

Memorandum

*Making Conservation
a California Way of Life.*

To: BRUCE DE TERRA
Chief
Division of Transportation Programming

Date: August 2, 2018

File: P2525-0045

From: ALICE M. LEE 
Chief
External Audits - Contracts
Independent Office of Audits and Investigations

Subject: **FINAL REPORT-PORT OF OAKLAND, PROPOSITION 1B AUDIT**

Attached is the audit report pertaining to the audit performed on the following Proposition 1B project:

<u>Project Name</u>	<u>Project Number</u>	<u>P Number</u>	<u>Amount Audited</u>
Outer Harbor Intermodal Terminal – Segment 2	0013000057	P2525-0045	\$ 64,576,615

The project's implementing agency is the Port of Oakland. The project was funded by using Proposition 1B Trade Corridors Improvement Funds for the Port of Oakland to construct the Outer Harbor Intermodal Terminals Segment 2 project.

As required by the Governor's Executive Order S-02-07, the expenditures of bond proceeds and outcomes are subject to audit. The audit was performed by the Department of Finance on behalf of Caltrans. Deputy Directive 100-R1, "Departmental Responses to Audit Reports" cites responsibilities of Division Chiefs relative to audits performed. The audit disclosed the following findings:

- Questioned Construction and Construction Engineering Expenditures
- New Administrative Building Not Constructed

Please provide the Independent Office of Audits and Investigations a corrective action resolution on the audit findings within 90 days of this memorandum's date and reference the P number identified above. If you have any questions, please contact Mrs. Elena Guerrero, Audit Manager, at (916) 323-7954.

BRUCE DE TERRA

August 2, 2018

Page 2 of 2

Attachment:

cc: Stephen Maller, Deputy Director, California Transportation Commission
Rick Guevel, Associate Deputy Director, California Transportation Commission
Teri L. Anderson, Assistant Deputy Director, California Transportation Commission
Doris M. Alkebulan, Prop 1B Specialist, Division of Transportation Programming
Antonio Cano, Senior Transportation Engineer, Division of Transportation Programming
Elena Guerrero, Audit Manager, Audits and Investigations



Port of Oakland

Proposition 1B Bond Program

Project Number 0013000057

Report No.17-2660-124
May 2018

Team Members

Jennifer Whitaker, Chief
Cheryl L. McCormick, CPA, Assistant Chief
Rick Cervantes, CPA, Manager
Robert Scott, MSA, CPA, CGMA, Supervisor
Moses Ofurio, Lead
Jessica Yip

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, 6th Floor
Sacramento, CA 95814
(916) 322-2985



EDMUND G. BROWN JR. - GOVERNOR

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

Transmitted via e-mail

May 25, 2018

Ms. Alice M. Lee, Chief
External Audits—Contracts, Audits and Investigations
California Department of Transportation
1304 O Street, Suite 200
Sacramento, CA 95814

Dear Ms. Lee:

Final Report—Port of Oakland, Proposition 1B Audit

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

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0013000057	P2525-0045	Outer Harbor Intermodal Terminals – Segment 2

The enclosed report is for your information and use. The Port's response to the report findings and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

If you have any questions regarding this report, please contact Rick Cervantes, Manager, or Robert Scott, Supervisor, at (916) 322-2985.

Sincerely,

Jennifer Whitaker, Chief
Office of State Audits and Evaluations

Enclosure

cc: Ms. Elena Guerrero, Acting Audit Manager, External Audits—Contracts, Audits and Investigations, California Department of Transportation
Mr. Chris Lytle, Executive Director, Port of Oakland
Mr. Chris Chan, Director of Engineering, Port of Oakland
Mr. Matthew Davis, Director of Governmental Affairs, Port of Oakland
Ms. Julie Lam, Port Controller, Port of Oakland

BACKGROUND, SCOPE AND METHODOLOGY

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.

