

Management and Performance Audit of the Port of Richmond

March 18, 2024



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Transmittal Letter

March 18, 2024

City Council Members
City of Richmond
440 Civic Center Plaza
Richmond, CA 94804

Dear Mayor, Vice-Mayor, and Members of the Richmond City Council,

I am pleased to present the audit report for the "Management and Performance Audit of the Port of Richmond" conducted by GPP Analytics Inc. for the City of Richmond.

Our audit was conducted in compliance with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors and the Generally Accepted Government Auditing Standards (GAGAS) of the U.S. Government Accountability Office.

The primary objective of our audit was to assess the overall management, efficiency, and effectiveness of all Port operations and services. This included a comprehensive evaluation of:

- the organization's operational and administrative functions, use of public funds, compliance with regulatory standards, and organizational transparency;
- the adequacy of control systems, resource management, staffing levels, and the effective use of technology;
- the responsiveness to various stakeholders and the integrity of lease management; and
- the financial management practices, including procurement and budgeting processes, as well as the effectiveness of communication across all levels.

This comprehensive approach was intended to identify areas for improvement and ensure compliance across a wide range of operational and administrative functions.

The following is a summary of the audit findings in the report:

Finding 1: Port Strategic Plan. The Port of Richmond's absence of a strategic plan significantly undermines its operational efficiency and long-term planning, leading to unclear investment priorities and deteriorating infrastructure. To address these issues, the City should develop and formally adopt a strategic plan, ensuring its regular review and adaptation. This will enable the Port to effectively allocate resources, attract stable tenants, and secure funding, ultimately enhancing its viability and economic contributions.

Finding 2: Port Procedures. The Port of Richmond's lack of written procedures for managing its \$10.5 million in operating revenue and \$29.5 million in assets poses significant operational and compliance risks, especially during staff turnover. Without documented processes for key functions, like lease revenue collection and maritime operations, the Port is vulnerable to disruptions and knowledge loss. To mitigate these risks and ensure consistent operation, it's crucial for the Port to develop and maintain written procedures for its essential functions and establish a succession strategy for critical roles.

Finding 3: Maintenance Staff and Deferred Maintenance. Our audit has uncovered significant inefficiencies in the maintenance of the Port’s assets, leading to unplanned financial support from the City’s General Fund. These issues pose a risk to the Port’s asset value and emergency preparedness, and ultimately its long-term operational viability. To address these issues, we recommend hiring a Maintenance Manager, establishing clear billing system for maintenance work performed by the Public Works Department, and conducting a comprehensive facility conditions assessment to ensure asset preservation and operational readiness.

Finding 4: Finance Staff and Financial Monitoring. The Port’s financial management is hindered by a lack of dedicated finance staff at the Port and insufficient financial oversight, leading to revenue growth that lags behind regional inflation and potential underinvestment in operations. The absence of a Finance Manager since FY 2014–15 has limited the Port’s capability for in-depth financial planning and monitoring which is essential for strategic fee setting and successful grant applications. Document management issues further complicate financial accountability. To enhance financial management and alignment with its mission, the City should reinstate a Finance Manager for the Port.

Finding 5: Lease Solicitation, Selection, and Vetting Process. The Port lacks documented Port-specific procedures for leasing, impacting the transparency and due diligence in tenant solicitation, selection, and vetting. With no records in these areas for most of the ten lease agreements between 2013 and 2023, there’s a risk of non-compliance with City policies and state laws. The absence of clear processes increases the potential for fraud and undermines the optimization of tenant agreements for the Port’s benefit. Addressing these deficiencies by establishing Port-specific leasing procedures and clarifying the role of the Surplus Property Authority in the City will enhance accountability and align leasing practices with the Port and community interests.

Finding 6: Lease Volume Guarantee Verification and Documentation. The Port’s lease agreement with Auto Warehousing Co. (AWC) includes vehicle processing guarantees critical for offsetting bond payments. Despite AWC’s financial compliance, the Port’s lack of verification of reported vehicle processing volume, and its reliance on AWC-provided figures without supporting evidence like vessel manifests, undermines revenue assurance. Industry best practices advocate for such verification to prevent inaccuracies and potential fraud. Addressing staffing shortages and implementing robust verification procedures for cargo volumes will enhance revenue reliability and align the Port’s practices with industry standards.

Finding 7: Environmental Compliance and Lease Monitoring. Despite tenant lease agreements containing environmental provisions, there’s no evidence of proactive and systematic oversight by the Port, attributed to insufficient procedures and staffing. This deficiency poses risks to the City’s legal and financial standing. Implementing explicit monitoring policies and documenting compliance efforts are crucial to mitigate potential environmental, legal, and financial repercussions, ensuring adherence to regulations and safeguarding the Bay’s environment.

Finding 8: Security at Port Facilities. Without security, vacant Port properties are susceptible to trespassing and vandalism, increasing risks and costs for the City. With three unleased buildings as of January 2024, a lack of security measures has led to damage and could complicate lease negotiations and/or delay tenant occupancy. Previous security efforts at Terminal 1 lack assessment for effectiveness, highlighting the need for established security procedures for vacant properties. Recommendations include prioritizing tenant solicitation for vacant properties and establishing security protocols to mitigate trespassing and vandalism risks and their associated costs.

Finding 9: Debt to the General Fund. The Port's unresolved debt to the City General Fund, initially reported as \$16,942,096 in 2013 and paid down to \$12,485,369.72 by FY 2023–24, lacks substantiating documentation for its origin and purpose. This absence of records complicates the Port's ability to justify the reasonableness of its fees under state law. The issue, consistent with findings from a 2011 audit, suggests a broader problem of record-keeping within City departments. Recommendations include a final effort by the Finance Department to locate documentation for the Port loans and a review of all City department loans to ensure compliance with state law, potentially restating and eliminating unsubstantiated liabilities to maintain legal compliance.

Finding 10: Personal Emails. During our audit, we noted Port and City employees in Richmond using personal email accounts for City business. This practice could hinder the City's ability to respond to California Public Records Act requests, risking non-compliance, as personal emails fall outside the City's purview. The City's policies on technology use in its Administrative Manual are inconsistent, allowing both 'minimal personal use' while also stating that technologies are for 'City-related activities only'. Recommendations include amending the Administrative Manual for clarity on personal internet and email usage and educating employees on compliance with these policies and CPRA requirements.

We appreciate the cooperation and assistance provided by the staff of the City of Richmond throughout this audit. Their support was instrumental in the successful completion of this project.

We believe this report will provide valuable insights and recommendations to enhance the effectiveness of the Port's operations and strategic role within the City of Richmond. Should you require any further information or wish to discuss the findings in more detail, please feel free to contact us.

Sincerely,



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Introduction

This audit report presents the findings of the “Management and Performance Audit of the Port of Richmond” conducted for the City of Richmond by GPP Analytics Inc.

Standards of Audit

This audit was conducted in accordance with the Institute of Internal Auditors (IIA) Professional Practices Framework (IPPF) and the U.S. Government Accountability Office’s (GAO) Generally Accepted Government Auditing Standards (GAGAS).^{1; 2} Those standards require that we plan and perform the audit to obtain sufficient and 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.

Objectives of a Performance Audit

According to the U.S. GAO, the objective of performance audits “include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses.” The IIA states that a performance audit “assists management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision-making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability.” Both standards emphasize the importance of an informed assessment to improve program performance and operations, reduce costs, facilitate decision-making, and contribute to public accountability.

Evidence Standards

Both the IIA and the GAO set rigorous evidence standards to ensure the reliability and credibility of performance audits. The IIA’s standards require that auditors obtain sufficient, reliable, relevant, and useful evidence to achieve the audit’s objectives. This involves a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The GAO’s standards also demand that auditors gather sufficient and appropriate evidence to provide a reasonable basis for their findings and conclusions. Evidence must be convincing enough that a prudent person would reach the same conclusions as the auditor. This includes the assessment of qualitative and quantitative data, direct observations, and the corroboration of evidence from multiple sources.

Audit Objectives and Methodology

As defined in our contract with the City and paraphrased here, the audit included a comprehensive evaluation of the Port’s financial management, including the use of public funds, adherence to internal controls, and overall financial oversight. Operational efficiency was reviewed, focusing on practices, staffing, and potential for cost-effective improvements. The organizational structure was compared with similar entities to identify areas for enhancement. Technology and infrastructure were assessed for adequacy and alignment with business needs. Compliance with government regulations and transparency in operations were key areas of focus. Tenant services, stakeholder responsiveness, and

¹ Institute of Internal Auditors, International Professional Practices Framework 2017.

² United States Government Accountability Office’s Government Auditing Standards 2018 Revision.

lease management were examined. Legal and ethical aspects, including potential conflicts of interest and actions against delinquent tenants, were also reviewed. The audit aimed to provide thorough recommendations for improving the Port's operations, ensuring effective management of resources, and enhancing stakeholder relationships.

Audit Timeline

The audit process was structured as follows:

Entrance Conference: July 24, 2023

Submission of Testing Plan: October 19, 2023

Draft Report Submitted: February 1, 2024

Exit Conference With City Staff: February 8, 2024

Final Information Submitted by City Staff: March 5, 2024

Revised Draft Submitted: March 6, 2024

Final Report Submitted: March 18, 2024

Initial Phase

The audit was initiated on July 24, 2023, when GPP Analytics met with City and Port staff for an entrance conference at Richmond City Hall and a tour of Port facilities. During August and September 2023, we interviewed 23 City and Port staff, Port tenants, and other stakeholders related the Port's operations. We collected documents from the Port, including two on-site visits to the Port offices to review archived materials. The City granted our team view-only access to its financial system, and we performed several analytical reviews of information from that system, including assessing trends and a review of anomalous activities that could signify higher risk areas. These cumulative activities informed our audit's risk assessment.

Risk Assessment Process

Our audit team then conducted a risk assessment, in accordance with both the Institute of Internal Auditors (IIA) and Generally Accepted Government Auditing Standards (GAGAS), to ensure a comprehensive and compliant audit methodology. The process commenced with a preliminary survey to assess all risks and observations the team noted during the initial phase of the audit. We then ranked the risks and observations based on their potential likelihood and impact. This was compared against the scope of the audit and the audit resources. The audit team evaluated all initial evidence and information, reviewed possible criteria for potential finding areas, performed a gap analysis to identify additional information that was needed, and created a Testing Plan. The plan was shared with Port and City staff on October 19, 2023. Port and City staff shared feedback during subsequent meetings.

Testing Phase

During the testing phase, a variety of analyses were performed, and additional documents were scrutinized. The team analyzed expenditures and accounts payable records within the City's financial system, along with accounts receivable and collections. We identified a random and judgmental sample of backup financial documents, which we collected on November 28, 2023, from one of the City's off-site storage facilities. There was a comprehensive review of 11 peer ports conducted to gain comparative insights. Documents such as lease agreements, tenant correspondence, citywide policies, and tenant payment records were thoroughly analyzed. City Council minutes were also reviewed to fill gaps in records that were not directly available from the Port. Furthermore, the team conducted interviews with external sources and gathered documents from relevant oversight and grantmaking organizations to complement the data collected.

During the testing phase the audit team experienced some minor delays to the audit process. The City's finance staff indicated that since they were undergoing their annual financial audit during the same time and that they were be unable to provide some of the requested information in a timely manner due to limited staffing. After discussion with the City, we revised the audit timeline and informed the Mayor and City Council of the new timeline via email on November 7, 2023. The extended timeline proved helpful since even with the City's assistance, the Finance department was unable to arrange our visit to their offsite storage facility until the end of November.

Draft Report

On February 1, 2024, GPP Analytics provided City staff with a confidential copy of our Draft Report, which they reviewed for factual accuracy and any inadvertent inclusion of confidential information. For all feedback and requests for revisions the City was asked to provide sufficient supporting evidence and documentation. The City confirmed it had provided all information on March 5, 2024.

Revised Draft Report

Based on feedback from City staff, GPP Analytics amended the Draft Report and provided a Revised Draft Report to City staff on March 6, 2024, with a request for a written response to each of the report recommendations. We received the written responses from the City on March 15, 2024, and they are included as attachments to this report.

Final Report

The Final Report, which combines the Revised Draft and the City's written responses, was transmitted to the Mayor and City Council on March 18, 2024.

Collaboration Acknowledgement

We acknowledge and appreciate the cooperation and assistance throughout this audit provided by Port staff, the Finance Department, the City Manager's Office, and other City staff, as well as external stakeholders.

Questions Asked in the Scope

The City of Richmond provided the following questions in the agreement to perform the audit. We've addressed each below with either an indication of a resulting finding or steps that were performed to assess the question.

Organizational Overview

1. Is the Port making the best use of public funds?

This question is most directly addressed in Finding 1, which discusses the lack of a strategic plan for the Port. Without a strategic plan the Port has had a limited definition by which to define "best use". The lack of a plan also limits the Port's ability to access grant funding, which further limits its opportunity to maximize public funds.

2. Is the Port utilizing efficient operating practices?

In a general sense, no, the Port is not utilizing efficient operating practices. As discussed in Finding 3 and Finding 4, the Port is understaffed and, since the death of the prior Port Director in 2020, it has also experienced a loss of institutional knowledge. This has been made worse by the lack of written policies and procedures for key Port functions as discussed in Finding 2.

3. Does the Port have an effective organization and/or management structure, including staffing and operations, when compared to other similar ports? Are there opportunities for improvement?

As seen in the comparison chart further below in the introduction, the Port has limited staffing compared to most of its peers. Further, it is unusual that the Port, which is organized as an enterprise fund, is now managed within a General Fund department, and that it is overseen by the City Council directly rather than by a dedicated commission. While these two aspects of the Port's structure are uncommon, we could not find objective evidence that it is causing a problem at the time of this report. However, if the amount of time necessary for oversight, review, and approval increases significantly in the future, this could become a challenge for the City Council. As of January 2024, the findings in this report discussing the lack of a strategic plan and insufficient staffing represent more immediate risks to the City and the Port (Findings 1, 3, and 4 respectively).

4. Is the Port complying with internal controls, government rules and regulations?

As detailed in Finding 6 and Finding 7 respectively, the Port is not properly monitoring its lease agreements regarding compliance with revenue volume and environmental practices.

5. Does the Port’s current oversight structure guarantee transparency and public access to the information? If not, what are the recommendations?

As mentioned above, it is unusual for a Port to be directly overseen by a general government legislative body like the City Council. Most ports are overseen by a commission or board purely focused on Port-related activity. While we could not find objective evidence that the oversight structure has hindered transparency and access to information, a dedicated Port oversight body, such as a commission appointed by the City Council, could streamline access to Port information and provide more resources to monitor the Port’s activities.

Operations and Maintenance

6. Does the Port have an adequate management control system for accounting measuring, reporting, and monitoring its leases?

No, Finding 6 and Finding 7 respectively detail how the Port is not properly monitoring its lease agreements for compliance with revenue volume and environmental practices.

7. Are staffing levels appropriate for the size and complexity of the Port’s operations and business requirements?

No, the addition of a Finance Manager and Maintenance Manager, as recommended in Finding 3 and Finding 4, would free other positions in the Port to better perform their required duties.

8. Are there opportunities for management/staff to carry out operations in a different way that might yield desired results more effectively or at a lower cost?

In a general sense yes, all the findings in the report point to opportunities to improve operations that would yield more effective results. Some recommendations, such as adding staff, would come at a higher annual cost, but as noted in the findings these baseline operating costs should be considered and included when calculating all future lease terms and fees so that future revenue can more accurately reflect the cost of operating the Port.

9. Is security at the Port effective? What are the recommendations for improvement?

No, Finding 8 details security needs of the Port which are not being met and the associated risk.

10. Are there specific physical changes to infrastructure that should be made to the Port properties that would improve the operation and maintenance of the facilities?

Maintenance to Port infrastructure has often been deferred. This is discussed in Finding 1 regarding the lack of a Port strategic plan and Finding 3 regarding the need for a Maintenance Manager. Before identifying specific assets that need improvement or replacement, we recommend that the Port and City Council complete and approve a strategic plan for the Port. Such a plan would then provide clear funding priorities for any future changes to infrastructure.

11. Is technology adequate and utilized efficiently? Is the technology in alignment with business needs and relevant industry benchmarks?

Similar to Question 10 above, we recommend that the Port and City Council complete and approve a strategic plan for the Port, as discussed in Finding 1. Such a plan would then provide priorities by which to assess the adequacy of technology at the Port and where technology could be better utilized. As of the date of this report, the Port makes use of standard Citywide IT technology for its administrative operations.

12. Are leases or loan rates reasonable compared to industry standards and local market?

As discussed in Finding 5, we could not find documentation at the Port regarding how the lease rates were calculated prior to their initiation or how they compared to similar commercial real estate in the City or region. Without such documentation it is unclear how lease terms were established and if they are appropriate.

There was one exception, where we found documentation of one property that was compared to commercial real estate values, but this occurred several years after the lease term began.

Tenant Services

13. Is the Port responsive to the needs of customers, including tenants, city departments, council, members of the broader community, and regulatory agencies? Recommend how this could be more effective.

