of
Transportation
Zilan Chen, Deputy Director, Administration and Financial Management,
California Transportation Commission

P2500-0035



Port of Long Beach

Proposition 1B Bond Program
Project Number P2500-0035

Report No. 21-2660-068
August 2021

Team Members

Cheryl L. McCormick, CPA, Chief
Rebecca G. McAllister, CPA, Assistant Chief
Marilyn Standing Horse, CPA, Manager
David Jacob Shockey, CPA, Supervisor
Eric Hamilton
Muang Saeteurn

Final reports are available on our website at www.dof.ca.gov.

You can contact our office at:

California Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985



August 6, 2021

Fabiola Torres, Chief, Planning and Modal Office
Independent Office of Audits and Investigations
California Department of Transportation
1304 O Street, Suite 200
Sacramento, CA 95814

Final Report—Port of Long Beach, Proposition 1B Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Port of Long Beach (POLB) Proposition 1B funded project listed below:

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0017000229	P2500-0035	Middle Harbor Terminal Redevelopment Project Phase 2

The enclosed report is for your information and use. Because there were no audit findings requiring a response, we are issuing the report as final. This report will be placed on our website.

If you have any questions regarding this report, please contact Marilyn Standing Horse, Manager, or David Shockey, Supervisor, at (916) 322-2985.

Sincerely,

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations

cc: Jonathan Cox, Audit Manager, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation
Monte Laskosky, Auditor, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation
Mario Cordero, Executive Director, Port of Long Beach
Charlene Wynne, Manager of Harbor Grants, Port of Long Beach

BACKGROUND, SCOPE, METHODOLOGY, AND RESULTS

BACKGROUND

California voters approved the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B) for \$19.925 billion. These bond proceeds finance a variety of transportation programs. Although the bond funds are made available to the California Transportation Commission (CTC) upon appropriation by the Legislature, CTC allocates these funds to the California Department of Transportation (Caltrans) to implement various programs.¹

PROGRAM DESCRIPTION¹

TCIF: \$2 billion of bond proceeds made available to the TCIF to finance infrastructure improvements along corridors that have a high volume of freight movement. This program requires dollar-for-dollar match of local, federal, or private funds.

CTC awarded the Port of Long Beach (POLB) \$15.4 million from the Proposition 1B Trade Corridor Improvement Fund (TCIF) for the Middle Harbor Redevelopment Project Phase 2 (0017000229). The project will add 30,400 feet of working and storage track in the intermodal railyard, 17 truck gate lanes and associated scales and security infrastructure, 11 automated stacking crane blocks for container storage, 1 radiation portal monitor to the intermodal yard, and 4 radiation portal monitors at the new South Gate. This project is the last phase of the overall Middle Harbor Program which will double the capacity of the terminals it replaces, reduce traffic impact by increasing use of on-dock rail, create 14,000 new jobs, and cut air pollution in half. The program will create a fully automated terminal, provide safety improvements, and result in efficiency gains. POLB was required to provide a dollar-for-dollar match of local funds.

Construction for this project is complete and the project is operational.

SCOPE

As requested by Caltrans, the California Department of Finance, Office of State Audits and Evaluations, audited the project described in the Background section of this report. The *Summary of Projects Reviewed*, including the audit periods and the reimbursed expenditures, is presented in Appendix A.

The audit objectives were to determine whether:

1. Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreement, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed project agreement.
2. Deliverables/outputs were consistent with the project scope and schedule.

¹ Excerpts obtained from the bond accountability website <https://bondaccountability.dot.ca.gov/>.

3. Benefits/outcomes, as described in the executed project agreement, were achieved and adequately reported in the Final Delivery Report (FDR).

At the time of fieldwork in July 2021, construction was complete for Project 0017000229. However, POLB had not yet submitted the FDR. Accordingly, we did not evaluate whether project benefits/outcomes were achieved or adequately reported. Instead, we evaluated whether there was a system in place to report actual project benefits/outcomes.

In performing our audit, we considered internal controls significant to the audit objectives. See Appendix B for a list of significant internal control components and underlying principles.

The POLB's management is responsible for ensuring accurate financial reporting, compliance with the executed project agreement, state and federal regulations, and applicable program guidelines, and the adequacy of its job cost system to accumulate and segregate reasonable, allocable, and allowable expenditures. Caltrans and CTC are responsible for the state-level administration of the program.

METHODOLOGY

In planning the audit, we gained an understanding of the project and respective program, and identified relevant criteria, by interviewing Caltrans and POLB personnel, and reviewing the executed project agreement, Caltrans/CTC's bond program guidelines, and applicable state and federal regulations.

We conducted a risk assessment, including evaluating whether the POLB's key internal controls significant to our audit objectives were properly designed, implemented, and operating effectively. Key Internal controls evaluated focused on procurement, progress payment preparation, reimbursement request preparation, review and approval processes for expenditures, project deliverables/outputs completion, and project benefits/outcomes reporting. Our assessment included conducting interviews with POLB personnel and testing transactions related to construction expenditures, contract procurement, and project deliverables/outputs. During our audit, we did not identify deficiencies in internal controls significant within the context of our audit objectives or that warranted the attention of those charged with governance.