CTC awarded \$65.8 million of Proposition 1B Trade Corridors Improvement Funds (TCIF) to the Port of Oakland (Port) to construct the Outer Harbor Intermodal Terminals (OHIT) Segment 2 project. The OHIT Segment 2 project is one of a six-segment collaborative project between the Port and the City of Oakland (City) to revitalize the City's waterfront and develop the former Oakland Army Base (OAB) to a multi-elements site. The project is located within the portion of the OAB owned by the Port and includes new rail access improvements, new rail lead tracks from the mainline through the Joint Intermodal Terminal, a new manifest car storage yard, a new administrative building, yard lighting, and security fencing. Construction for this project is complete.

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 audit period for the project is identified in Appendix A.

The audit objectives were to determine whether:

- 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 agreements.
- Deliverables/outputs were consistent with the project scope and schedule.
- Benefits/outcomes as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Report.

At the time of our site visit in December 2017, construction was complete for the project; however, the Port had not submitted the Final Delivery Report. Accordingly, we did not evaluate whether project benefit/outcomes were achieved or adequately reported. Instead, we evaluated whether there was a system in place to report actual project benefits/outcomes.

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

We did not assess the efficiency or effectiveness of program operations.

The Port's management is responsible for ensuring accurate financial reporting; compliance with contract provisions, 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

To achieve the audit objectives, we performed the following procedures:

- Examined the project files, project agreements, program guidelines, and applicable policies and procedures to gain an understanding of the project and respective program.
- Reviewed procurement records to verify compliance with applicable local and state procurement requirements.
- Selected a sample of expenditures to determine if they were project-related, properly incurred, authorized, and supported by reviewing accounting records, progress payments, invoices, and cancelled checks.
- Reviewed a sample of contract change orders to verify if they were within the scope of the project, properly approved, and supported.
- Evaluated whether other revenue sources were used to reimburse expenditures already reimbursed with bond funds.
- Evaluated whether project deliverables/outputs were met by reviewing a sample of supporting documentation and conducting a site visit to verify project existence.
- Evaluated whether project deliverables/outputs were completed on schedule by reviewing project files, project agreements, or approved amendments.
- Evaluated whether there is a system in place to report actual project benefits/outcomes.

In conducting our audit, we obtained an understanding of internal controls, including any information systems controls that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed, implemented, and operating effectively. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Except as noted in Finding 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 agreements. Additionally, except as noted in Finding 2, the project deliverables/outputs were consistent with the project scope. Although the project was behind schedule, the Port appropriately informed Caltrans and CTC of the delay.

Further, the Port has a system in place to report actual project benefits/outcomes. The *Summary of Projects Reviewed* is presented in Appendix A.

Finding 1: Questioned Construction and Construction Engineering Expenditures

The Port claimed and was reimbursed ineligible construction and construction engineering expenditures totaling \$7,405,013. The Port did not have adequate review processes to ensure eligible expenditures were claimed for reimbursement. As a result, the Port was reimbursed the following ineligible project costs:

- \$6,123,932 for the demolition and rehabilitation of Buildings 805-807. The demolition and rehabilitation of these buildings was not within the OHIT Segment 2 Project construction scope. OHIT Segment 2 Project Agreement 75A0380 (Project Agreement) section 7 states construction costs are limited to Segment 2 and the project description in Exhibit D, section IV did not include demolition and rehabilitation of buildings. Additionally, Attachment 2, page 9 of the Project Agreement specifically includes the demolition of existing buildings in Segment 3. Lastly, the Port is not the implementing agency for Segment 3. Attachment 2, page 2, lists the City as the agency responsible for implementing Segment 3.
- \$695,331 in common infrastructure expenditures for Maritime Street. Project Agreement section 7 states construction costs are limited to Segment 2 and the project description in Exhibit D, section IV did not include common infrastructure for Maritime Street. Additionally, Attachment 2, page 10 specifically includes the Maritime Street road improvements in Segment 3. Lastly, the Port is not the implementing agency for Segment 3. Attachment 2, page 2, lists the City as the agency responsible for implementing Segment 3.
- \$404,590 for the Port's Owner Controlled Insurance Program. Project Agreement section 32 (f) states liability insurance premiums or assessments are ineligible expenditures.
- \$134,582 for expenditures incurred August 6, 2012 to August 23, 2012. Project Agreement section 22 states reimbursable work under this Agreement shall begin no earlier than October 24, 2012.