In the initial phase of the audit, we interviewed representatives from most tenants, a variety of relevant City staff, and the San Francisco Bay Conservation and Development Commission (BCDC). We also offered to interview all City Council members. We heard a variety of responses from tenants, but the most common theme was that frequent staff turnover at the Port in recent years has meant they have not always known who to contact or what to expect from the Port.

The City departments we spoke with seemed engaged with Port, but we believe that some, such as the Department of Public Works, would benefit from a written agreement to define their relationship and how work performed for the Port is charged back to the General Fund (as noted in Finding 3).

Staff with BCDC did provide feedback that the responsiveness of the City's Port and the City's Planning Department has been quite minimal and disengaged, especially relative to other Bay Area ports.

14. Does the Port have an adequate management control system for measuring, reporting, and monitoring its leases?

No, Finding 6 and Finding 7 respectively detail how the Port is not properly monitoring its lease agreements for compliance with revenue volume and environmental practices.

15. Review and make recommendations regarding policies and procedures relating to tenant services.

As of January 2024, the Port does not have policies and procedures specific to Port functions, as discussed in Finding 2. In Finding 6 and Finding 7 of this report we detail specific practices the Port should follow to more effectively monitor its lease agreements.

16. Can the Port take any legal actions against the delinquent tenants to recover lost revenue?

All active lease agreements we reviewed have provisions regarding delinquent payments. Furthermore, we believe that following our recommendations to increase staffing for the Port will increase the capacity of staff in existing positions to better monitor delinquencies and other tenant related issues.

17. Are there any conflict-of-interest issues involving any current or former City Council members, Current or former City staff, Current or former Port’s tenants, Current and former Port’s contractors?

After a careful review, we did not find documentation to support conflicts of interest between City employees and current or former Port contractors.

General Administration

18. Is the Port adequately accounting for the prudent and effective management of the resources entrusted to them?

As discussed in Finding 4, the Port relies on the Finance Department to manage much of its day-to-day accounting financial management. We recommend adding a Finance Manager to the Port, who can better assist the Port with directly managing its financial resources. This will allow the Finance Department to serve in an oversight capacity.

19. Is the Port following sound procurement practices, budgeting process, and accounting rules?

Yes, with some noted exceptions. Our testing of the Port’s financial records suggest it is following Citywide procurement and budgeting practices and accounting rules. However, Finding 9 discusses debt that is recorded as owed to the General Fund by the Port, but the City lacks sufficient documentation to substantiate the loan. As discussed in Finding 4, the Port would benefit from increased financial oversight by the Finance Department.

20. Review and make recommendations, as applicable, on the following:

a. The budgeting process and purchasing system

The Port’s budget process appeared to comply with City policies but would be strengthened with the adoption of a strategic plan as discussed in Finding 1. Such a plan would help shape clearer budget priorities and make better use of the Port’s limited resources.

We reviewed randomly selected samples of contracts used between fiscal years 2016–17 to 2022–23 and found corresponding records of public solicitation and City Council minutes approving the contracts. We conducted a review of accounts payable transactions, or purchases that were paid by the Port. We randomly selected samples from between fiscal

years 2016–17 to 2022–23 and added numerous judgmental samples of transactions from a broader period that included targeted higher-risk areas such as travel, food, and other purchasing patterns. To collect most of the samples we traveled to the City’s offsite storage facility, accompanied by City staff, to review and scan supporting documents.

Our testing did not reveal any material problems and found required approvals associated with the tested samples. However, neither the Finance Department nor the Port could locate records relating to five samples out of the 41 we requested. This problem is discussed in Finding 4 of this report.

b. Accounting systems and cash management controls

As discussed in Finding 4, adding a Finance Manager position within the Port would strengthen its knowledge of its financial position and management, and provide the Finance Department with more capacity to monitor the Port’s financial activities.

i. Cash management

The Port reports having no direct access to cash and the Finance Department manages its liquidity.

ii. Rent roll information of current leases

Our review of documents suggest that staff have recently better organized and consolidated rent roll and lease information. As mentioned in Finding 2, the lack of policies and procedures about critical Port functions, such as rent collection, means there is a risk of loss of institutional information.

iii. Transfer in and out

The Port has no direct access to make transfers in and out of the Port fund. However, as noted in Finding 3 regarding the need for a Maintenance Manager at the Port, the cost of the Department of Public Works providing maintenance services for the Port is not properly tracked. This means that the true cost of internal services provided to the Port by the General Fund are not reflected in transfers out from the Port.

iv. Rent roll information of each sublease

As discussed in Finding 6 and Finding 7 regarding lease monitoring generally, the Port is not sufficiently monitoring lease agreements, which includes any potential subleases, of which we found no records maintained by the Port. We do not know how common subleases are since most lease agreements with the Port and tenants disallow them.

v. Loans made to the Port and other debt accrued

Finding 9 addresses the lack of documentation our audit revealed related to loans reportedly made from the City’s General Fund to the Port.

c. The adequacy of communications and feedback at all levels, including the council, tenants, management, staff, and customers

See response to Question 13 above.

21. Assess the adequacy of Port financial oversight from the Finance Department.

As discussed in Finding 4, the Finance Department performs most of the day-to-day financial management work for the Port. We recommend adding a Finance Manager position within the Port because this would provide the Finance Department with more capacity to monitor the Port's financial activities.

Peer Summaries

Figures i.1 and i.2 on the following two pages provide an overview of the structure, existence of planning documents, budgets, and staffing of eleven peer ports, relative to the Port of Richmond. As noted in the text, please keep in mind that each port is unique in the markets it serves, its structure, staffing, and funding. This makes direct comparison difficult. Instead, please refer to this chart to illustrate only broader distinctions between ports. Volume measures of port activities are mostly excluded from this chart because each port's imports and exports have differing measures that make comparison possibly misleading.

Figure i.1: Peer Ports – Structure and Planning

Port Name	Structure	Primary Trade and Maritime Operations	Governed By	Operated By	Regularly Updated Strategic Plan?
Richmond, CA	A division of the city’s Community Development Department. Operates a seaport and property management functions.	Automobiles (reported 91,252 imported in FY 2023), and cooking oils, and commercial real estate.	Richmond City Council.	Municipal/Port Staff	No, plan drafted in 2007 but not adopted by City Council at time.
Benicia, CA	AMPORTS has rights to operate the Port until 2031, at which time the city may operate it as an international port or give the lands to the state. Operates a seaport.	Automobiles (volume not reported), bulk cargo handling, and ship repair/maintenance.	AMPORTS is the Port Authority in the Port of Benicia.	Amports (private)	Not public
Hueneme, CA	The Oxnard Harbor District is an independent special district. Operates a seaport and property management functions.	Fresh produce, artmobiles (\$11.1 billion in value reported imported in 2023), breakbulk, and containerized goods.	5-member commission elected at large within District.	Municipal/Port Staff	Yes
Humboldt Bay, CA	The Humboldt Bay Harbor, Recreation and Conservation District is an independent special district. Operates a seaport and property management functions.	Lumber and wood products alongside bulk cargo. Offshore wind terminal is planned.	5-member commission elected by district.	Municipal/Port Staff	No, but the Port adopted a 2007 Management Plan.
Oakland, CA	Port operates as an independent department of the City of Oakland. Operates an airport, seaport, and property management functions.	Container, and bulk cargo terminals, facilitating international trade.	7-member Board of Commission. Commissioners are nominated by the Mayor and appointed by the City Council.	Municipal/Port Staff	Yes
Redwood City, CA	The Port of Redwood City is an enterprise department of Redwood City. Operates a seaport, marina, park/recreation space, and property management functions.	Bulk cargo movement like sand, gravel, and cement, with a presence in shipyards and marine repairs.	5-member Board of Port Commissioners, appointed by the City Council.	Municipal/Port Staff	Yes, citywide alignment and port specific.
Stockton, CA	Stockton Port District is an independent special district. Operates inland port and property management functions.	Bulk cargo (agricultural, construction materials, autos) and serves as a major food processing/distribution hub.	7-member Board of Commissioners; 4 appointed by the City of Stockton and 3 by San Joaquin County.	Municipal/Port Staff	Yes
West Sacramento, CA	Sacramento-Yolo Port District is an independent special district. Operates an inland port and property management functions.	Bulk cargo including agricultural, industrial, and heavy equipment.	5-member Commission. West Sacramento City Council appoints 4, Yolo County Board of Supervisors appoints 1.	Admin and property management only by Port/Municipal Staff. SSA Marine (private) operates terminal per an agreement.	Yes, included in citywide plan.
Portland, OR	Port District authorized by state legislation. Operates an airport, marine terminals, cruise terminal, marina, park/recreation space, and property management functions.	Containerized goods, automobiles (244,934 reported imported in 2022), and grain.	9-member Board of Commissioners. Appointed by the Governor and approved by the State Senate.	Municipal/Port Staff	Yes
Everett, WA	The Port of Everett is an independent special purpose district. Operates a seaport, marina, park/recreation space, and property management functions.	Bulk cargo movement (wood chips, logs, steel), aerospace, and houses paper mills and wood processing facilities.	3-member commission, elected by district.	Municipal/Port Staff	Yes
Bellingham, WA	The Port of Bellingham is a special purpose municipal corporation organized under the State of Washington Port Laws. Operates an airport, marine terminals, cruise terminal, marina, park/recreation space, and property management functions.	Cruise terminal, bulk cargo movement (coal, wood chips, steel) and houses oil refineries and chemical plants.	3-member commission, elected by voters within Whatcom County.	Municipal/Port Staff	Yes
Olympia, WA	The Port of Olympia is an independent special purpose district. Operates an airport, marine terminals, park/recreation space, and property management functions.	Bulk cargo movement (wood chips, logs, gravel) and houses seafood processing facilities.	5-member commission, elected by voters within Thurston County.	Municipal/Port Staff	Yes

Figure i.2: Peer Ports – Budget and Staffing

Port Name	Operating Revenue Budget From Maritime & Non-Aviation Leasing Functions (FY 2023–24)	Grant Revenue Budget From Maritime & Non-Aviation Leasing Functions (FY 2023–24)	Property Tax Revenue Budget (FY 2023–24)	Total Filled Positions at Port For Any Function (as of January 2024)	Filled Positions for Maritime Functions (as of January 2024) ⁽¹⁾	Of These Position How Many Perform Maintenance Work? ⁽²⁾
Richmond, CA	\$10.5 million	\$1.0 million	None	3 *Two positions are only parttime at Port	3 *Two positions are only parttime at Port	0
Benicia, CA	Not public	Not public	None	Not public	Not public	Not public
Hueneme, CA	\$24.3 million	\$20.2 million	None	25	15	1
Humboldt Bay, CA	\$10.2 million	\$3.1 million	None	11	11	6
Oakland, CA	\$180.2 million	\$17.7 million	None	550 *budgeted	74 *budgeted	51 *budgeted
Redwood City, CA	\$10.1 million	\$0.5 million	None	14	12	1
Stockton, CA	\$69.8 million	\$16.3 million	None	21	15	2
West Sacramento, CA	\$3.4 million (FY 2022 audited actual)	None	None	2.1 Admin and property management only, SSA Marine operates terminal.	2.1 Admin and property management only, SSA Marine operates terminal.	0 Municipal/Port staff dedicated to Port maintenance.
Portland, OR	\$46.5 million	None	\$15.5 million *For Port overall including airport	604	10	2 *Dedicated to serving Port’s marine division, but marine division uses staff resources from airport and other divisions.
Everett, WA	\$48.6 million	\$10.7 million	\$5.9 million *For Port overall including airport	54	23	0
Bellingham, WA	\$25.5 million	\$1.0 million	\$8.0 million *For Port overall including airport	131	51	27
Olympia, WA	\$12.3 million	\$4.6 million	\$7.9 million	50	26	12

Note 1: Maintenance roles in particular overlap in some instances from maritime to aviation maintenance. For example, the Port of Portland has only two dedicated maintenance staff for its seaport but utilized maintenance staff as needed from the aviation division of the port. Another example is the Port of Bellingham, who has maintenance division that serves both the seaport and airport.

Note 2: Unless otherwise indicated, figures exclude purely administrative/overhead staff such as human resources and finance.

Findings

Finding 1: Port Strategic Plan

Strategic Planning as an Organizational Imperative

The Port of Richmond's lack of a formally ratified strategic plan significantly impairs its capacity for long-term planning and undermines efficient prioritization and decision-making processes. Such plans are foundational elements for ports and organizations generally. A strategic plan crystallizes a port's vision, delineates its direction, and lays the groundwork for decision-making. This instrument is pivotal in navigating intricate operational, financial, and environmental challenges.

Historical Attempts and Background

Historically, discrete strategic objectives were interwoven within the City's annual budget documents from Fiscal Years 2009–10 through 2020–21 but were not perpetuated. A "Strategic Business Plan," initiated by the Port Director in 2007, was not adopted by the City Council at that time and has not been revived according to subsequent records. The San Francisco Bay Area Seaport Plan and applicable zoning restrictions should be used to guide the development of a strategic plan for the Port.³ The more recent Green Blue New Deal by the City Council may also influence the Port's future direction; however, it is yet to be synthesized into a holistic strategic framework for the Port.

Consequences of the Strategic Void

The void of a strategic plan carries critical implications. It casts ambiguity over investment decisions in the Port's infrastructure, which is already manifesting in the physical condition of the Port's assets. The City's financial records show that the Port had an accumulated depreciation of \$63.0 million, overshadowing the assets' current book value of \$24.5 million.⁴ This indicates a severe underinvestment in maintenance and modernization (see further discussion of Port maintenance in Finding 3). The audit team's tour of the Port facilities on July 24, 2023, anecdotally reinforces this, as we observed visible signs of deterioration and disrepair in various parts of the Port, as illustrated in Figure 1.1. The condition of Port facilities underscores the urgency for a strategic plan to prioritize and allocate investments efficiently and sustain the Port's fiscal viability and community economic support.

³ San Francisco Bay Area Seaport Plan. San Francisco Bay Conservation and Development Commission. November 2023. <https://www.bcdc.ca.gov/seaport/seaport-plan.pdf>. Accessed on February 7, 2024.

⁴ Calculation includes fixed and capital assets and excludes land owned by the Port.

Figure 1.1: Photos of Visibly Deteriorating Infrastructure at the Port



Source: Image taken by audit team on July 24, 2023.

Staff Decision Making and Tenant Selection

The strategic vacuum has tangible repercussions on tenant selection and lease negotiations, vital to securing long-term occupancy (see Finding 5). Furthermore, without a strategic plan, the Port is potentially disadvantaged in attracting and retaining tenants that align with the City's goals for the Port. The Port's recent leasing history, primarily comprised of short-term agreements, reflects the absence of strategic guidance during a period of leadership vacancy. While short-term leases offer flexibility in the absence of a strategic plan, they neglect the benefits of enduring tenancies, which include tenant-driven asset improvements.

For example, between the years 2021 to 2023, the Port signed nine new leases and extensions of existing leases.

- **One** lease agreement was for a **year term** with options for five one-year extension options.
- **Six** lease agreements for **five-year terms**, some with one year extension options.
- **One** agreement was for a **ten-year term**, with two five-year extension options.
- **One** agreement for a **25-year term**, with four ten-year extension options.

In total, seven of the nine agreements were for roughly five years or less, and two were for more than ten years. These short-term leases were made in a period when the Port's Director position was vacant and without a strategic plan to guide staff. While these leases represent a variety of properties and land use types, it illustrates that the Port has not been well-positioned to make long term leases. Longer leases are often more beneficial as they give tenants the security and incentive to invest in the improvement of assets, enhancing the value and functionality of the Port's infrastructure.

Grant Funding Opportunities at Risk

The lack of a strategic plan diminishes the Port's competitiveness for federal grants. Grants from entities like the Maritime Administration (MARAD) and the Environmental Protection Agency (EPA) often prioritize projects that align with a clear strategic vision and demonstrate potential for long-term viability. Without a strategic plan, the Port's ability to present projects that meet these criteria is hampered. In 2022, for example, significant funds were allocated by MARAD and the EPA for port improvements under various programs. The Port's inability to showcase a strategic alignment with such funding opportunities means forfeiting the chance to leverage these resources for development and improvement projects.

Recommendations

The cumulative effect of these issues is a port that operates below its potential and misses opportunities to better serve the City and community. The following recommendations would ensure the Port has a strategic plan that is fully adopted, and then revisited iteratively thereafter.

We recommend that the Richmond City Council:

- 1.1 Provide direction to the Port on its long-term strategic goals for the Port. This will better inform Port staff as they develop a proposed strategic plan.
- 1.2 Formally adopt a proposed Port strategic plan developed by Port staff. This will help give Port staff clear direction.

We recommend that the Port of Richmond:

- 1.3 Develop and present a proposed strategic plan to the City Council. This will provide the City Council with a proposed plan to review that is developed using the knowledge of its Port staff.
- 1.4 Adopt a procedure to review the strategic plan with the City Council at least every five years. During the review staff should include any proposed revisions to the strategic plan to be considered and possibly adopted by the City Council at that time.

