



## Memorandum

**To:**  
JOHN BULINSKI  
DIRECTOR  
DISTRICT 7

**Date:** October 11, 2019

**File:** P2505-0112

**From:**  
MARSUE MORRILL, CPA  
CHIEF  
INDEPENDENT OFFICE OF AUDITS AND INVESTIGATIONS  
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**Subject: FINAL REPORT - PORT OF LONG BEACH, PROPOSITION 1B AUDIT**

At the request of the Independent Office of Audits and Investigations the California Department of Finance, Office of Audits and Evaluations completed an audit of the Port of Long Beach's Proposition 1B funded project listed below. The complete audit report is attached.

PROJECT NAME	PROJECT NUMBER	P NUMBER	FUND
Gerald Desmond Bridge Replacement	0700000379	P2505-0112	CMIA

There were no reportable findings. No further action is required.

If you have any questions, please contact Luisa Ruvalcaba, Audit Manager, by email at [luisa.ruvalcaba@dot.ca.gov](mailto:luisa.ruvalcaba@dot.ca.gov)

Attachment

c: Dawn Cheser, Deputy Director, California Transportation Commission  
Paul-Albert Marquez, Deputy District Director, Transportation Planning & Local Assistance, District 7, California Department of Transportation  
Rambabu Bavirisetty, Chief, Office of Capital Improvement Programming, California Department of Transportation  
Doris M. Alkebulan, Prop 1 B Specialist, Transportation Programming, California Department of Transportation  
Daniel Burke, Audits Liaison, Division of Local Assistance, California Department of Transportation  
Paula Bersola, Audits Analyst, Division of Local Assistance, California Department of Transportation  
Luisa Ruvalcaba, Audit Manager, Independent Office of Audits and Investigations  
P2505-0112



## Port of Long Beach

Proposition 1B Bond Program

Project Number 0700000379

Report No. 19-2660-089  
October 2019

**Team Members**

Cheryl L. McCormick, CPA, Chief  
Rebecca G. McAllister, CPA, Assistant Chief  
Humberto E. Cervantes, CPA, Manager  
Jeremy Cameron Jackson, CPA, Supervisor  
Lorena Romero

Final reports are available on our website at <http://www.dof.ca.gov>.

You can contact our office at:

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

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DEPARTMENT OF  
**FINANCE**

**GAVIN NEWSOM - GOVERNOR**

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Transmitted via e-mail

October 1, 2019

Ms. MarSue Morrill, Chief  
Planning and Modal Office, Independent Office of Audits and Investigations  
California Department of Transportation  
1304 O Street  
Sacramento, CA 95814

Dear Ms. Morrill:

**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's Proposition 1B project listed below:

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0700000379	P2505-0112	Gerald Desmond Bridge Replacement

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 Rick Cervantes, Manager, or Jeremy Jackson, Supervisor, at (916) 322-2985.

Sincerely,

**ORIGINAL SIGNED BY:**

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

cc: Ms. Luisa Ruvalcaba, Audit Manager, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation



# 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.<sup>1</sup>

CTC awarded the Port of Long Beach (Port) \$153.7 million in Proposition 1B Corridor Mobility Improvement Account (CMIA) funds for the Gerald Desmond Bridge Replacement project (0700000379). The project consists of replacing the Gerald Desmond Bridge at the Port of Long Beach. The Port is required to provide \$483.8 million in match from federal and local funding sources. Construction for this project is not complete.

### **PROGRAM DESCRIPTION<sup>1</sup>**

**CMIA:** \$4.5 billion of bond proceeds made available to the CMIA to finance a variety of eligible transportation projects. CTC's general expectation is that each CMIA project will have a full funding commitment through construction, either from the CMIA alone or from a combination of CMIA and other state, local, or federal funds.

## 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 period 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 agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed project agreements.
2. Deliverables/outputs were consistent with the project scope and schedule.
3. Benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Report (FDR).

At the time of our fieldwork in June 2019, construction was not complete. Since the Port had not submitted the FDR, 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.

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

The Port's management is responsible for ensuring accurate financial reporting; compliance with project agreements, 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. CTC and Caltrans 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 reviewing the executed project agreements and amendments, Caltrans/CTC's bond program guidelines, and applicable state and federal regulations, and interviewing Caltrans and Port personnel.