- \$46,578 for the Port's Maritime and Aviation Project Labor Agreement (MAPLA). MAPLA is a labor agreement between the Port and the Building and Construction Trades Council of Alameda County. The purpose of MAPLA is to prevent strikes, picketing, and other labor disruptions. The Port's contribution to the administration of MAPLA is not within the scope of the Segment 2 Project design and construction work. Additionally, section 7 of the Project Agreement limits funds to the costs of design and construction work.

Recommendations:

- A. Remit \$7,405,013 to Caltrans.
- B. Develop, implement, and maintain an adequate review process to ensure claimed expenditures are allowable based on executed agreements and program guidelines prior to submitting reimbursement claims to Caltrans.

Finding 2: New Administrative Building Not Constructed

The Port did not construct a new administrative building. Project Agreement, Exhibit D, section IV, requires the construction of a new administrative building. According to the Port, they believed a modular building and a guard booth were initially planned. However, the Port stated the modular building and guard booth were subsequently eliminated from the construction plans because their uses were not needed for the project. However, the Port did not provide written approval from Caltrans to remove the administrative building from the project. Project Agreement section 20 requires a written contract amendment prior to revising project deliverables/outputs listed in the project agreement.

Although the Project Agreement does not provide a cost breakdown for each deliverable/output, the initial 2008 Application Form estimated \$3,120,000 for the construction of a 12,000 square-foot administrative building.

Recommendations:

- A. Work with Caltrans to determine the savings that were realized from not constructing the administrative building. Remit those savings to Caltrans.
- B. Develop and implement procedures to ensure project deliverables/outputs comply with project agreements.
- C. Receive prior written approval from Caltrans prior to revising project deliverables/outputs listed in project agreements.

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- Port of Oakland: Port
- 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
0013000057	\$64,576,615	C	P	P	N/A	N/A	A-1

Legend

C = Complete

P = Partial

N/A = Not applicable; Final Delivery Report has not been submitted

Project Number: 0013000057

Project Name: Outer Harbor Intermodal Terminals – Segment 2

Program Name: TCIF

Project Description: The project is located within the portion of the Oakland Army Base owned by the Port and includes new rail access improvements, new rail lead tracks from the mainline through the Joint Intermodal Terminal, a new manifest car storage yard, a new administration building, yard lighting, and security fencing.

Audit Period: December 10, 2009 through December 31, 2015¹

Project Status: Construction is complete.

Schedule of Proposition 1B Expenditures

Proposition 1B Expenditures	Reimbursed	Questioned Expenditures
Construction	\$62,417,530	\$6,670,077
Construction Engineering	2,159,085	734,936
Total Proposition 1B Expenditures	\$64,576,615	\$7,405,013

Audit Results:

Compliance—Proposition 1B Expenditures

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 agreements, except for \$7,405,013 of construction and construction engineering expenditures.

Deliverables/Outputs

The construction phase of the project was completed in April 2017. At the time of our site visit in December 2017, project deliverables/outputs were consistent with the project scope, except for the new administrative building that was not built. Additionally, the project was behind schedule and completed 21 months late. The Port appropriately updated Caltrans/CTC of the delay.

Benefits/Outcomes

Actual project benefits/outcomes have not been reported because the Final Delivery Report had not been submitted to Caltrans as of December 2017. However, there is a system in place to report actual project benefits/outcomes.

¹ The audit period end date reflects the billing period end date of the last reimbursement claim (Billing #4) approved by Caltrans.