Finding 2: Port Procedures

The Port is responsible for collecting \$10.5 million of annual operating revenue, the majority of which is collected from 14 lease agreements with tenants.^{5, 6} It also manages maritime facilities, infrastructure, land, and other assets, valued at \$29.5 million, that are subject to regional, state, and federal regulations.⁷ However, the Port has no written procedures that address these or its other key functions.

Prior procedures may have existed, but they have not been maintained and are presumed lost.

Departments Required to Maintain Procedures

According to the City's Administrative Manual, departments are responsible for "writing and maintenance of departmental operating procedures" that are distinct from the overall City policies.⁸ The City's Administrative Manual does not address several activities specific to the Port, such as revenue collection from leases, managing tenant occupied property, and maritime operations – meaning the Port is responsible for developing and maintaining such procedures.

Furthermore, overall industry best practices, such as from the Government Finance Officers Association as well as the International Organization for Standardization, recommend the documentation of policies and procedures for key functions of an organization.

Lack of Procedures Has Significant Impact During Staff Turnover

The lack of procedures has the most significant impact when there is staff turnover, such as the sudden death of the former Port Director in 2020, and departures of long-term staff around the same time. Prior staff may have had a good understanding of implicit procedures that were verbally communicated to them previously, but with no written procedures this information is lost. This places the Port's \$10.5 million of annual operating revenue at greater risk of disruption, risks the maintenance of the Port's \$29.5 million of infrastructure assets, and could expose the Port and City to greater compliance risk.

⁵ Fiscal Year 2021–22 audited financial statements.

⁶ As of August 2023.

⁷ Total asset value (including land assets) as of Fiscal Year 2022–23 according to calculations provided by the City's finance department.

⁸ City of Richmond Administrative Manual 101.1, Departmental Operating Procedures.

Recommendations

The following recommendations would help the Port reduce the risk of institutional knowledge loss due to staff turnover, ensure critical Port functions are performed consistently, and ultimately help the Port better protect its assets and operating revenue.

We recommend that the Port of Richmond:

- 2.1 Develop and maintain written procedures for its critical operating functions.
- 2.2 Develop and document a backup plan, or succession strategy, for critical roles and responsibilities at the Port.

Finding 3: Maintenance Staff and Deferred Maintenance

Our audit has uncovered significant inefficiencies in the maintenance of the Port's assets, leading to unplanned financial support from the City's General Fund. These issues pose a risk to the Port's asset value and emergency preparedness, and ultimately its long-term operational viability.

Deferred Maintenance Trends

The Port reported a current book value of its assets at \$24.5 million for FY 2022–23, overshadowed by accumulated depreciation totaling \$63.0 million.⁹ This discrepancy signals a crucial demand for extensive maintenance to sustain asset value. Despite the City's Capital Improvement Plan (CIP) allocating \$10.1 million for FY 2023–24 to 2027–28, the funding falls short of bridging the gap between depreciation and the current value, indicating persistent underinvestment.¹⁰

Public Works' Role in Port Maintenance

The Port's CIP oversight has historically been managed by Port staff, and most recently the Port Marketing/Operations Manager performed those tasks. However, the City's Public Works Department has been responsible for day-to-day maintenance, ranging from road and fence repairs to electrical and plumbing work. Despite the Public Works Department's critical role, they report that their current system lacks a robust mechanism for accurately tracking, reporting, or billing maintenance hours, which hampers financial transparency and accountability.

Reported Understaffing Could Be Driving Deferred Maintenance

Public Works reports that it faces a staffing shortage, hindering their capacity to meet the Port's maintenance demands, suggesting a link between personnel scarcity and growing deferred maintenance. This under-resourcing raises the risk of future costs for repair and replacement, threatening the integrity and functionality of Port assets.

Port Financial Subsidization Risks

The Port is structured as an Enterprise Fund. The lack of tracking and billing for Public Works Department time to the Port has rendered it impossible to determine the extent to which the General Fund is subsidizing the Port Enterprise Fund with unbilled maintenance work. Such subsidization contradicts common local government practice, where enterprise funds like the Port typically strive for self-sufficiency. Taking steps to track work performed through time and materials spent on behalf of the Port, even using a spreadsheet, would help prevent use of General Fund money to support the Port. While the Port benefits from the inadvertent subsidy, it may also be receiving inadequate services due to Public Works' staffing constraints.

⁹ Calculation includes fixed and capital assets and excludes land owned by the Port.

¹⁰ The CIP pertains primarily to large-scale activities and is dominated by projects like the removal of Terminal 4's wharf, electrification of Terminals 7 and 8, and routine dredging of the Port's waterways.

Historical Context: The Port Maintenance Manager

Until fiscal year 2014–15, the Port employed a Maintenance Manager responsible for minor maintenance and coordination of external vendors and Public Works tasks. The discontinuation of this role is not clearly understood by current staff but reinstating it could relieve some of the Public Works Department's burden. Hiring a Maintenance Manager will also provide the Port with a dedicated position who is knowledgeable about the Port's assets and able to perform and manage day-to-day maintenance, and ultimately better protect and maintain the Port's assets. This will increase Port operating costs, but these costs can be incorporated into future external rates that provide the Port with self-supporting revenue.

Emergency Preparedness Gaps

The City's 2016 Emergency Plan lists the Port Maintenance Manager or the Chief Harbor Master as the alternate to the Port Director. As of January 2024, neither alternate position exists. If called upon, per the Emergency Plan, the alternate would be expected to:

“coordinate the immediate survey of Maritime areas with initial assessment of damaged and undamaged areas and equipment. Restore Port conditions to normal as rapidly and efficiently as possible. Support emergency response and recovery efforts for the Port of Richmond, coordinating any resources that may become available to support the overall city response.”

Presumably, another position at the Port could fill this role in an interim capacity, but the vacancies add risks to the Port and City during an emergency since either a Port Maintenance Manager or the Chief Harbor Master would have the most familiarity with the Port's infrastructure and systems.

Comprehensive Facility Condition Assessment Needed

Our analysis of accumulated depreciation and current asset values are largely accounting calculations that approximate the condition of assets and any reinvestment in them. For a more precise analysis, we recommend that after a strategic plan is adopted, as recommended in Finding 1 of this audit, that the Port perform a comprehensive facility condition assessment of all major Port assets. Such an assessment would then be paired with the adopted strategic plan to inform future spending in the Capital Improvement Plan.

Recommendations

Our recommendations below would address these problems by helping to safeguard against escalating deferred maintenance and restoring a critical component of the Port's emergency response structure.

We recommend the Richmond City Council:

- 3.1 Appropriate funds to hire a Maintenance Manager within the Port.

If Recommendation 3.1 is adopted:

- 3.2 Direct the Port to consider all increased costs associated with the Maintenance Manager position and incorporate them when setting future fees, tariffs, and lease rates.

We recommend the City of Richmond Public Works Department:

- 3.3 Develop an agreement with the Port, or an outside vendor managed by the Port, with a known billing rate and set service-level expectations for work performed, to account for the remaining work, such as road repairs, that cannot be performed by the Port's Maintenance Manager (see Recommendation 3.1).
- 3.4 Develop an interim tracking and billing method, such as tracking work performed using a spreadsheet, to recoup time and materials spent on behalf of the Port.

We recommend the Port of Richmond:

- 3.5 Perform a comprehensive facility condition assessment of all major Port assets after a strategic plan has been adopted (see Finding 1).

Finding 4: Finance Staff and Financial Monitoring

According to the City of Richmond FY2019–2020 Adopted Operating Budget, the mission of the Port is as follows:

The Port of Richmond is responsible for the management of all City-owned marine terminals. The Port Department performs its function through two divisions: Administration and Operations. Port revenue is generated through cargo import/export and property lease agreements. The Port of Richmond is committed to preserving its historic past, integrating with the community, offering public access, and reducing environmental impacts.¹¹

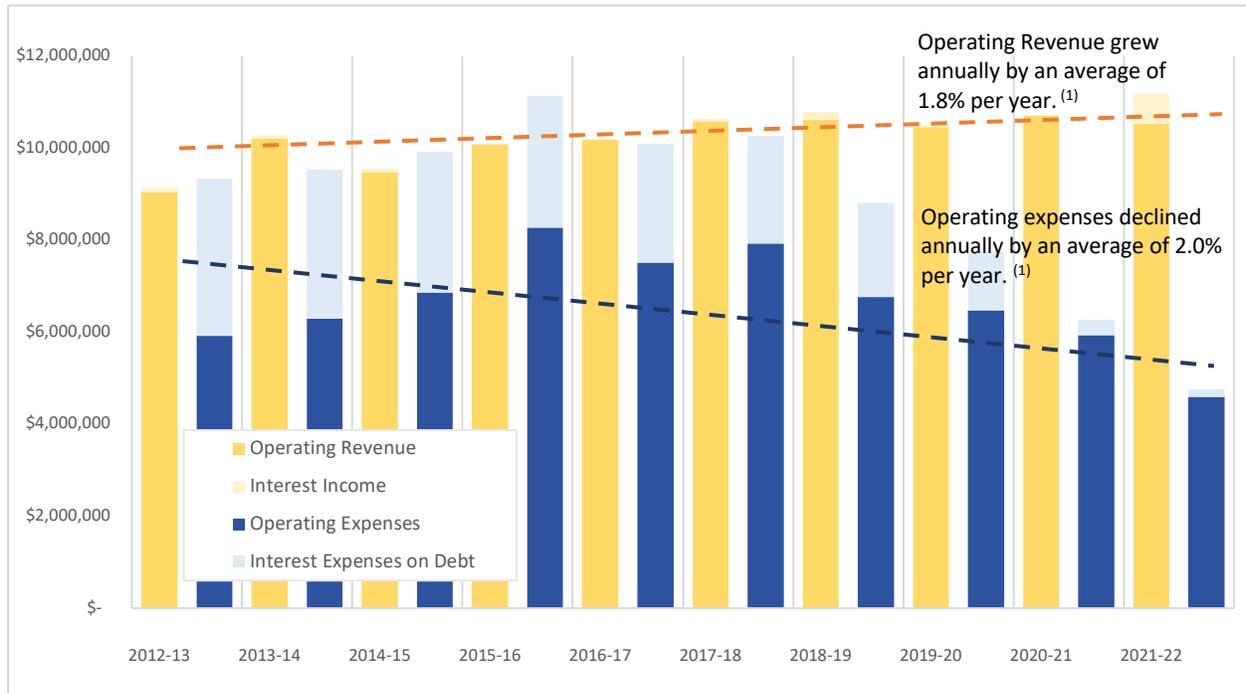
Financial Trends at Port Don't Align With Its Mission

Financial trends from Fiscal Year 2012–13 to 2021–22 show a misalignment with the Port's mission. Expenses have diminished annually by an average of 2.0%, while revenue has grown by a modest 1.8% annually.¹² Although on the surface, reduced expenses may seem beneficial, they have not kept pace with the Bay Area's Consumer Price Index inflation rate of 3.1% annually. Consequently, revenue growth has lagged approximately one-third behind the regional inflation rate. This shortfall is critical given the Port's revenue-generating mission. Moreover, the declining expenses may indicate insufficient investment in operational maintenance, potentially undermining the Port's capability to offer community benefits and maintain infrastructure integrity (see Figure 4.1 for financial trends).

¹¹ City of Richmond FY 2019–2020 Adopted Operating Budget. Port of Richmond Mission. <https://www.ci.richmond.ca.us/DocumentCenter/View/51243/Adopted-FY2019-2020-Operating-Budget>. Accessed on February 7, 2024.

¹² The calculation of operating expenses excludes interest payments from the Port's debt. Since, as of January 2024, the debt has nearly matured, these amounts have declined in the most recent years. Income earned from interest is similarly excluded from operating revenue per accounting standards.

Figure 4.1: Slow Revenue Growth and Declining Operating Expenses



Source: Analysis of the City’s Annual Comprehensive Financial Reports.

Note 1: The calculation of operating expenses excludes interest payments from the Port’s debt. Since, as of January 2024, the debt has nearly matured, these amounts have declined in the most recent years. Income earned from interest is similarly excluded from operating revenue per accounting standards.

Finance Department Performs Day-To-Day Accounting for Port but Does Not Monitor

The Finance Department is currently performing the Port’s daily financial operations and general accounting. However, the department has reported that due to staffing limitations, comprehensive financial monitoring is beyond its current scope. This is at odds with the recommendations of the Government Finance Officers Association (GFOA), which stresses the necessity for regular financial monitoring and organizational accountability structures.¹³ Presently, no evidence suggests that such monitoring activities of the Port are being conducted by the Finance Department or other City departments.

¹³ Government Finance Officers Association, “Best Practices: Budget Monitoring”, <https://www.gfoa.org/materials/budget-monitoring>. Accessed March 5, 2024.

and

Government Finance Officers Association, “Capital Project Monitoring and Reporting”. <https://www.gfoa.org/materials/capital-project-monitoring-and-reporting>. Accessed March 5, 2024.

Port Staff Previously Included a Finance Manager

Previously, until FY 2014–15, the Port employed a Finance Manager who not only performed general accounting tasks but also provided in-depth financial oversight and was integral to the Port’s operations. The elimination of this role has likely impeded the Port’s financial planning capabilities and restricted the Finance Department’s capacity to conduct thorough financial trend monitoring, since it assumed all the day-to-day financial duties for the Port.

Consequences of Neglected Financial Oversight

The absence of diligent financial planning and monitoring is evident in the Port’s subpar revenue performance, which also indicates a lack of strategic management in setting fees and lease rates. Additionally, infrequent grant awards in the past decade may also point to a deficiency in financial planning necessary for successful grant applications and administration.

Limited Support for Grant Applications and Administration

In the past decade before January 2024, the City’s financial records show that the last significant grant awarded to the Port occurred in 2013 for \$4.3 million. Subsequently, there is a nearly ten-year gap until July 2022, when the Port was awarded a \$1.0 million grant. Financial planning is often an important component of grant applications, and when awarded, most grants require financial reporting specific to the grant award and project.

Document Management Concerns

As mentioned in the report Introduction, this audit encountered challenges with record retrieval. Of the 41 backup financial documents requested from our random and judgmental samples, five could not be located. One document from FY 2021–22 the Finance Department had expected to find housed at City Hall but could not locate. The other four documents, from FY 2017–18 and FY 2018–19, were expected to be stored at an offsite facility, visited by the audit team on November 28, 2023. Two of the documents were not found after a careful search through the boxes indicated in the Finance Department’s records. The other two remaining documents were meant to be stored in a single box, but that box could not be located at the storage facility. The Finance Department has not been able to locate these records, or the missing box, since the November 2023 auditor search.

Since our audit was focused on the Port and any associated financial information, we did not assess the full document retention process of the Finance Department on a Citywide basis. Thus, we do not know if this is a larger more systemic Citywide problem. We recommend that the Finance Department investigate its document retention practices for both onsite and offsite storage, and ensure its practices are effective.

Recommendations

By implementing these recommendations, the Port can strengthen its financial management, and better fulfill its mission for the benefit of the community and the environment.

We recommend that the Richmond City Council:

- 4.1 Appropriate funds to hire a Finance Manager, a position that was previously held at the Port until Fiscal Year 2014–15.

If Recommendation 4.1 is adopted:

- 4.2 Direct the Port to consider all increased costs associated with the Finance Manager position and incorporate them when setting future fees, tariffs, and lease rates.

We recommend that the City of Richmond Finance Department:

- 4.3 Investigate and review the consistency of its document retention practices for both onsite and offsite storage.

If Recommendation 4.1 is adopted:

- 4.4 Use the additional staff capacity gained by the Port adding a Finance Manager to perform comprehensive and routine budget and financial monitoring of the Port that is in line with the Government Finance Officer's Association's best practices.

Finding 5: Lease Solicitation, Selection, and Vetting Process

No Policies or Procedures Regarding Leasing Port Properties

There is a significant deficiency at the Port regarding its lack of documented procedures (see Finding 2). The following is a subset of that topic, but with specific implications for the lack of a defined process for soliciting, selecting, and vetting tenants who will lease properties from the Port. There are also no comprehensive Citywide policies that directly address these activities, though some Citywide policies could apply. For example, the City's policy AP 109 Non-Collusion with Bidder might apply to aspects of the solicitation process for Port tenants. Policy AP 522 Purchasing Policy might also apply, but it focuses on the acquisition of goods and services, not the acquisition of tenants to lease Port or City property. Even with the lack of specific policies and procedures, the City and the Port are subject to state laws, such as the state's prohibition against the gift of public funds, and other ethics requirements regarding use of public property.

Port Lacks Documentation About How It Solicited, Selected, and Vetted Tenants

According to Port records, the Port entered into ten new lease agreements between 2013 and 2023, as depicted in Figure 5.1. Our audit efforts to unearth documentation pertaining to how these tenants were solicited, scored, and vetted turned up only a few digital or paper records. This lack of documentation is concerning and suggests an absence of due diligence and/or transparency in the leasing process.