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

We determined a reliability assessment of the data from the Port's financial system, Financial Management Information System, 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><b>Objective 1:</b> To determine whether the Port's Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed project agreements.</p>	<ul style="list-style-type: none"> <li>• Reviewed contractor procurement records to verify compliance with the Caltrans Local Assistance Procedures Manual requirements to determine if the project was appropriately advertised and awarded to the lowest, responsible bidder by reviewing bidding documents, and contract and project advertisements.</li> <li>• Selected four of the most quantitatively significant reimbursement invoices, and selected between two and three progress payments from each invoice. Additionally, selected three construction change orders (CCO) based on quantitative factors.               <ul style="list-style-type: none"> <li>○ Determined if selected reimbursed and match expenditures were project-related, incurred within the allowable timeframe, properly approved, and supported, by reviewing progress payments, accounting records, wire transfers, contracts, and the Port's funding sources, and comparing to relevant criteria.</li> <li>○ Determined if reimbursed CCOs were project-related, not a duplication of work, completed, and supported, by reviewing wire transfers, the project's scope of work, and comparing the work of the CCO to the original construction contract, and reviewing engineering price estimates, cost negotiation letters, and transmittal letters indicating full execution of the CCO.</li> </ul> </li> <li>• Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the project agreements by reviewing supporting invoices, comparing vendor activity reports to the contracted amounts, and performing analytical procedures to identify possible duplicate payments.</li> </ul>
<p><b>Objective 2:</b> To determine whether deliverables/outputs were consistent with the project scope and schedule.</p>	<ul style="list-style-type: none"> <li>• Determined whether project deliverables/outputs were consistent with the project scope by reviewing the Baseline Agreement Project Benefit form, May 2019 Project Progress report, and conducting a site visit to verify project existence.</li> <li>• Determined whether project deliverables/outputs were on schedule as described in the Baseline Agreement Project Benefit form by reviewing the Construction Contractor's monthly progress reports, Port's monthly annual reports, and Caltrans quarterly progress reports.</li> </ul>
<p><b>Objective 3:</b> To determine whether benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the FDR.</p>	<ul style="list-style-type: none"> <li>• Determined whether there is a system in place to report actual project benefits/outcomes by evaluating whether the estimated project benefits described in the executed project agreements or approved amendments were adequately supported by a consultant's Traffic Impact Analysis and a Hot Spot Assessment for the project.</li> </ul>

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 agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed project agreements.

We also obtained reasonable assurance the project deliverables were consistent with the project scope. Although the project is behind schedule, the Port appropriately informed Caltrans and CTC of the delay.

Further, the Port has a system in place to determine and report actual project benefits/outcomes.

# APPENDIX A

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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: Port

## Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
0700000379	\$131,575,714	I	Y	Y	N/A	N/A	A-1

### Legend

I = Construction is not complete.

Y = Yes

N/A = Not Applicable, FDR has not been submitted.

**Project Number:** 0700000379

**Project Name:** Gerald Desmond Bridge Replacement

**Program Name:** Corridor Mobility Improvement Account

**Project Description:** Replacement of the Gerald Desmond Bridge and associated approach spans with two interchanges and on/off ramps at two local streets.

**Audit Period:** June 20, 2011 through October 26, 2018 for audit objective 1<sup>2</sup>  
June 20, 2011 through June 6, 2019 for audit objectives 2 and 3<sup>3</sup>

**Project Status:** Construction is not complete.

#### Schedule of Proposition 1B Expenditures

Category	Reimbursed
Construction	\$131,575,714
<b>Total Proposition 1B Expenditures</b>	<b>\$131,575,714</b>

#### Results:

##### Compliance—Proposition 1B Expenditures

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements and Caltrans/CTC's program guidelines and applicable state and federal regulations cited in the executed agreements. Additionally, the Port has a system in place to ensure the match requirement will be met.

##### Deliverables/Outputs

Target completion for this project is May 2020 as stated in the May 2019 monthly progress report submitted to Caltrans. At the time of our fieldwork in June 2019, project deliverables were consistent with the project scope. Although the project is behind schedule, the Port appropriately informed Caltrans and CTC of the delay.

##### Benefits/Outcomes

Actual project benefits/outcomes have not been reported because the project has not been completed and the FDR had not been submitted as of June 2019. However, a system is in place to measure achievements of actual project benefits/outcomes.

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

<sup>3</sup> The audit period end date reflects the last date of on-site fieldwork.