PORT OF OAKLAND

May 4, 2018

Jennifer Whitaker, Chief
California Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814

**RE: RESPONSE TO DRAFT AUDIT REPORT – PORT OF OAKLAND,
PROPOSITION 1B AUDIT**

Outer Harbor Intermodal Terminals – Segment 2; Project Number 0013000057
Trade Corridors Improvement Fund Grant Agreement No. 75A0380

Dear Ms. Whitaker:

On behalf of the Port of Oakland (Port), I am writing to respond to the California Department of Finance Draft Audit Report for Port of Oakland Proposition 1B Bond Program Project Number 0013000057 (Draft Audit Report) on the Port of Oakland Outer Harbor Intermodal Terminals – Segment 2 (the Segment 2 Project), transmitted to the Port by letter dated April 4, 2018.

We appreciate the thoroughness, professionalism and diligence of the audit team in examining one of six segments of a multi-hundred-million-dollar project undertaken by multiple agencies. However, we believe the findings could benefit from some context about the project and must respectfully disagree with several of the findings presented in the Draft Audit Report. We also wish to emphasize, once again, that the grant administrator was kept informed of scope changes during the course of the Segment 2 Project.

The redevelopment of the Oakland Army Base has spanned more than two decades, and is ongoing as of the date of this letter. This work has involved a complicated sequence of events and transactions, namely: (1) an economic development conveyance to both the Port and City of Oakland (City) from the federal Department of Defense; (2) a public lands trust exchange approved by the Legislature and the Governor and overseen by the State Lands Commission; (3) pre-development, design, and construction activities undertaken by both joint and separate development teams under the jurisdiction of both the City and Port, respectively; (4) the incorporation of state funding allocated via the Proposition 1B-supported Trade Corridor Improvement Fund (TCIF)—the subject of this draft report; and (5) federal funding from the U.S. Department of Transportation via a TIGER (Transportation Investments Generating Economic Recovery) grant.

Given the nature of this complex endeavor, we understand why some confusion might still be present even after a detailed review of the Segment 2 Project expenditures has been undertaken. Below, we detail our responses to the audit findings.

Finding 1: Questioned Construction and Construction Engineering Expenditures

In the Draft Audit Report, the auditors claim that the Port was reimbursed for \$7,405,013 in ineligible construction and construction engineering expenditures. The questioned expenditures are allocated among five sub-categories, and the Port appreciates the opportunity to respond to each one.

Demolition and Rehabilitation of Buildings 805-807 (\$6,123,932)

The Draft Audit Report states that the demolition and rehabilitation of a portion of several buildings on the former Oakland Army Base was not contained within the Segment 2 Project, led by the Port. The Draft Audit Report claims that the demolition of these buildings was part of Segment 3, which was implemented by the City as lead agency. The Port respectfully disagrees with this finding.

The redevelopment of the former Oakland Army Base involved the deconstruction of several World War II-era warehouse buildings in their entirety, as well as the partial deconstruction and rehabilitation/preservation of certain buildings (including Buildings 805, 806, & 807, as noted in the Draft Audit Report) that “straddled” the City-Port property boundary. Prior to the Segment 2 Project, the tenants in these warehouse buildings were operationally connected to the former Union Pacific (UP) Knight yard rail tracks, which in itself is a connection to the transcontinental rail mainline that provides the UP access to and from the Port. The tenants were also prospective users of the future rail yard being constructed with the TCIF funding (i.e., the Segment 2 Project). The preservation of portions of the warehouses following partial demolition, as well as the deconstruction of the portions of the warehouses that crossed City-Port property boundary, was an integral aspect of the initial economic and environmental benefits that the new railyard would provide; notably, maintaining operational connectivity of the tenants to rail. Preservation of the structures required the protection, relocation, modification, and/or reconstruction of utilities, building pads, ramps, pavement, and rail access points. These construction expenditures related to Port operations were not an element of the City-led Segment 3.