Figure 5.1: Lease Agreements Signed Between 2013 and 2023 Have Almost No Supporting Documents

Tenant Name	Property	Lease Start Date	Solicitation Process	Selection Process	Vetting Process	Additional Notes
Red Oak Victory	Portion of Basin #6A and appurtenant dock space.	5/1/2013	Ship had been berthed at Port prior to agreement. Selection directed by City Council.	Directed by City Council.	No records prior to lease start date.	Business license issued (9/3/2015) after start of lease
Riggers Loft Wine Company	Approximately 21,000 square feet of the Rigger's Loft Building and approximately 15,000 square feet of dockside space adjacent to the Rigger's Loft Building located at 1325 Canal Boulevard, Richmond.	12/16/2014	No records of solicitation process.	No records of selection process. Agreement approved by City Council on Dec 16, 2014.	No records prior to lease start date.	Business license issued (3/4/2016) after start of lease.
RJJ Resource Management Corp	Terminal 3, at 1411 Harbour Way South, Richmond, CA 94804.	7/1/2015	No records of solicitation process.	No records of selection process. Agreement approved by City Council on Jun 2, 2015.	No records prior to lease start date except issuance of business license.	
Dutra Group Signed Lease Agreement	Port of Richmond, Pt. Potrero Marina Terminal.	6/1/2017	No records of solicitation process.	No records of original selection process. City Council Approved amendment in 2021.	Port reviewed required insurance prior to lease term and issue business license.	Tenant also a vendor to the City.
NRC Environmental Service, Inc	Southside portion of Basin 3 and appurtenant dock.	10/1/2017	No records of solicitation process.	No records of original selection or approval process.	Port reviewed required insurance prior to lease term and issue business license.	Tenant also a vendor to the City.
Sause Bros, Inc ⁽¹⁾	Terminal 3 Machine Shop and adjacent berth.	10/1/2017	No records of solicitation process.	No records of original selection process.	No records.	Business license issued (5/21/18) after start of lease.
Nematode Holdings, LLC	2101 Western Drive, at Terminal 4.	7/1/2020	No records of solicitation process.	No records of original selection process.	Port reviewed required insurance and business license prior to lease term.	
Terminal Three Partners, LLC	Terminal 3, at 1411 Harbour Way South.	12/15/2020	Records indicated RFP was advertised on City's bid platform, but no records of bids received were retained.	No records of selection process. Agreement approved by City Council on Dec 15, 2020. Staff reported to Council states "T3 Partners submitted a timely response to a formal request for proposals (RFP)" but no discussion of other proposals or selection criteria.	No records.	Business license issued (12/31/2020) after start of lease.
Point San Pablo Harbor, Inc	Property located at Terminal 4.	6/1/2021	No records of solicitation process.	No records of selection process. Agreement approved by City Council on Jun 15, 2020.	Port reviewed required insurance and business license prior to lease term.	City Council approved after lease term began.

Source: GPP Analytics review of City and Port records provided by City staff.

Note 1: Sause Bros, Inc. is now a subtenant with no direct lease agreement with the Port.

Solicitation

An expected standard practice would be the existence of records demonstrating the advertisement and solicitation of bids for tenancy. We discovered a singular instance of an RFP in 2020 that resulted in a property with a signed leased agreement. Even for that one example, the Port did not retain the bids they received or details of the selection process.

We did see evidence of some RFPs related to other Port properties advertised on the City's bid solicitation platform, but none of the properties advertised were properties that resulted in signed lease agreements at the time of the audit. These included the General Warehouse, the Cafeteria Building (Building 23), and Basin 1 at the Point Potrero Marine Terminal.

We also found some records of unsolicited lease requests from companies and individuals interested in leasing space from the Port. However, the Port lacks any procedures about how to address these requests. The documents related to these requests were varied and lacked sufficient detail to understand the Port's decision-making process.

Selection

The absence of documentation from public solicitations leads to an ambiguity in how tenants are evaluated and selected among other bids and proposals. This increases risk to the City of allegations of fraud, collusion, or abuse. The lack of transparent selection criteria also hampers the ability to determine if tenant selection is optimized for the Port and City's benefit.

We could not find documentation at the Port regarding how the lease rates were calculated or how they compare to similar commercial real estate in the City or region. Without such documentation it is unclear how lease terms were established and if they are appropriate. There was one exception, where we found documentation of one property that was compared to the commercial real estate values, but this occurred several years after the lease term began.

Vetting

Post-selection vetting practices are often absent, as indicated by the frequent lack of essential documentation, such as IRS form W-9, City business licenses, and proof of insurance, which should be confirmed in accordance with the City's Purchasing Policy and terms of the lease agreements. The Port did have records of some of these documents collected for some, and others only after the lease agreements were signed.

There are other vetting activities the Port could perform that would reduce risks to the City. Some examples include collecting and reviewing any required permits, proof of any state operating licenses or permits, credit checks of the potential tenants, or reference checks with the tenants' prior landlords. Performing these checks could help the Port ensure compliance with legal requirements and potentially help prevent delinquent tenant payments.

Other Problems

In one instance we found a lease agreement that was approved by the City Council on a date after the lease's term start date. In the Port's records we found an internal document stating that "Legal advised Port director of executive authority for a one-year lease". It seems likely that since the lease was only projected to generate \$8,400 per year, that it was interpreted to fall under the \$10,000 threshold requiring City Council's approval according to the City's Procurement Policy.

Another problem is that two of the Port's tenants were awarded lease agreements while they were also vendors to the City. This circumstance may be appropriate, but there is no documentation about the process to award the lease agreements, and the Port is not able to demonstrate that it ensured that there was no collusion or conflicts of interest in these relationships or in the process of granting either lease.

Surplus Property Authority

A 2011 audit of the Port identified that some lease agreements of Port property are with the Surplus Property Authority of the City of Richmond. At the time, the audit recommended that the City "verify the status and purpose of the Surplus Authority" and either disclose more information about it or dissolve it. No Port or City officials were able to determine the purpose and nature of the Surplus Property Authority during our audit. The unclear role and purpose of the Surplus Property Authority could pose potential risks by adding to the inconsistency of lease agreements at the Port. As of 2023, the records provided to us by the Port indicate that 16 lease agreements were through the Surplus Property Authority, the most recent one signed in June of 2023. The City should determine the nature of the Surplus Property Authority and, as recommended in 2011, either disclose more information about it or dissolve it.

Recommendations

The recommendations below will help the City and Port reduce the risk of violating City policies and state laws, and help it demonstrate that lease agreements are awarded in the best interest of the Port, the City, and the community.

We recommend that the Port of Richmond:

- 5.1 Write and implement Port-specific procedures regarding how it solicits, selects, and vets tenants for Port properties. The procedures should include appropriate retention of supporting documents such as all proposals received, the selection criteria and scoring, and all documents used to vet the accuracy of the tenant's information.

We recommend that the Richmond City Council:

- 5.2 Determine the nature of the Surplus Property Authority and, as recommended in the 2011 audit of the Port, either disclose more information about it or dissolve it if no information exists.

Finding 6: Lease Volume Guarantee Verification and Documentation

The Port's 2004 lease agreement with Auto Warehousing Co. (AWC) and its subsequent amendments, includes a minimum annual guarantee of vehicle units AWC would process. The Port lacks verification and supporting documentation for the number of vehicles AWC has processed. This guarantee was critical to ensuring that the revenue generated by the agreement offsets bond payments that were due between fiscal years 2008–09 to 2023–24.

AWC Lease and Bond Background

Minimum Annual Guarantee and Revenue Share

In 2004, the Port leased property to AWC under a 15-year lease agreement. AWC receives, stores, and ships automobiles entering the United States. The lease stipulated the processing of 85,000 vehicles annually from American Honda Motor Company, Inc., a volume intended to secure steady wharfage and related fee revenues for the Port.¹⁴ An additional revenue-sharing agreement was in place for vehicles that AWC processed from other companies, though these did not directly contribute to the minimum guarantee.

2009 Amendment and Bond Issuance

The lease amendment in 2009, which accompanied a bond issuance, increased the minimum annual guarantee to 145,000 vehicles. This change was presumably intended to secure revenue surpassing the bond's annual debt service, ensuring the lease covered the cost of the bonds. According to the debt's issuing documents, the bond proceeds were used to pay for warehousing facilities, and improvements to rail infrastructure, and to "facilities owned by BNSF" who operates the rail connecting the Port.

2019 Bond Refinancing and 2020 Lease Amendment

In 2019, the City refinanced the remainder of the 2009 Bonds. The refinanced bonds paid a lower interest rate and therefore a lower annual debt service. In 2020, the Port and AWC amended the lease to lower the minimum annual guarantee to 85,000 after the refinanced bonds matured in fiscal year 2023–23, and when AWC would have an option to extend the lease for another five years.

After the bonds mature in fiscal year 2023–24, and if AWC meets the minimum annual guarantee of 85,000, we estimate that based on current rates AWC would generate \$3.4 million annually at minimum for the Port each year.

Minimum Annual Guarantee Paid by AWC

Despite AWC not meeting the minimum guaranteed vehicle volume, it fulfilled its financial obligations to the City by paying the shortfall. City financial records indicate that revenue from AWC generally exceeded the annual debt service, contributing to additional revenue streams for the Port. See Figure 6.1 for a summary of these events and calculations.

¹⁴ An amendment in 2011 added Subaru as one of the companies in the minimum annual guarantee calculation and included provisions for AWC to fund some tenant improvements.

Figure 6.1: Lease and Bond Timeline Summary

Fiscal Year	Minimum Annual Guarantee (number of vehicle units)	Honda and Subaru Vehicle Units Processed (according to Port records reported by AWC) ⁽¹⁾	Total Amount Paid By AWC to City and Bond Trustee ⁽²⁾	Total Annual Debt Service Payments Due
2003–04	85,000	No records available	No records available	none
2004–05	85,000	No records available	No records available	none
2005–06	85,000	No records available	\$2,827,750.00	none
2006–07	85,000	No records available	\$2,564,484.00	none
2007–08	85,000	No records available	\$2,301,471.00	none
<i>Lease Amended in 2009</i>				
2008–09	145,000	No records available	\$1,591,579.00	none
2009–10	145,000	No records available	\$1,082,162.00	\$3,090,870.17
2010–11	145,000	71,849	\$5,104,233.00	\$3,282,340.00
2011–12	145,000	63,267	\$5,110,927.13	\$3,282,340.00
2012–13	145,000	38,106	\$6,009,992.86	\$5,687,340.00
2013–14	145,000	30,562	\$6,878,108.75	\$5,580,825.00
2014–15	145,000	30,003	\$6,227,285.97	\$5,581,575.00
2015–16	145,000	50,028	\$5,929,429.55	\$5,582,487.50
2016–17	145,000	50,245	\$6,372,468.85	\$5,579,937.50
2017–18	145,000	47,674	\$6,445,029.07	\$5,577,650.00
2018–19	145,000	45,196	\$7,087,204.90	\$5,578,937.50
<i>Lease amended in 2019 (lowers annual guarantee after 2024). Bonds refinanced in 2019 (lowered debt service).</i>				
2019–20	145,000	14,240	\$7,113,557.33	\$4,819,405.56
2020–21	145,000	8,562	\$7,032,098.28	\$4,683,300.00
2021–22	145,000	4,942	\$6,914,214.42	\$4,680,500.00
2022–23	145,000	12,444	\$7,324,132.73	\$4,686,500.00
2023–24	145,000	In-progress	In-progress	\$4,263,000.00
Bonds mature in 2024. Lease with AWC has options to renew for two five-year terms remaining. If extended, the 2019 revision to the lease agreement lowers the minimum guarantee to 85,000 after 2024.				

Source: GPP Analytics analysis of Port records, financial records, and bond issuance records.

Notes: (1) Other vehicles imported by AWC, but not counted in the minimum annual guarantee are not tracked by the Port or reported by AWC. However, the Port reports that AWC processed a total of 91,125 vehicles (including Honda and Subarus) in fiscal year 2023 but they were unable to provide documentation to support this figure.

(2) This includes payments when minimum is deficient and is net of revenue share paid back to AWC.

No Verification or Documentation

The audit found no evidence that the Port attempted independent verifications of vehicle volume figures reported by AWC. The best documentation the Port had available was a file that AWC provided to the Port with vehicle volumes, and minimum annual guarantee calculations. The Port's reliance on documentation provided by AWC, without supporting evidence such as vessel manifests, raises concerns over the accuracy and verifiability of these critical revenue-related figures.

Verification Is Industry Best Practice

An industry best practice for ports is the independent verification of reported cargo volumes to mitigate the risk of inaccurate reporting and potential revenue discrepancies. This practice is also true for virtually any type of organization based on an accounting practice known as the three-way match, where items received are verified before they are paid.

The Port could have significantly strengthened the verification process by obtaining and reviewing corroborative evidence such as vessel manifests or bills of lading, which would detail the number of vehicles transported and are required for customs clearance. These documents serve as a standard method of verification recognized globally, aligning with guidelines from the International Maritime Organization (IMO) and customs authorities. This method of verification would provide a more robust validation of the figures reported by AWC. While the potential for document falsification exists, the absence of any review process essentially places undue reliance on AWC's self-reported data. Creating and implementing a procedure of routine document inspection would bring the Port's operations in line with industry standards, provide a stronger assurance of revenue accuracy, and reduce the risk of fraud or errors from tenants reported figures.¹⁵

Low Staffing at Port Contributed to Lack of Verification

Part of the reason this may not have been occurring could be due to the reduced of positions within the Port, as discussed in Findings 3 and Finding 4 of this audit report. Furthermore, we don't know for certain if verification practices had occurred previously to the tenure of current Port staff as the records may have been lost or misplaced. As implied in Finding 2, there are no known Port procedures that require verification or similar activities.

¹⁵ There are cargo verification services and technologies available, but we recommend that the Port first build a practice of confirming vessel cargo volume using common and widely available documents.

Recommendations

We recommend that the Port of Richmond:

- 6.1 Write and implement a procedure to verify all reported cargo volume that affects revenue from lease agreements, wharfage fees, tariffs, or other fees that may be calculated by the volume of cargo.

We recommend that the Richmond City Council:

- 6.2 Appropriate funds and approve the positions recommended in Finding 3 and Finding 4 to help ensure that Port staff have the capacity to carry out verification activities.

Finding 7: Environmental Compliance and Lease Monitoring

Environmental Regulator

The San Francisco Bay Conservation and Development Commission (BCDC) is a California State planning and regulatory agency with regional authority over the San Francisco Bay, the Bay's shoreline band, and the Suisun Marsh. Empowered through the McAteer-Petris Act and the San Francisco Bay Plan, BCDC is responsible for enforcing environmental standards and protecting the Bay's ecological integrity.^{16; 17}

Monitoring Port Properties

As of January 2024, active leases for Port of Richmond properties include an article on environmental matters covering tenants' responsibilities regarding hazardous materials, as well as safety precautions and stormwater pollution control. However, as the City of Richmond holds the land titles to Port properties, BCDC considers the City as the legal entity potentially responsible for violations at those properties. In this context, the Port ought to be able to demonstrate a good faith effort to monitor Port properties for tenant compliance with the environmental requirements of their lease.

Lack of Systematic Monitoring of Port Properties

However, during the auditors' review they did not find evidence that the Port systematically monitors tenants' compliance with these requirements at Port properties. Contributing factors to the lack of monitoring and documentation may be the lack of written policies and procedures for the key functions and responsibilities of the Port, as well as insufficient Port staffing levels (see Findings 3 and 4).

The lack of monitoring for compliance poses a potential environmental, legal, and financial risk to the City as the entity responsible for Port properties and compliance with environmental laws and regulations.

Recommendations

We recommend that the Port of Richmond:

- 7.1 Include specific direction within their policies and procedures manual regarding inspections/ monitoring of Port properties for tenant compliance with environmental clauses included in their leases as well as the San Francisco Bay Conservation and Development Commission policies (see Finding 2).
- 7.2 Document staff inspections/monitoring of Port properties for environmental compliance and other tenant activities which may require a permit from the San Francisco Bay Conservation and Development Commission.

¹⁶ McAteer-Petris Act. https://www.bcdc.ca.gov/plans/mcateer_petris.html. Accessed on January 19, 2024.

¹⁷ San Francisco Bay Plan. <https://toolkit.climate.gov/reports/san-francisco-bay-plan>. Accessed on January 19, 2024.

Finding 8: Security at Port Facilities

Unique Mixed-Access Space

The Port of Richmond is unique as a mixed-access space that is largely open to the public and includes industrial activity, recreational use, cultural resources, and office buildings. The Bay View Trail, used by pedestrians and cyclists for transit and recreation, wraps along the bay through the Port area. Visitors also access the Port to explore the Red Oak Victory World War II ship and museum and the Rosie the Riveter National Historical Park, which each provide a venue for educational and historical exhibits that contribute to the area's cultural resources. One of the Port's tenants, Riggers Loft Wine Company, offers tastings and special events along the bay next to the Red Oak Victory and the Port Administrative Building. Additionally, the road leading to the Port includes areas with less urban development and traffic, making it popular for joy riding and spinning donuts. This unique mixture of access and use makes security at the Port both a challenge and an important consideration.