We determined verification of the reliability of data from the POLB's financial system, MUNIS, was not necessary because other sufficient evidence was available to address the audit objectives.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. Our methods are detailed in the Table of Methodologies on the following page.

Table of Methodologies

Audit Objective	Methods
<p>Objective 1: To determine whether the POLB's Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreement, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed project agreement.</p>	<ul style="list-style-type: none"> • Determined whether the project was appropriately advertised, evaluated, and awarded to the lowest, responsible bidder by reviewing construction contractor procurement records, such as project advertisements, bidding documents, and the contract agreement, and comparing to POLB's policies and procedures and Caltrans Local Assistance Procedures Manual requirements. • Selected two of the quantitatively significant reimbursement claims from the Construction category and reviewed two construction progress payments. <ul style="list-style-type: none"> ○ Determined if selected reimbursed construction expenditures and match expenditures were allowable, authorized, project-related, incurred within the allowable time frame, and supported, by reviewing accounting records, canceled checks/wire transfer documents, contract agreement, progress payments, and comparing to relevant criteria. • Selected six quantitatively significant contract change orders (CCO). <ul style="list-style-type: none"> ○ Determined if selected CCOs were within the scope of work, not a contract duplication, completed, and supported, by reviewing CCOs, Change Management Logs, photos, Time and Material records, POLB Inspector Daily Logs, and progress payments. • Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the executed project agreement by performing analytical procedures to identify possible duplicate payments.
<p>Objective 2: To determine whether deliverables/outputs were consistent with the project scope and schedule.</p>	<ul style="list-style-type: none"> • Determined whether selected project deliverables/outputs were consistent with the project scope by reviewing the Project Programming Request, project agreement, Substantial Completion Notice, and photos to verify project existence. • Evaluated whether selected project deliverables/outputs were completed on schedule as described in the Project Programming Request by reviewing the Substantial Completion Notice, email correspondence with POLB, and Caltrans quarterly progress reports.
<p>Objective 3: To determine whether benefits/outcomes, as described in the executed project agreement, were achieved and adequately reported in the FDR.</p>	<ul style="list-style-type: none"> • Determined whether there is a system in place to report actual project benefits/outcomes by interviewing POLB personnel and confirming POLB's plan by reviewing the 2019 Air Emissions Inventory Report where benefits are tracked and reported.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS

Based on the procedures performed and evidence gathered, we obtained reasonable assurance the Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreement, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed project agreement.

We also obtained reasonable assurance the project deliverables/outputs were consistent with the project scope and schedules. Although the project was behind schedule, POLB appropriately informed Caltrans and CTC of the delay. Additionally, there is a system in place to determine and report actual project benefits/outcomes.

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- Final Delivery Report: FDR
- Port of Long Beach: POLB
- Trade Corridors Improvement Fund: TCIF

Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
0017000229	\$15,436,000	C	Y	Y	N/A	N/A	A-1

Legend

C = Construction is complete and the project is operational.

N/A = Not Applicable, the FDR had not been submitted as of July 14, 2021, the end of our fieldwork.

Y = Yes

Project Number: 0017000229

Project Name: Middle Harbor Terminal Redevelopment Project Phase 2

Program Name: TCIF

Project Description: The project is located at Pier E and Pier F in the Port of Long Beach which are south of Ocean Boulevard, west of Pico Avenue and Harbor Scenic Drive, east of the East Basin and Slip One, and north of Pier F Avenue. The project will add 30,400 feet of rail track, 17 truck gate lanes and associated scales and security infrastructure, 11 automated stacking crane blocks, and add about 22,000 Twenty-Foot Equivalent Unit slots.

Audit Periods: March 1, 2018 through April 30, 2020 for audit objective 1²
March 1, 2018 through July 14, 2021 for audit objectives 2 and 3³

Project Status: Construction is complete and the project is operational.

Schedule of Proposition 1B Expenditures

Category	Reimbursed
Construction - TCIF	\$15,436,000
Total Proposition 1B Expenditures	\$15,436,000

Results:

Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreement, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed project agreement. Additionally, the match requirement was met.

Deliverables/Outputs

The construction phase of the project was completed in June 2021. At the time of our fieldwork in July 2021, project deliverables/outputs were consistent with the project scope. Although the project was behind schedule and completed nine months late, the POLB appropriately updated Caltrans and CTC of the delay.

Benefits/Outcomes

Actual project benefits/outcomes have not been reported because the FDR had not been submitted at the time of our fieldwork in July 2021. However, a system is in place to measure achievements of actual project benefits/outcomes.

² The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

³ The audit period end date reflects the end of audit fieldwork date.

We considered the following internal control components and underlying principles significant to the audit objectives:

Internal Control Component	Internal Control Principle
Control Activities	<ul style="list-style-type: none">• Management designs control activities to achieve objectives and respond to risks.• Management implements control activities through policies.
Information and Communication	<ul style="list-style-type: none">• Management uses quality information to achieve the entity's objectives.• Management externally communicates necessary quality information to achieve the entity's objectives.