Further, the Port provided notice to the Caltrans grant administrator of our plans to include these construction costs as eligible costs for reimbursement, as evidenced by email communication dated July 17, 2013 and the subsequent transmittal of Change Orders #1, 2 & 3 documents dated November 26, 2013. Neither by written response to this email communication, or verbally during Port-Caltrans coordination meetings, did Caltrans contest the eligibility of the costs or consistency of the costs with the Port’s grant obligations and responsibilities under the Segment 2 Project.

Common Infrastructure Expenditures for Maritime Street (\$695,331)

The Port respectfully disagrees with the determination that these costs are not eligible for reimbursement.

As we have shared with you, the City was the lead agency on the performance of Segment 3 "Common Infrastructure," which is one of six Segments of a much larger project as discussed earlier in this letter. Although the City was responsible to implement Segment 3, the Port needed to provide oversight, design review, and response to field conditions during the implementation of those portions of Segment 3 that directly connected to or otherwise impacted the Port's implementation of the Segment 2 Project – because the railyard drainage and utilities connect to the common infrastructure "trunk" that runs along and under Maritime Street. The costs submitted are associated with the Segment 2-related oversight, review and monitoring of the Common Infrastructure work.

Port's Owner Controlled Insurance Program (\$404,590)

The Port respectfully disagrees with the determination that these costs are not eligible for reimbursement.

Section 32 of the grant agreement appears to address typical insurance placed to cover the agency rather than contractor's insurance. The fundamental purpose of an Owner Controlled Insurance Program (OCIP) is to insure contractors. Contractor insurance is not discussed in Section 32. Caltrans has also utilized OCIPs to insure contractors on construction projects, and such programs are allowed in California under Government Code 4420.

The Port's OCIP was created primarily to ensure contractors performing work for the Port have access to adequate and uniform construction-related insurance, especially small, local, and disadvantaged business enterprises, who otherwise may not be able to procure insurance comparable to, or as cost-effective as, larger contractors' insurance. An OCIP is merely an alternative to standard traditional insurance procurement methods utilized by contractors. Such standard methods are typically included as an un-itemized component of a contractor's bid.

The Port is unaware of Caltrans' practices regarding the treatment of un-itemized insurance cost components in other projects. The Port is aware that OCIP costs are typically eligible costs for reimbursement by other granting agencies.

Expenditures Incurred August 6, 2012 to August 23, 2012 (\$134,582)

The Draft Audit Report states that expenditures undertaken prior to October 24, 2012, are not eligible for reimbursement pursuant to section 22 of the grant agreement. The Port acknowledges the audit finding and notes that during the course of the audit, the Port was in the process of preparing Reimbursement Request #5 to Caltrans. In Reimbursement Request #5 (which requested the balance of grant funding under the grant agreement), the Port removed all previously requested costs that were not incurred within the eligibility period.

We understand that the auditors did not review Reimbursement Request #5. Since the Port has already removed these costs from Reimbursement Request #5, this issue has been resolved and the Port does not believe this amount is owed to the State.

Port's Maritime and Aviation Project Labor Agreement (\$46,578)

The Port's Maritime and Aviation Project Labor Agreement (MAPLA), as the draft report notes, is a labor agreement between the Port and the Alameda County Building and Construction Trades Council. One central purpose of the MAPLA is to promote efficiency of construction operations, although ensuring labor peace on construction agreements is an important aspect of MAPLA in general and one of the mechanisms by which the Port ensured the timely and efficient use of state and Port funds on the Segment 2 Project. Perhaps more importantly, the MAPLA sets aggressive local business utilization and local worker hiring goals, and includes provisions that ensure the presence of a workforce development pipeline into the construction trades through the inclusion of apprenticeship and pre-apprenticeship programs.