Unleased Buildings Targets for Vandalism

As of January 2024, the Port of Richmond has three unleased properties: Basin 1, the General Warehouse, and the Cafeteria Building. Each of these properties has been vacant for over six months. As per the Port's active lease agreements, Port tenants are responsible for providing security for their leased spaces. Security of properties which are unleased and sitting vacant is the responsibility of the City of Richmond's Port. In the case of the unleased General Warehouse, for example, the vacant building has been vandalized and damaged (see Figure 8.1 below). The situation is not too surprising because, according to the Richmond Police Department, abandoned/vacant buildings do tend to become targets for trespassing and vandalism.

Figure 8.1: East Facade of the General Warehouse Building, July 24, 2023



Source: Image taken by audit team.

Increased Risk and Cost to City

In the case of the General Warehouse, and other future unleased buildings, damage to the building may either 1) need to be repaired by the Port, 2) weaken lease negotiations because of the upfront costs to a potential new tenant, or 3) delay the process of moving a new tenant into the building, which would increase the probability of additional vandalism and damage. Each of these scenarios will increase costs to the City of Richmond. Calls for service to the Richmond Police Department regarding trespassing, vandalism, theft, etc. are also an additional cost to the City.

Furthermore, any accidents that might occur on vacant Port properties where the conditions of those properties have become dangerous, and the accidents result in injury, may be covered by Government Code, Section 835.¹⁸ In such case, the injuries could result in a suit against the City, which could also be expensive. Within this context, and the mixed access and use of Port property, conditions such as the stairs leading down to Basin 1 may pose additional risk to the City (see Figure 8.2 below).

Figure 8.2: East Side of Basin 1, July 24, 2023



Source: Image taken by audit team.

Previous Security Services Used

The Port's financial records indicate that it contracted with a security provider between Fiscal Years 2016–17 and 2021–22 for security at the Port's Terminal 1. Current staff at the Port are not aware of the effectiveness of the security services that were provided at that time.

¹⁸ Gov Code Section 835.

https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=GOV§ionNum=835. Accessed on January 16, 2024.

Procedure Needed to Address Security and Safety of Vacant Properties

As noted in Finding 2 of this audit report, the Port lacks procedures for its critical functions, and that includes property management and security of vacant properties. To address the risks related to vacant Port properties, such as liability to the City and damage to those properties, we recommend that the Port establish written procedures to consider security services, surveillance systems, alarm systems, and secure fencing when properties become vacant. This will help reduce the risk of damage to vacant properties that result in future repair costs and reduce the risk of injury that could result in lawsuits against the City and resulting future costs.

Recommendations

We recommend that the Port of Richmond:

- 8.1 Prioritize the process of soliciting for, and vetting, potential tenants for vacant Port properties, in line with the Port's strategic plan (see Finding 1).
- 8.2 Establish a written procedure to consider security services, surveillance systems, alarm systems, and secure fencing when properties become vacant. This is in line with the recommendations made in Finding 2 of the audit report.

Finding 9: Debt to the General Fund

The City Council passed Resolution No. 99-13 on October 15, 2013, which states that since 1977 the City has provided a loan and other services to the Port, which at that time amounted to a total principal of \$16,942,096 owed. While the resolution authorizes a promissory note facilitating partial loan repayment through in-kind services—specifically, the berthing of the Red Oak Victory vessel—neither the Port nor Finance Department staff archived the promissory note or associated documents, resulting in a lack of records substantiating the purpose of the loans.

This unresolved debt is referenced further by a 2011 Port audit, which mentions a 2006 promissory note, with a reported agreement by the Port to repay the General Fund \$17,139,188. As of FY 2023–24, financial records show the Port still owes the City General Fund \$12,485,369.72. As was stated in the 2011 audit, “there is inadequate documentation of the underlying services provided by the City that led to the need for the Port’s repayment to the [City’s General Fund].”

Documentation Deficiencies

Our audit's investigation into this debt yielded no conclusive documentation from the Port or Finance Department related to the loan's origin or purpose. Some documentation presented to the City Council in recent decades state things like “the original loan dates back to the 1970s and was intended to finance container port infrastructure at Terminal 3.” However, no documents or calculations could be found by City staff or the audit team showing what was spent on behalf of the Port beyond these assertions. This absence of documentation is consistent with findings from the 2011 audit, which also failed to locate records clarifying the loans' original intents.

Implication for Port Fees and Revenues

Under California State code, the fees charged by the Port must reflect the reasonable cost of provided services. Without proof of the loans and promissory notes' legitimacy, the Port faces challenges in justifying the reasonableness of its fees, which are based upon its operating costs, including the repayment of debt. The lack of documentation could potentially conflict with state law requirements.

Lack of Documentation Could Suggest Other Problems

Our audit, limited in scope to the Port, raises concerns that the problem of maintaining essential financial documentation might extend beyond the Port to other City departments. The risk of such a systemic issue could be determined by broader review performed by the Finance Department to ensure that liabilities across the City are substantiated and compliant with legal standards.

Recommendations

Implementing the following recommendations would help ensure the Port remains in compliance with state laws and the fees it charges are based on the true cost of the Port's operations.

We recommend that the City of Richmond Finance Department:

- 9.1 Provide documentation to the Port of Richmond and Richmond City Council related to the original loans to the Port and their purpose by June 30, 2024.
- 9.2 Review all loans between the General Fund and other City departments and ensure all supporting documentation is maintained and sufficient to demonstrate that the liability is appropriate in compliance with state law.

We recommend that the City Council:

- 9.3 If documentation of the original loans to the Port and their purpose have not been received by June 30, 2024, restate and eliminate the liability for these loans to help maintain compliance with state law.

Finding 10: Personal Emails

Use of Personal Email Addresses

The auditors have noted that Port and other City employees are periodically conducting City business using their personal email accounts. This has been documented through samples of printed documents as well as emails received by the auditors from City employees. City staff report that this problem may have worsened during the rapid transition to remote work in 2020. However, we found documentation showing that Port staff had at least periodically used personal email addresses for City business during the prior decade as well.

Contradictions in City's Administrative Manual

The City of Richmond's Administrative Manual is contradictory in its policy regarding personal internet and email usage. Its Use of Technology Policy AP 655, Section B allows for minimal personal email and internet use in its Appropriate Use section "to the extent that the use does not fall within one of the categories listed under prohibited uses and does not hinder a User's ability to effectively and efficiently accomplish his or her job functions". However, the previous two sections of the policy (the Email section and the Web/Internet section) both begin by stating that these technologies are to be used for City related activities only:

Email: "City employees shall use the electronic mail system only for City related activities".

Web/Internet: "The Internet shall be used for City-related business only".

The contradictions in these policies are counterproductive. It appears that the City has not created a strict culture of separation between City and personal business on City-owned devices, and minimally should clarify its policies for employees and provide specific information and guidance on how to comply with these policies. City employees may not even be aware that they are in the wrong account or logged into a browser through a personal address.

Risk of Violating the California Public Records Act

If City employees are, even unintentionally, conducting City business through their personal email accounts, or through browsers in which they are logged in via a personal account, the City may be unable to comply with public requests filed under the California Public Records Act (CPRA).¹⁹ Under CPRA, any writing relating to the conduction of the public's business which is prepared, owned, used, or retained by any state or local agency is considered a public record.²⁰ As the City does not have access to current employees' personal accounts, let alone past employees, they would not be able to provide these written documents produced by public employees.

Recommendations

We recommend that the City Manager's Office of Richmond:

- 10.1 Amend its Administrative Manual to clarify its policy regarding personal internet and email usage by City employees.
- 10.2 Disseminate the amended sections of the Administrative Manual to all City employees and provide specific information and technological guidance on how to comply with these policies and the California Public Records Act.

¹⁹ California Public Records Act, Government Code §7920.000.
https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?division=10.&chapter=2.&part=1.&lawCode=GOV&title=1. Accessed on January 18, 2024.

²⁰ California Public Records Act, Government Code §7920.530: "public records' includes any writing containing information relating to the conduct of the public's business prepared, owned, used, or retained by any state or local agency regardless of physical form or characteristics".
https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=GOV§ionNum=7920.530. Accessed on January 18, 2024.

Recommendations List

Directed to the City Manager's Office of Richmond:

Number	Recommendation	Contingencies
10.1	Amend its Administrative Manual to clarify its policy regarding personal internet and email usage by City employees.	
10.2	Disseminate the amended sections of the Administrative Manual to all City employees and provide specific information and technological guidance on how to comply with these policies and the California Public Records Act.	

Directed to the City of Richmond Finance Department:

Number	Recommendation	Contingencies
4.3	Investigate and review the consistency of its document retention practices for both onsite and offsite storage.	
4.4	Use the additional staff capacity gained by the Port adding a Finance Manager to perform comprehensive and routine budget and financial monitoring of the Port that is in line with the Government Finance Officer's Association's best practices.	*contingent on recommendation 4.1
9.1	Provide documentation to the Port of Richmond and Richmond City Council related to the original loans to the Port and their purpose by June 30, 2024.	
9.2	Review all loans between the General Fund and other City departments and ensure all supporting documentation is maintained and sufficient to demonstrate that the liability is appropriate in compliance with state law.	

Directed to the City of Richmond Public Works Department:

Number	Recommendation	Contingencies
3.3	Develop an agreement with the Port, or an outside vendor managed by the Port, with a known billing rate and set service-level expectations for work performed, to account for the remaining work, such as road repairs, that cannot be performed by the Port's Maintenance Manager (see Recommendation 3.1).	
3.4	Develop an interim tracking and billing method, such as tracking work performed using a spreadsheet, to recoup time and materials spent on behalf of the Port.	

Directed to the Port of Richmond:

Number	Recommendation	Contingencies
1.3	Develop and present a proposed strategic plan to the City Council. This will provide the City Council with a proposed plan to review that is developed using the knowledge of its Port staff.	
1.4	Adopt a procedure to review the strategic plan with the City Council at least every five years. During the review staff should include any proposed revisions to the strategic plan to be considered and possibly adopted by the City Council at that time.	
2.1	Develop and maintain written procedures for its critical operating functions.	
2.2	Develop and document a backup plan, or succession strategy, for critical roles and responsibilities at the Port.	
3.5	Perform a comprehensive facility condition assessment of all major Port assets after a strategic plan has been adopted (see Finding 1).	
5.1	Write and implement Port-specific procedures regarding how it solicits, selects, and vets tenants for Port properties. The procedures should include appropriate retention of supporting documents such as all proposals received, the selection criteria and scoring, and all documents used to vet the accuracy of the tenant’s information.	
6.1	Write and implement a procedure to verify all reported cargo volume that affects revenue from lease agreements, wharfage fees, tariffs, or other fees that may be calculated by the volume of cargo.	
7.1	Include specific direction within their policies and procedures manual regarding inspections/monitoring of Port properties for tenant compliance with environmental clauses included in their leases as well as the San Francisco Bay Conservation and Development Commission policies (see Finding 2).	
7.2	Document staff inspections/monitoring of Port properties for environmental compliance and other tenant activities which may require a permit from the San Francisco Bay Conservation and Development Commission.	
8.1	Prioritize the process of soliciting for, and vetting, potential tenants for vacant Port properties, in line with the Port’s strategic plan (see Finding 1).	
8.2	Establish a written procedure to consider security services, surveillance systems, alarm systems, and secure fencing when properties become vacant. This is in line with the recommendations made in Finding 2 of the audit report.	

Directed to the Richmond City Council:

Number	Recommendation	Contingencies
1.1	Provide direction to the Port on its long-term strategic goals for the Port. This will better inform Port staff as they develop a proposed strategic plan.	
1.2	Formally adopt a proposed Port strategic plan developed by Port staff. This will help give Port staff clear direction.	
3.1	Appropriate funds to hire a Maintenance Manager within the Port.	
3.2	Direct the Port to consider all increased costs associated with the Maintenance Manager position and incorporate them when setting future fees, tariffs, and lease rates.	*contingent on recommendation 3.1
4.1	Appropriate funds to hire a Finance Manager, a position that was previously held at the Port until Fiscal Year 2014–15.	
4.2	Direct the Port to consider all increased costs associated with the Finance Manager position and incorporate them when setting future fees, tariffs, and lease rates.	*contingent on recommendation 4.1
5.2	Determine the nature of the Surplus Property Authority and, as recommended in the 2011 audit of the Port, either disclose more information about it or dissolve it if no information exists.	
6.2	Appropriate funds and approve the positions recommended in Finding 3 and Finding 4 to help ensure that Port staff have the capacity to carry out verification activities.	
9.3	If they have not received documentation of the original loans to the Port and their purpose by June 30, 2024, restate and eliminate the liability for these loans to help maintain compliance with state law.	

Attachment A: Written Statement for Port Audit Findings

PORT OF RICHMOND



WRITTEN STATEMENT TO PORT AUDIT FINDINGS

PORT MANAGEMENT AND PERFORMANCE AUDIT FINDINGS

Finding Reference Number: 1 – Port Strategic Plan

Management response:

In addition to the Strategic Business Plan from 2007 mentioned within this audit, there was a 2011 Final Port Audit (similar to this current performance audit) that made recommendations regarding port operations and direction. See attached for reference on last performance audit.

This finding indicates that a strategic plan would result in longer-term leases with tenants and more direct investment in the port (see Staff Decision Making and Tenant Selection). However, there are costs and benefits related to shorter-term leases. Furthermore, the size of facility and type of operation to be supported are factors in determining lease duration. Most of the lease properties within PPMT (Finger piers and basins) are suited for and leased by small to mid-size marine operations (e.g. vessel lay berthing, tugboat operations, barge and dredging operations). These are not cargo handling import/export operations and consist of shore-side facilities of less than 1 to 3 acres. It is important at this time and going forward that we have flexibility in the lease and usage of these facilities as the development of a strategic plan may indicate alternative and/or other preferred maritime and port priority usage. We do agree the soliciting property improvement and investment in all leases is desirable and should be incorporated at appropriate levels for each site.

We agree a strategic plan is needed. The strategic planning project will start in 2024 and be completed in 1H 2025.

Finding Reference Number: 2 – Port Procedures

Management response:

As mentioned in the Audit, the Port is an Enterprise Fund operating under management of the General Fund. Several port procedures are based on and documented within City processes. The Port relies on City resources and departments for various and multiple support functions.

We do agree that a dedicated procedures manual is needed for the Port. Upon hiring additional headcount and as part of the strategic planning process, a port procedures manual will be developed.

Finding Reference Number: 3 – Maintenance Staff and Deferred Maintenance

Management response:

We agree that the Port needs to be better resourced. Requests are being submitted to increase headcount. A project management resource will be utilized to manage maintenance priorities.

Attachment A: Written Statement for Port Audit Findings

Finding Reference Number: 4 – Finance Staff and Financial Monitoring

Management response:

Regarding comments on flat revenue, note that in previous leases CPI increases did not become effective until after the initial lease term. This resulted in leases that did not increase on an annual basis. The current and revised lease template includes annual CPI increases.

Regarding comments on limited support for Grant Applications, a Grant and legislative resource is more important than an accounting resource. The Port's preference is to use a commercial resource (sales, marketing) for financial reporting and closer engagement with the City accounting department.

Agree that the Port needs to be better resourced overall. Requests are being submitted to increase headcount. The port is working with Finance to establish a dedicated accounting resource so that the resource can be more familiar with operations across the Port and can assist with the development of port financial plans and reports.

Finding Reference Number: 5 – Lease Solicitation, Selection, and Vetting Process

Management response:

The Surplus Property Authority role has been discussed with City Council and is being addressed within CAO.

The lease solicitation, selection and vetting process follows City Richmond Real Estate processes and procedures. We agree a port specific process is preferred. The most recent lease of Basin 1 at Pt. Potrero Marine Terminal (2023) followed a standard process of lease solicitation and tracking through an RFP process. The port wants to make this process as robust as possible and will undertake efforts to improve interest in the Port properties and track all activity related to solicitation, selection, and vetting.

Given the unique nature of port properties and in particular the unique nature and status of the Port of Richmond properties, we anticipate there will be some degree of unsolicited request for leasing space.

Finding Reference Number: 6 – Lease Volume Guarantee Verification and Documentation

Management response:

The port and tenants operate under lease agreements with the standards of law facilitating compliance. Within the port industry, landlord ports may undertake an audit of the cargo volumes on a one to two or three year basis. The Audit report is correct that at current resourcing levels, the Port could not do this on a regular basis at this time. A volume verification and audit process can be built into the port procedures manual as well as into cargo operations leasing documents going forward.

Finding Reference Number: 7 – Environmental Compliance and Lease Monitoring

Management response:

Similar to Finding 6 above, the port and tenants operate under lease agreements with the standards of law facilitating compliance. Within the port industry, landlord ports may undertake an audit of terminal operations and environmental compliance at some regular cadence. The Audit report is correct that at current resourcing levels, the Port could not do this on a regular basis. An operations and environmental

Attachment A: Written Statement for Port Audit Findings

audit process can be built into the port procedures manual as well as into leasing documents going forward.