Nevertheless, the Port acknowledges the audit findings. The Port wishes to note that during the course of the audit investigation, the Port was in the process of preparing Reimbursement Request #5 to Caltrans and removed all previously requested MAPLA costs from its request. We understand that the auditors did not review Reimbursement Request #5. Since the Port has already removed these costs from Reimbursement Request #5, this issue has been resolved and the Port does not believe this amount is owed to the State.

Finding 2: New Administrative Building Not Constructed

The Draft Audit Report states that the Port did not construct a new administrative building, as originally planned, as part of the Segment 2 Project. As discussed with the auditors, the Port's plans to build a new administrative building date back to a very early version of the Segment 2 Project, which was subsequently reduced in scale and scope. Changes to project scope occurred between 2008 and 2012: the Port submitted its Application Form in 2008 and, in 2012, entered into TCIF Project Baseline Agreement Amendment #1 dated August 22, 2012 and, later that year, issued a request for proposals (RFP) for the Segment 2 Project. As of the issuance of the RFP, the Port had foregone a large administration building, opting instead for a modular building and guard booth with an estimated value of \$125,000 – which the Port later deemed unnecessary to operationalize the Segment 2 Project and removed this item from the contractor's scope by Change Order 56.

The contract documents reflecting the removal of the originally planned administration building were transmitted to the grant administrator on May 2, May 6, and October 7, 2013. The Port does not believe the balance of the \$125,000 is owed to the State.

We very much appreciate the thoroughness and professionalism of the auditors on the Segment 2 Project. We also very much appreciate your attention to our response and the complexities of the overall TCIF-funded redevelopment project. Finally, we wish to note that the Port's Reimbursement Request #5 remains pending with Caltrans. I look forward to discussing the resolution of the matters discussed herein; please do not hesitate to contact me at 510-627-1331.

Sincerely,



Chris Chan

Director of Engineering

Enc. Email communication dated July 17, 2013 and transmittal of Change Orders #1, 2 & 3 documents dated November 26, 2013

Cc (Port): Chris Lytle
John Driscoll
Matt Davis
Imee Osantowski
Tim Leong
Delphine Prevost
Mary Richardson
Thanh Vuong
Julie Lam

Cc (other): Alex Kenefick, Caltrans

EVALUATION OF RESPONSE

The Port of Oakland's (Port) response to the draft report has been reviewed and incorporated into the final report. In the interest of brevity, attachments to the response were omitted. In evaluating the Port's response, we provide the following comments:

Finding 1: Questioned Construction and Construction Engineering Expenditures

The Port disagrees that demolition and rehabilitation, common infrastructure improvements, and insurance expenditures claimed were ineligible for reimbursement:

- \$6,123,932 for demolition and rehabilitation of Buildings 805-807 and \$695,331 for common infrastructure improvements. The Port did not provide any additional evidence to support the claimed expenditures were directly related to the OHIT Segment 2 project scope listed in Project Agreement 75A0380 (Agreement). Additionally, the Port was unable to provide a formal written amendment indicating the scope change was approved by Caltrans. Agreement section 20 requires a formal written amendment for any changes to the Agreement.
- \$404,590 for the Port's Owner Controlled Insurance Program. These expenditure were not directly related to design and construction work. Additionally, the Port did not provide supporting documentation or a reference to the Agreement that specifically states these costs are eligible for reimbursement.
- \$134,582 for costs incurred before October 24, 2012 and \$46,578 for the Port's Maritime and Aviation Project Labor Agreement. The Port agrees these costs are not eligible for reimbursement and states these costs were removed from reimbursement claim #5. Reimbursement claim #5 was submitted to Caltrans subsequent to our field work and was not included in our audit.

For the reasons stated above, the finding and recommendations remain unchanged.

Finding 2: New Administrative Building Not Constructed

The Port disagrees it was required to construct an administration building asserting the project scope was changed between 2008 and 2013. The Port was unable to provide a formal written amendment indicating the scope change was approved by Caltrans. Agreement section 20 requires a formal written amendment for any changes to the Agreement. As such, the finding and recommendations remain unchanged.