Our larger concern with regard to environmental condition is the unleased properties that are subject to vandalism, waste disposal and blight.

Finding Reference Number: 8 – Security at Port Facilities

Management response:

Agree with comments that leasing the properties is most effective at keeping them safe and secure. The port will be installing the Flock Camera system to improve security and safety.

Finding Reference Number: 9 – Debt to the General Fund

Management response:

Agree the debt to the General Fund needs to be validated as well as evaluated to ensure appropriate balance of payments. Some port properties at the time of the loan agreement and subsequent amendments, have changed or are no longer available within the port portfolio. Such changes need to be accounted for in the repayment terms.

None of the current Port staff were engaged or working with the Port at the time of the loan and subsequent resolutions. Ultimately the Port would like to get out from under this debt.

Finding Reference Number: 10 – Personal Emails

Management response:

Although this is not City practice, staff researched this item with the Information Technology Department and personal email was used by the prior Port Director. This is not City practice. Currently, personal email is only used in situations where a city email cannot be used such as Google docs. Staff will work with Information Technology to ensure adherence to City practice.



RESPONSES TO GENERAL COMMENTS FROM ORIGINAL SCOPE

1. Is the Port making the best use of public funds?

Management response:

When addressing the Port's funding and financials, it is important to highlight and reiterate that the Port is an Enterprise Fund, hence, the cost of providing goods and services is based on leases of port assets and user charges (i.e. tariffs). Although "best use" may evolve and refined through the pending strategic plan, the Port's properties are nearly all leased and generating revenue except for facilities that are under activity with the City Attorney's office. These include Terminal 1 and the General Warehouse. An RFP to lease the Cafeteria Building was unsuccessfully concluded. The lease for Basin 1, which transitioned due to moved tenant, is currently being finalized.

2. Is the Port utilizing efficient operating practices?

Management response:

The Port utilizes resources and departments within City Management, including Finance, Human Resources, Purchasing, IT and Real Estate to name a few. City staff are generally utilizing the procedures for their respective departments when managing Port tasks. Having stated this, as the Port staff is reestablished, policies and procedures specific to Port activity will be consolidated and documented to ensure standard operating practices going forward.

3. Does the Port have an effective organization and/or management structure, including staffing and operations, when compared to other similar ports? Are there opportunities for improvement?

Management response:

The Port is highly focused on rebuilding staff and optimally utilizing contract staff, such as our Engineering Consultant Robert Stevens, as well as continuing to partner with City staff to establish dedicated attention where needed, such as Accounting.

The activity at the Port is growing with the addition of the Port Director, and the activity will increase with proper staffing levels. Ultimately, the Port's activity and revenue will grow. The lack of a Port Board is not an immediate priority but should be reviewed at some point. The breadth of responsibilities and mandates for City Management and City Council are significant. Having a dedicated Port Board allows members of that Board to better understand the operations and economic benefits of the Port to provide direction and oversight to Port management. There are always opportunities for improvement.

4. Is the Port complying with internal controls, government rules and regulations?

Management response:

The Port agrees that with continual development of lease terms and agreements, as well as the development of standard operating procedures, the process of auditing tenants will be incorporated into operations. To make best use of resources and funds, these will likely be annual or bi-annual activities.

Attachment B: Responses to General Comments from Original Scope

5. Does the Port's current oversight structure guarantee transparency and public access to the information? If not, what are the recommendations?

Management response:

This topic is touched upon in Question Number 3 and 4 above.

6. Does the Port have an adequate management control system for accounting measuring, reporting, and monitoring its leases?

Management response:

Please see response to Question 4 above.

7. Are staffing levels appropriate for the size and complexity of the Port's operations and business requirements?

Management response:

The Port is still currently staffed by one full-time employee, the Port Director. Other Economic Development staff support the Port on a part-time basis. The Port is seeking to incorporate the following staff/positions within the coming 12 to 15 months:

- Sr. Business Assistance Officer (Lizeht – convert to full-time Port)
- Port Marketing/Operations Manager (position filled but not active employee)
- Development Project Manager II (Port Projects and Maintenance Initiatives) - to be hired FY2024-2025.
- For future request: Grants and Legislative Affairs Officer – to be budgeted.

By comparison, the Port of Redwood City is of similar size and complexity to the Port of Richmond. Redwood City is also very close on a financial basis operating a \$12M dollar business. Port of Redwood City has a staff of 12 persons.

8. Are there opportunities for management/staff to carry out operations in a different way that might yield desired results more effectively or at a lower cost?

Management response:

Management recognizes the Port has not been properly resourced or managed over a several-year period. The new and current Port Director is focused on improving revenue, operations, safety, facility utilization, and compliance across the port. This will come at a higher cost as more staff and investment are needed. The Port team is focused on growing revenue and improving the Port's balance sheet.

9. Is security at the Port effective? What are the recommendations for improvement?

Management response:

Security at the Port is improving with a renewed effort by Port staff to monitor properties and vacant areas around the Port. However, cable theft of AT&T copper wires has increased. The Port has met with RPD to discuss considerations and coverage around the Port area. This collaboration is just the first step.

The Port is also finalizing plans to install the Flock Camera system at locations around the port to improve drivers' behavior as well as to provide further security in the port area. Further improvements being pursued include asphalt curbs and gates to limit access to unmonitored areas and to prevent sideshow activity.

10. Are there specific physical changes to infrastructure that should be made to the Port properties that would improve the operation and maintenance of the facilities?

Management response:

The Port's infrastructure is aging and in poor condition. The Port will be seeking vendors to complete a comprehensive Facilities Condition Assessment at the earliest opportunity. This is expected to take place simultaneously with the Strategic Planning exercise. The Port's Wharfs, in particular, require significant investment to strengthen and refurbish these assets with a view towards using them productively for another 50 years.

11. Is technology adequate and utilized efficiently? Is the technology in alignment with business needs and relevant industry benchmarks?

Management response:

No further additions to GPP comments. The Port will review and consider IT improvements in the future.

12. Are leases or loan rates reasonable compared to industry standards and local market?

Management response:

The uniqueness of the facilities at the Port of Richmond makes an 'apples to apples' comparison of lease rates difficult. Based on informal discussion and review of other public port leasing data, the lease rates in Richmond are fair and competitive. Some existing leases are the result of opportunistic engagement, such as the lease for Terminal 4. If this space were not being utilized the Port would be left managing safety and security issues as well as the associated costs. Additionally, revenue for the cargo handling facilities at the Port (AWC and AKK) are based on Tariff rates that are controlled by the Federal Maritime Commission (FMC). Hence, we rely on the market rate setting capability by the FMC, although the Port does have some control in CPI increases to tariffs. Ultimately, increasing cargo throughput increases the Port's revenue, hence, supporting our tenant's growth is important.

Additionally, following a detailed review of the Auto Warehousing Company's lease terms in recent months, the Port engaged the Land Econ Group to conduct an analysis of our Auto/RoRo business with other Ports handling Auto/RoRo operations. Please see the attached report **Port of Richmond AWC Review** which indicates that the Port of Richmond's AWC business is healthy and positive. A constraint of our business is the weight bearing strength of Richmond's wharfs. We are not able to handle heavy vehicles and equipment (RoRo cargo) that would generate higher tariffs. As indicated in the Port Audit, with the pending completion of bond payments, the Port's liability for bond payments will be eliminated.

13. Is the Port responsive to the needs of customers, including tenants, city departments, council, members of the broader community, and regulatory agencies? Recommend how this could be more effective.

Management response:

The conclusions in this section reflect that the Port was understaffed and underfunded over a several year period. Operations will be more effective and efficient with increased staffing and investment.

14. Does the Port have an adequate management control system for measuring, reporting, and monitoring its leases?

Management response:

Audit comments have been addressed in 3, 4, 5 and 6 above.

Attachment B: Responses to General Comments from Original Scope

15. Review and make recommendations regarding policies and procedures relating to tenant services.

Management response:

No further comments.

16. Can the Port take any legal actions against the delinquent tenants to recover lost revenue?

Management review:

The Port is working with City Attorney's Office regarding delinquencies and other tenant compliance considerations.

17. Are there any conflict-of-interest issues involving any current or former City Council members, Current or former City staff, Current or former Port's tenants, Current and former Port's contractors?

Management response:

The current Port management is unaware of any conflict-of-interest issues.

18. Is the Port adequately accounting for the prudent and effective management of the resources entrusted to them?

Management response:

No further comment to GPP's report.

19. Is the Port following sound procurement practices, budgeting process, and accounting rules?

Management response:

No further comment to GPP's report. A number of general management practices addressed through comments above and through response to Findings.

20. Review and make recommendations, as applicable, on the following:

- a. Budgeting process and purchasing...**
- b. Accounting systems...**
- c. Adequacy of Port financial oversight...**

Management response:

No further comment to GPP's reporting.

21. Assess the adequacy of Port financial oversight from the Finance Department.

Management response:

No further comment. Please see GPP reporting Finding 4.

MEMO II

To: Charles Gerard, Port of Richmond
From: Bill Lee, Land Econ Group
RE: Review of AWC Performance
Date: March 14, 2024

INTRODUCTION

The Port of Richmond requested that Land Econ Group (LEG) review the performance of Auto Warehousing Corporation (AWC) in order to understand the market pricing for similar facilities for long-term planning. Our evaluation followed two tracks: 1) How AWC's performance in at the Port of Richmond compares to other public California ports that import/export a substantial number of automobiles, and 2) How AWC processing of Subaru automobiles compares in numbers to total US Subaru sales.

COMPARISON TO OTHER CALIFORNIA PORTS

The key public port competitors to the Port of Richmond for the import and export of automobiles are the Port of San Diego, Port Hueneme and the Port of San Francisco. The ports of San Diego and Hueneme are major players in the automobile import/export business, while the Port of San Francisco appears to face some challenges in this business.

Port of San Diego

The San Diego Unified Port District has contracted with The Pasha Group to act as Terminal Operator of the National City Marine Terminal for the purpose of importing, exporting and short-term storage of automobiles. In terms of revenue generation, the Pasha Group has consistently been within the top five or six of this Port's most productive tenants. The primary boundaries of this terminal cover 230 acres. However, the cargo handled at this terminal also includes coastwise lumber (Pacific Northwest), domestic coastwise cargo to and from Hawaii (Pasha Hawaii Transport Line), and international OEM (Original Equipment Manufacturer). There are multiple other tenants and customers at this terminal

Table 1: Comparison of Automobile Import/Export Metrics for Selected Ports

Port	Lessee	Year	AMG Units	Reported Units	Amount Paid			Acreage Leased	Revenue per Acre
					Total	Per AMG Unit	Per Process Unit		
Richmond	AWC	FY 2022/23	145,000	91,252	\$7,324,134	\$51	\$80	75	\$97,655
Richmond	AWC	FY 2023/24 est	85,000	93,000*	\$3,419,550	\$40	\$37	75	\$45,594
San Francisco	Pasha	FY 2016/17	NA	15,093	\$1,189,470	NA	\$79	60	\$19,825
San Francisco	Pasha	FY 2017/18	NA	34,039	\$2,177,128	NA	\$64	60	\$36,285
San Francisco	Pasha	FY 2018/19	NA	77,052	\$2,639,013	NA	\$34	60	\$43,984
San Francisco	Pasha	FY 2019/20	NA	52,714	\$1,544,698	NA	\$29	60	\$25,745
San Francisco	Pasha	FY 2022/23	NA	28,976	\$334,809	NA	\$12	60	\$5,580
San Diego	Pasha	FY 2022/23	NA	290,539	\$12,022,000	NA	\$41	230	\$52,270
Hueneme	WWS/BMW/ Glovis	FY 2021/22	NA	148,183	\$9,407,345	NA	\$63	NA	NA

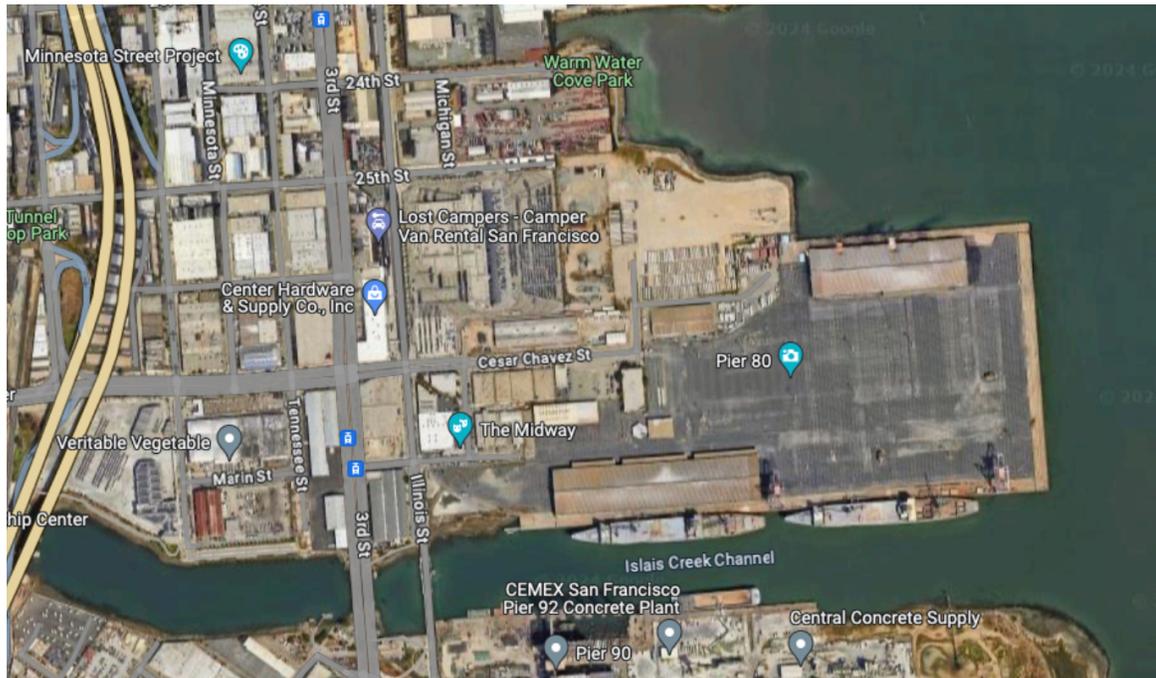
*Estimated by LEG

Source: Individual Port Financial Reports or Public Records Requests

Port of San Francisco

In May of 2016, the San Francisco Port Commission approved a 15-year marine terminal management agreement with Pasha Automotive Service, a subsidiary of the Pasha Group for Pier 80. This pier is San Francisco’s primary general cargo terminal, consists of approximately 60 acres of cargo laydown space, two warehouses, and four deep water berths. While this agreement was signed with great fanfare with the promise of well-paid longshoreman jobs, the actual performance has been less than impressive. In FY2018/19 Pier 80 processed a high of 77,052 automobile units and generated \$2,639,013 in revenue or \$64 per unit. However, by FY2022/23 the unit count had dropped to 28,976 with revenue generation falling to \$334,809 or only \$12 per unit. Because of location and high cost, the Port of San Francisco has not competed effectively against ports like San Diego, Hueneme and Richmond.

Figure 2: Port of San Francisco Pier 80



Port Hueneme

The Port of Hueneme ranks sixth in the nation in terms of automobile import/export volume. This Port dedicates approximately 40 acres of terminal land for use by its Ro-Ro customers and stages automobiles in over 8,000 bays. In addition to the 13 western states served by the Port’s import of automobiles, auto exports are delivered to the Port from California, Ohio and Michigan. Approximately half of the Port’s revenue is generated from contracts with three vehicle distribution, manufacturing and handling companies. These companies and their partners process vehicles prior to delivery to dealerships as well as coordinate inland transportation. The two vehicle distributors include Wallenius-Wilhelmsen Services (WWS) and Glovis America, Inc. BMW North America processes its own vehicles through this port.

The Port’s financial analysis indicated that operating revenue for auto cargo totaled \$9,407,345 for FY 2021/22 with the processing of 148,183 units. Revenue per auto units was \$63, although it is possible this number includes the processing of heavy equipment. While Port Hueneme has 40 acres dedicated for Ro-Ro operations, WWS, Glovis and BMW have additional acreage available for automobile processing rendering the revenue per acre calculation meaningless. The major auto brands that are processed in Hueneme include BMW, Subaru, Kia, Hyundai, Volvo, GM and Tesla.

CONCLUSIONS FOR AWC OUTLOOK

The comparison analysis in Table 1 indicates that AWC/Port of Richmond’s financial performance is largely in line with its key public port competitors. For FY 2023/24 with the annual minimum guarantee (AMG) of 85,000, the City Finance Department has estimated total revenue from AWC of \$3.4 million or \$40 per unit and approximately \$46,000 per acre. The Port of San Diego in FY 2022/23 achieved \$41 per unit and \$52,000 per acre with Pasha as the lessee. After opening Pier 80 for auto processing with considerable fanfare, performance at the Port of San Francisco’s Pier 80 has declined substantially. During FY 2022/23, San Francisco processed only 29,000 units and earned only \$12 per unit and \$5,600 per acre.

A review of the units processed by auto brand (Table 2) indicates that Honda units dropped off sharply from FY 2018/19 to FY 2019/20 as Honda shifted production to the US, although a rebound was apparent in FY 2022/23 as Honda/Lexus imported some models not produced in the US. The overall number of units processed declined by nearly 15,000 units in FY 2020/21 likely due to the Covid pandemic. Led by Subaru and Honda, the number of units processed at Richmond climbed back to 72,100 in FY 2022/23 from a Covid low of 50,600 in FY 2020/21. Approximately one in ten Subarus sold in the US came through the Port of Richmond during the past two fiscal years. Given the US policy direction favoring domestic and North American manufacturing, it will be a challenge for the West Coast ports to substantially ramp up automobile import volume in the years ahead. The Port and AWC need to work cooperatively to develop a mutually supportive strategy going forward to greatly enhance the throughput of automobiles at the Port of Richmond. A key step would be to develop an in-depth understanding of the global auto market and to carefully track which brands are coming into Richmond and which brands represent new opportunities for the future of AWC and Richmond.

Table 2: Auto Units Processed at the Port of Richmond and Subaru Market Share

Fiscal Year	Units Processed				Calendar Year	Total US Subaru Sales	AWC Richmond Subaru Market
	Honda	Subaru	Ford	Total			
2018-19	45,196	NA	NA	NA	2019	700,117	NA
2019-20	6,260	53,999	4,946	65,205	2020	611,942	8.8%
2020-21	4,917	43,202	2,515	50,634	2021	583,810	7.4%
2021-22	3,188	54,722	1,023	58,933	2022	556,581	9.8%
2022-23	13,571	58,556	- -	72,127	2023	632,086	9.3%

Source: Port of Richmond, GPP Analytics analysis of Port records and Good Car Bad Car Automotive Sales Data

**Internal Audit of
Port of Richmond**



for

City of Richmond

June 28, 2011



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City of Richmond Internal Audit of the Port of Richmond

I. PURPOSE OF REVIEW

The Port of Richmond (the “Port”) is a department of the City of Richmond (the “City”). This internal audit of Port activities was conducted to review the financial operations, efficiency, effectiveness and organizational structure of the Port and to provide City management with recommendations for improvement.

II. SCOPE AND APPROACH

The procedures that we performed during the internal audit were:

- Held discussions with City management to:
 - Finalize scope of internal audit
 - Obtain financial statements, budget and other relevant documents
 - Agree on timing and communication protocols
 - Schedule interviews

- Gathered and read budget, policies and procedures, organization charts, financial statements, performance measures and other relevant documents

- Prepared detailed work plan

- Interviewed employees and management of the Port of Richmond. Interviews focused on:
 - Mission and goals
 - Rate setting, billing and collecting procedures
 - Current business process workflow, practices and procedures
 - Environmental and other risks
 - Capital project plans and related funding
 - Capabilities of financial software
 - Historical problems and concerns

- Gathered “best practices” data and analyzed operations, work flow and record keeping and developed recommendations

- Prepared draft report containing a discussion of tariff fees, tenant leases and rental revenue, financial statements and forecasts, summary of internal controls, summary of city financing, capital projects and funding, work plan, findings, and recommendations for improvement
- Reviewed findings and recommendations with the Port Director to assure facts are correct, and that recommendations are understood and implementable
- Revised report based on feedback and presented final report to City management

III. OVERVIEW OF OPERATIONS

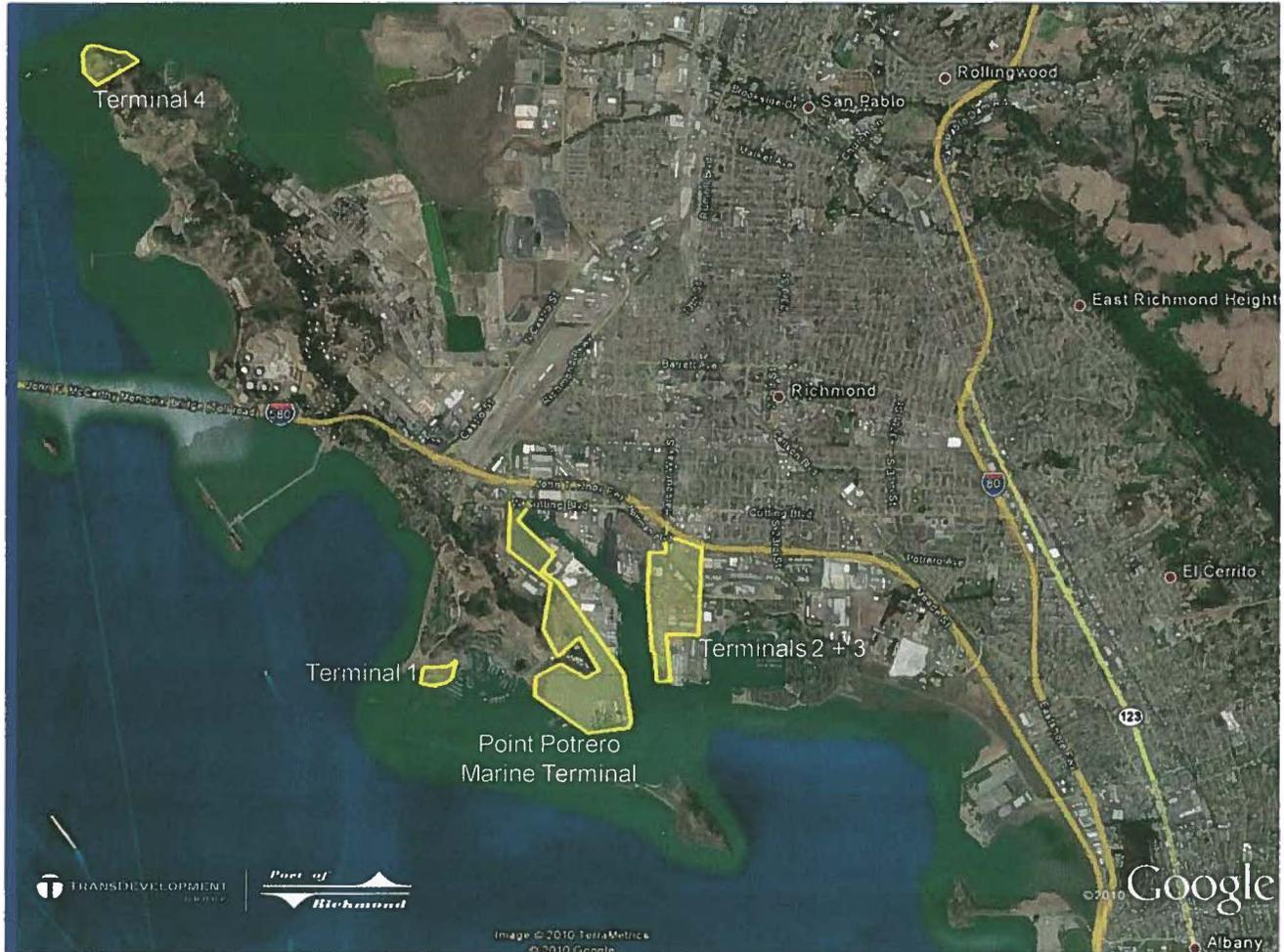
Mission

The Port is responsible for developing, marketing, leasing, operating and maintaining all City-owned marine terminals to obtain the maximum financial benefit to the City. Port revenue is generated through the application of the Port Tariff and property lease agreements, which is used to fund operations, maintenance, capital improvements and debt service.

Property Description

Richmond has 32 miles of shoreline along the northern and eastern reaches of San Francisco Bay. There are five city-owned terminals. These tenant-operated terminals handle a variety of liquid and dry bulk commodities, automobiles and diversified cargo. There are ten privately-owned terminals in the vicinity of the Port's operations that handle bulk liquid, dry bulk materials, metals, and bulk cargo; however the Port has no operational or oversight responsibilities for them. The Port has approximately 200 acres of land and 400,000 square feet of building space, of which approximately 40 acres and 180,000 square feet of building space is not currently rented. A brief description of each terminal and a map of the terminals follows:

- **Terminal 1** – 14 acres of land and a warehouse in need of repair. Not currently rented. The Redevelopment Agency is leading a request for proposal process to develop.
- **Terminal 2** – 8 acres of land and two warehouses totaling 140,000 square feet used for the storage and distribution of liquid bulk. The terminal is currently rented to a private business.
- **Terminal 3** - 20 acres of land and a warehouse of 80,000 square feet used for the import, storage and distribution of bulk cargo and containers. The terminal is currently not rented but the second and third floors serves as the Port's Administrative Office.
- **Terminal 4** – 37 acres of land and a warehouse of 12,000 square feet used for trucking and storage.
- **Point Potrero Marine Terminal** –130 acres of land, four graving docks, two finger piers and two warehouses totaling 170,000 square feet used for import, storage and distribution of autos, dry and liquid bulk, The terminal is currently rented to seven private businesses, two nonprofit organizations and one federal agency.



Financial Summaries and Forecast

Following are Port operating results from the City’s audited annual financial report for each of the previous four years (on the accrual basis of accounting):

	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>
OPERATING REVENUES				
Leases	\$5,206,410	\$5,765,173	\$4,893,730	\$3,867,981
Layberth	186,216	170,331		
Other		(35,378)	202,110	14,172
Total Operating Revenues (Note 1)	5,392,626	5,900,126	5,095,840	3,882,153
OPERATING EXPENSES				
Salaries and wages	735,394	837,443	1,008,522	1,076,538
General and administration	1,345,398	2,129,592	2,284,256	1,483,175

Attachment D: Internal Audit of Port of Richmond, June 28, 2011

Maintenance	22,075	50,661	187,023	368,404
Depreciation	908,726	919,326	886,392	1,393,558
Other	3,440	7,037	11,312	79,338
Total Operating Expenses (Note 2)	3,015,033	3,944,059	4,377,505	4,401,013
Operating Income (Loss)	2,377,593	1,956,067	718,335	(518,860)
NONOPERATING REVENUES (EXPENSES)				
Gain (loss) on retirement of capital assets	41,000	(60,272)		(452,495)
Interest income	187,774	161,534	146,422	(17,096)
Grants		2,782,673	50,027	25,000
Interest expense	(675,700)	(585,458)	(361,764)	(3,757,708)
Total Nonoperating Revenues (Expenses) (Note 3)	(446,926)	2,298,477	(165,315)	(4,202,299)
Income (Loss) Before Transfers	1,930,667	4,254,544	553,020	(4,721,159)
Transfers In (Note 4)	1,047,225	1,863,750		
Transfers Out		(156,870)	(7,608)	
Changes in Net Assets	2,977,892	5,961,424	545,412	(4,721,159)
Beginning Net Assets	(5,632,589)	(2,654,697)	3,306,727	3,489,111
Ending Net Assets (Note 5)	\$(2,654,697)	\$3,306,727	\$ 3,852,139	\$(1,232,048)

Notes:

- (1) Operating revenues in fiscal year 2009-10 declined primarily from Auto Warehousing due to construction of Honda improvements.
- (2) Operating expenses increased from fiscal year 2006-07 primarily as a result of two additional Port employees and additional depreciation and maintenance related to the new Honda facilities.
- (3) Non-operating revenues (expenses) – The large grant revenue in fiscal year 2007-08 was for security cameras and the large interest expense in fiscal year 2009-10 was debt service on the Honda debt.
- (4) Transfers in – Fiscal year 2006-07 represents transfer in of proceeds from Port Terminal Lease Revenue Bond Fund to pay for capital improvements. Fiscal year 2007-08 represents transfer in for closure of certain Port funds and consolidation into a single fund.
- (5) Ending net assets for fiscal year 2008-09 not equal beginning net assets for fiscal year 2009-10 because of the City's implementation of a new accounting standard regarding derivative investments.

Below is the Port's financial forecast for the current and four subsequent years. Since the forecast is shown on a cash basis of accounting, it is not consistent with the historical results shown in the table above (e.g., it includes capital outlay expenditures instead of depreciation expense and includes contribution from bond proceeds as a transfer in).

Attachment D: Internal Audit of Port of Richmond, June 28, 2011

	<i>Projected Actual 2010-11</i>	<i>Budget 2011-12</i>	<i>Forecast 2012-13</i>	<i>Forecast 2013-14</i>	<i>Forecast 2014-15</i>
REVENUES					
Leases	\$ 6,567,997	\$ 8,176,447	\$8,335,753	\$8,493,725	\$8,814,663
Grants (Note 1)	400,000	11,600,000			
Other Revenues	28,446	50,000	50,000	50,000	50,000
Total Revenues	6,996,443	19,826,447	8,385,753	8,543,725	8,864,663
EXPENDITURES					
Salaries & Benefits	918,137	965,375	997,806	1,041,700	1,087,592
Professional & Admin	150,000	1,188,475	1,247,899	1,310,294	1,403,539
Other Operating	54,200	49,300	51,765	54,353	57,071
Equipment & Contract Services	45,000	38,500	40,425	42,446	44,569
Utilities	201,700	237,100	248,955	261,403	274,473
Provision for Insurance	24,000	30,000	31,500	33,075	34,729
Cost Pool	942,802	883,269	942,802	942,802	942,802
Capital Outlay (Note 1)	8,758,035	13,480,000	1,000,000		
Debt Service	3,855,443	3,868,055	3,868,055	6,203,862	6,092,854
Total Expenditures	14,949,317	20,740,074	8,429,207	9,889,935	9,937,629
OTHER FINANCING SOURCES (USES)					
Contribs from Bond Proceeds (Note 2)	9,405,465	1,108,053			
Operating Transfer In (Note 3)		750,000			
Operating Transfers Out (Note 3)		(250,000)	(150,000)	(150,000)	(150,000)
Total Other Financing Sources (Uses)	9,405,465	1,608,053	(150,000)	(150,000)	(150,000)
Operating Surplus (Deficit)	1,452,591	694,426	(193,454)	(1,496,210)	(1,222,966)
Beginning Balance	457,607	1,910,198	2,604,624	2,411,170	914,960
Ending Balance	\$1,910,198	\$2,604,624	\$2,411,170	\$914,960	\$(308,006)

Notes:

- (1) Grants revenue and capital outlay expenditures for fiscal year 2011-12 are both large as a result of grant funding received to construct facility improvements as discussed on page 11.
- (2) Represents use of 2009 lease revenue bond proceeds for Honda improvements.
- (3) Represents \$750,000 operating transfer from City General Fund to finance Subaru improvements, and related repayments to the General Fund of \$150,000 per year. \$100,000 transfer out in fiscal year 2011-12 is for Riggers Loft project.

Fiscal years 20123-13 through 2014-15 forecast an aggregate operating deficit of nearly \$3 million. Port management believes this forecast is conservative because it (i) assumes no new

tenants even though the Port is actively pursuing new business from China and (ii) excludes significant expenditure on capital projects and potential grant funding.

Tariff and Fees

Amounts charged to tenants for dockage, wharfage and service charges are recommended by the Port Director and approved by both the City Council and the California Association of Port Authorities. The rates are based on the type of commodity being shipped. The tariff for the Port of Richmond has not been revised since April 2007 and prior to that had not changed since December 1999. Following are the most used rates from the Port's tariff:

- Dockage - based on the length of the ship times tariff rate times the number of days docked. Example rates are:

30 meters	\$84 for 1 st 24-hour period
390 meters	\$11,950 for 1 st 24-hour period

- Wharfage:
 - Non-containerized cargo vessel through pipeline \$1.50 per metric ton

 - Automobiles, pleasure or passenger, including pick-up trucks or chassis, not exceeding 10 passengers per vehicle \$23.10 each

- Service and Facility Charges - Liquids in bulk from/to vessel or barge \$1.50 per metric ton

Summary of Tenant Leases

Following is a summary of leases for fiscal year 2009-10:

Tenant	Location	Lease Term		Revenue FY 2009-10	Annual Rent Increase	Security Deposit per Lease
		Begin	End			
<u>Space Rental</u>						
Aloha Moving	PPMT	6/4/2003	na	\$ 20,408	none	\$1,800
Foss Maritime	PPMT	1/1/2007	1/1/2012	284,940	4%	9,000
General Services Admin	PPMT	3/1/2006	2/28/2011	65,000	none	none
Honda of El Cerrito	PPMT	12/1/2007	11/30/2009	78,000	5%	6,500
Crowley Maritime	PPMT	10/24/2002	na	17,724	none	1,000
California Oils	Terminal 2	1/1/1991	6/30/2016	232,631	4%	none
Auto Warehousing	PPMT	5/1/2004	5/1/2014	1,082,163	none	none
Marine Spill Response	PPMT	6/30/2003	6/13/2013	270,265	3%	none
Nextel	Terminal 3	12/31/1998	12/31/2013	24,542	5%	none
Oscar Niemeth	PPMT	3/6/2006	na	43,549	none	none
Maas Boat Co.	PPMT	1/1/1995	na	23,063	5%	1,636
Pio Trucking	Terminal 4	6/1/2010	5/31/2011	20,250	none	4,500
Richmond Museum	PPMT	9/20/1998	6/20/1999	-	na	none
<u>Dockage Fees</u>						
ISS Marine Srvs Inhcape	Vessel			430,981		
K-Sea transportation LLC	Vessel			16,288		
Matson Navigation	Vessel			194,521		
Northland Nautical	Vessel			819		
Olympic Tug and Barge	Vessel			7,454		
Red Oak Victory	Vessel			7,885		
Sause Bros	Vessel			93,224		
Starlight Maria	Vessel			795		
Stevedoria Services	Vessel			469,200		
Translogix (AWC storage)	Vessel			16,276		
Wilhelmser Ship Service	Vessel			33,605		
Patriot Environmental Svcs	Vessel			10,000		
Norton Lilly	Vessel			26,451		
K line America Inc.	Vessel			<u>2,585</u>		
				<u>\$3,472,619</u>		

Summary of Internal Controls

Billing Procedures

The Port bills and collects three types of revenue: 1) monthly rent; 2) layberth or docking fees; and 3) the Auto Warehousing contract.

- **Monthly Rent** - Bills are prepared by the Financial Manager. The monthly rent is for the rental of the actual space a tenant uses. There are currently eleven tenants that pay monthly rentals. The Financial Manager prepares the invoices for the monthly rentals. The following procedures are followed:
 - Monthly invoices are entered into MUNIS
 - Invoice batches are printed, checked for accuracy and emailed to the City's Finance Department (Finance)
 - All backup is scanned and sent to Finance
 - Finance approves and posts the batch in MUNIS
 - Finance mails the invoices to the tenants and also sends the Financial Manager a copy
 - All payments are mailed directly to finance. Finance does not notify the Port when the cash is actually received but sends a monthly statement to the Financial Manager who mails to the tenants
 - The Financial Manager prepares a receivables aging report which is downloaded from MUNIS

- **Layberth or Docking Fees** - Currently the Port has two major tenants that pay for docking and wharfage: California Oils and Honda. Each one uses a vessel agent that submits a Vessel Activity Report, which lists the ship name, arrival dates, number of units and total wharfage, to the Port's Financial Manager. The information is verified by the Financial Manager by comparing to the Port's Vessel Schedule Report. The vessel agent is billed for wharfage and dockage based on the tariff rates and are entered in MUNIS as described above.

- **Auto Warehousing Contract** - The agreement with Auto Warehousing Company (AWC) requires the Port to refund to AWC 25% of the total wharfage earned for the month. Each month a Vessel Schedule Report and a Honda Revenue Earned Report are submitted by AWC to the Port's Financial Manager. The Honda Revenue Earned Report contains the revenue earned by each vessel that arrived at the Port, and the wharfage, surcharge, services, storage and facility charges per unit. The Financial Manager compares the volume information on the Vessel Schedule Report to the amounts billed on the Honda Earned Revenue Report. AWC is billed based on the tariff rates and are entered in MUNIS as described above.

Purchasing and Cash Disbursement Procedures

The Port uses a purchasing checklist (P3 form) that is required for all purchases of goods and services. The P3 form is completed by the person initiating the transaction. The P3 form is entered in MUNIS by the Financial Manager and is approved by the Port Director. Once the P3

form is approved in MUNIS, a purchase requisition is entered, approved and a purchase order is created for all contracts exceeding \$10,000. The person who initiated the transaction mails the purchase order to the vendor.

Invoices are submitted by vendors directly to Finance. Finance emails the Port the invoices to approve for payment. The Financial Manager prints the invoices and obtains the signature of either the Port Director or the Development Project Manager for approval. The approved invoice is scanned as a "goods received" document and is entered into MUNIS. The Financial Manager emails Finance to notify them to pay the invoice.

Three Port employees have Calcards for purchases with up to a maximum of \$3,000 per day. The Port \$500 petty cash fund for small purchases.

Payroll Procedures

The Port's payroll is processed by the Operations Administrator. The Port is included in the City's payroll process which is on a semi-monthly basis. The Port has five employees.

On an annual basis, Finance sends the Port a schedule of timesheet due dates. A blank timesheet is also sent and copies are made for each employee for each pay period. Staff signs their timesheets and are approved by the Port Director. The Port Director's timesheet is approved by the City Manager.

Staff requests for time off are handled via the intranet by using an Employee Self Service Request Form (ESS). The ESS form goes to the Port Director for approval and the request is sent back to the employee. On the timesheet due date, the ESS form is printed and attached to the timesheet. All timesheets and ESS forms are then forwarded to City Payroll for processing.

Accounting and Reporting Procedures

Journal entries are processed using the City's standard journal entry procedures. The Financial Manager prepares all journal entries using the journal entry form and enters into MUNIS. MUNIS automatically assigns a journal entry number. All backup for the entry is scanned and sent to Finance for review, approval and posting. Finance sends the journal back to the Financial Manager after it has been posted in MUNIS.

Each month a budget vs. actual variance report is prepared by the Port and is due to Finance by the 10th of the following month. The variance report is prepared by the Financial Manager with information downloaded from MUNIS. The reports are reviewed and discussed in staff meetings at the Port. Each quarter the Port prepares a performance measures report which analyzes the activities of the Administration and Capital Improvement Projects divisions. The Port also prepares a midyear review report and a five-year projection report.

Budgeting Procedures

The Financial Manager coordinates the budget preparation process and all staff are involved in providing information. A budget narrative is prepared to accompany the budget amounts. The budget is reviewed by the Executive Director and then uploaded to MUNIS for review by

Finance. At the end of each month, the Financial Manager prepares a budget vs. actual variance report that is reviewed by Port management.

Staffing

The Port has the following staffing as of March 31, 2011:

- Port Director – Jim Matzorkis
- Port Administrator – Open
- Development Project Manager II – Michael Williams
- Operations Administrator – Janie Singleton
- Financial Manager – Delmy Cuellar
- Maintenance Lead Worker – Tim Goins

City Financing

Loan from City

On May 17, 2006, the City and Port entered into a promissory note effective June 30, 2005 in the amount of \$17,139,855. The note bore no interest and required repayments of \$6.3 million on or about July 1, 2006, \$700,000 for 2008-09 and \$2,027,971 for each fiscal year thereafter until the note was fully repaid during fiscal year 2013-14. The note states that the amount owed by the Port is for “Port terminal leases and other Port projects financed by the General Fund”.

On May 24, 2007, the City and Port entered into a promissory note in the same amount of \$17,139,855. The note requires principal repayments of \$50,000 for fiscal year 2006-07 and fiscal year 2007-08, \$6,350,000 for fiscal year 2008-09, \$2,000,000 for each of the fiscal years 2009-10 through 2013-14, and \$689,855 for fiscal year 2014-15. The repayment schedule attached to the note begins charging interest for fiscal year 2009-10 at the interest rate equivalent to the three year LAIF of the outstanding principal amount. The repayment schedule assumed that the \$6,350,000 principal payment scheduled for fiscal year 2008-09 would be made, however terminal 1 was not sold as expected so this payment was not made.

Following is actual activity related to the City loan per the Port’s accounting records since its inception:

\$17,139,855	Owed to City at June 30, 2006 per promissory note
(50,000)	Repayment May 2007
(50,000)	Repayment June 2008
<u>397,525</u>	Interest accrued at June 30, 2010
<u>\$17,437,380</u>	Owed to City at June 30, 2010

Indirect Cost Allocations

The Port pays the City’s General Fund \$942,802 per year for its share of the City’s indirect costs. We understand that the City has conducted a new cost allocation study during fiscal year 2010-11 and the Port’s share of allocated costs will decline to \$836,017 per year. Specifically, the allocated costs for fiscal year 2010-11 are:

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Maintenance	\$ 37,450
Information technology	27,385
General liability insurance	25,527
Communications	16,388
PC support	5,265
Financial software	42,453
Geographic information system	1,144
Administration	<u>787,190</u>
Total	<u>\$942,802</u>

Administration charges are allocations of costs related to building usage, City Council and Mayor, City Manager, Finance, Human Resources, City Clerk and City Attorney.

Capital Projects and Funding

Following is a schedule showing the Port's approved capital projects, and the related financing:

<i>Project Description</i>	<i>Expenditures</i>		<i>Financing Sources</i>
	<i>3/31/11 LTD</i>	<i>Budget</i>	
Bay Trail Shipyard No. 3		\$ 692,000	Grant
Berth Dredging		1,058,844	Unfunded
Fiber Optic Network		4,310,504	Grant
Honda Port of Entry at PPMT	\$3,220,162	5,771,329	Debt Proceeds
Integrated Video Surveillance System		3,018,027	Grant
Lighting Improvements at PPMT		2,650,000	Grant
Marina Dredging		2,100,000	City
Port Rail Corridor Facilities	1,904,917	2,295,211	Debt Proceeds
Railroad Improvements Quiet Zones	190,088	1,000,000	Port Cash
Subaru Building 4 Rehab		750,000	City
Terminal 2 Timber Wharf Replacement		1,000,000	Unfunded
Terminal 3 Office Building Upgrade	<u>154,561</u>	<u>3,787,889</u>	Grant
Total	<u>\$5,469,728</u>	<u>\$28,433,804</u>	

The financing sources listed above are:

- Grant – represents grants awarded to Port as discussed on page 12.
- Debt Proceeds – represents \$47,110,000 of 2009 lease revenue bonds issued to finance Honda improvements. This debt is secured by minimum annual guarantee in Honda lease agreement
- City – the City's Marina Enterprise Fund is paying for the marina dredging project and the City is loaning \$750,000 to the Port for Subaru improvements
- Port Cash – represents amounts funded by Port operating surplus
- Unfunded – represents project whose revenue source has not yet been identified

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Following is a schedule showing the Port's grants as of March 31, 2011:

<i>Granting Agency</i>	<i>Project</i>	<i>Award Amount</i>	<i>Life-to-Date Expenditures</i>
Ass'n of Bay Area Governments	Bay Trail Project	\$ 289,000	
U.S. Dept of Homeland Security	Video Surveillance	2,311,138	
Calif Emergency Mgmt Agency	Video Surveillance	754,507	
Calif Emergency Mgmt Agency	PPMT Lighting	2,650,000	
Calif State Coastal Conservancy	Bay Trail Project	97,000	
CalTrans	Bay Trail Project	350,000	
U.S. Dept of Homeland Security	Fiber Optic Network	4,310,504	
Calif Emergency Mgmt Agency	Security Center	<u>3,787,889</u>	<u>\$154,561</u>
		<u>\$14,550,038</u>	<u>\$154,561</u>

IV. FINDINGS AND RECOMMENDATIONS

1. ORGANIZATION STRUCTURE

The Port's strategic plan states that "The valuable real estate and coastal waters belonging to the community should be cared for in a manner that protects the interests of that community through, environmental stewardship, economic development and job creation." The Port's mission is "...to obtain the maximum financial benefit to the City."

Infrastructure investment needs will continue to be a major burden for the smaller ports, including the Port. When a port is governed by a city council, its infrastructure needs frequently are delayed as more pressing social issues are addressed. As a result, more ports are moving toward the privatization of managerial and financial responsibilities. Privatization allows some ports to stay competitive with the upgraded facilities needed to meet the needs of shipping lines.

In one privatization model, a port authority is established to own the land, berths and other infrastructure. The port authority would take direction from the City Council as it relates to broad public interests. Otherwise it would be autonomous, own its own assets, set its own budget, manage investments, establish staffing levels and pay, and have its own governing body. A private company or another port would be hired to manage the commercial side of the transactions. The port authority would spell out service quality, goals and social obligations that port management must meet. It would retain the right to set overall policies for the port but would forego making operating decisions. This, in effect, would give the professional port managers the same authority and responsibility as if they were functioning in the private sector.

There are other privatization models that would require the City to sell the Port's assets. Those models are not described here and are not being recommended.

Recommendation

The City should consider establishing an autonomous port authority to manage the port in a manner to make it more competitive with other ports. Alternatively, the City should consider the benefits of outsourcing operational management another port or to a professional port management firm.

2. PROPERTY MANAGEMENT

The Port has significant land and building assets that were acquired at various times over the past several decades. The City has not conducted appraisals of its land and buildings and therefore does not know their market value. In the last 15 years, Port management estimates that the City has invested over \$40 million in capital improvements for projects such as rail line extension, environmental cleanup and dock/pier improvement. The Port currently has capital projects underway totaling over \$28 million as described on page 11. There are numerous other capital projects that need to be undertaken for the Port to continue to draw tenants, including electrical system upgrade, timber wharf replacement, Riggers Loft building renovation, Point Potrero general warehouse renovation, terminal 2 berth upgrade, terminal 4 docks/piers replacement, and cafeteria building renovation.

Several large governments, including seaports, have started using public-private partnerships to finance their large capital projects. These partnerships are frequently structured so that the private partner pays a large upfront cash payment and agrees to make certain capital improvements. In return the private partner gets a long term lease at a reduced rental fee. The government retains ownership of the land and improvements and the end of the lease term.

The Port has no property manager. A property manager would focus on maximizing revenue for each parcel of land by understanding each parcel's highest and best use, understanding the needs of potential tenants and buyers, developing plans to make needed improvements and obtain related funding. These duties were partially handled by the former Port Administrator, a position vacant since October 2010.

Recommendations

The City should hire or engage a property manager to develop detailed plans to maximize return on investment to the City for each parcel by studying the competitive needs of its current and potential tenants; renew current leases having lower than market value rents as described in Finding 5; develop and prioritize a list of needed facilities improvements; secure financing to improve the facilities; and lead the global Environmental Impact Report the Port has initiated.

The Port's master list of needed capital projects should be formalized and prioritized. The criteria used to determine when a desired project is placed on the master list and the criteria used to prioritize those projects should be defined.

3. LOANS PAYABLE TO CITY

The Port and City entered into a promissory note dated May 2006 and amended May 2007 whereby the Port agreed to repay the City \$17,139,188 plus interest for "Port terminal leases and other Port projects financed by the General Fund." The only documentation that City and Port personnel could locate indicates that original loans were made between 1985 and 1995 in annual amounts ranging from approximately \$387,000 to \$2.0 million, and that the note amount is composed of \$8,872,397 of principal and \$8,075,597 of accrued interest. This documentation did not specify the purpose of the loans.

There are several problems with the calculations of interest on these loans:

- Prior to execution of the first promissory note in May 2006, there is no evidence of intent or agreement that the loans would carry interest nor what interest rate would be used
- The period for which interest was charged is not consistent. It appears interest was charged each year through June 30, 2004, not charged from then until June 30, 2009 and again charged starting July 1, 2009
- The interest rate used may not be consistent. The only calculations the City could provide of interest indicates that 5.5% was used for fiscal years 2002-03 and 2003-04. There is no documentation of how this 5.5% rate was determined.

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- The promissory note indicates that the interest rate starting in fiscal year 2006-07 will be the three-year average of the State of California Local Agency Investment Fund's rate, however the promissory note also refers to a rate of 4.000%.
- The balance on which interest is calculated is not clear. It is normal for interest to be determined based on the outstanding balance (principal and interest totaling \$17,139,188). Up to fiscal year 2003-04, interest was calculated based only on the outstanding principal balance (\$8,872,397).
- The interest accrued for fiscal year 2009-10 incorrectly excluded interest on the 1995 principal amount of \$334,647. Beginning with the promissory note in fiscal year 2006-07, interest is calculated on the entire outstanding balance.

There is inadequate documentation of the underlying services provided by the City that lead to the need for Port's repayment to the City. As mentioned above, the only documentation provided by Port and City staff shows the year of each loan amount but no details of what the funds were advanced for. The first paragraph of the promissory note dated May 27, 2007 identifies the reason for the loan as follows: "Since on or about December 2004, the City of Richmond (City) has provided the following services to the Port of Richmond (Port): Port Terminal Leases and other Port projects financed by the General Fund." However, the loans originated in the period 1985 through 1995. In addition, the description of the specific services provided by the City is not clear (i.e., it is not clear how "Port Terminal Leases" would lead to required repayments to the City).

The Port is not in compliance with and the repayment schedule included in the promissory note. The note calls for annual repayments to the City each fiscal year as follows:

Fiscal year 2006-07	\$ 50,000
Fiscal year 2007-08	50,000
Fiscal year 2008-09	6,350,000
Fiscal year 2009-10	2,000,000
Fiscal year 2010-11	2,000,000
Fiscal year 2011-12	2,000,000
Fiscal year 2012-13	2,000,000
Fiscal year 2013-14	2,000,000
Fiscal year 2014-15	689,855

The two \$50,000 repayments were made as scheduled. However, no payments have been made since then.

State law requires a reasonable relationship between the payment of a fee and the purpose for which it is charged. Therefore it is important that the City have adequate documentation of all charges paid by the Port to the General Fund and be able to demonstrate the value provided to Port tenants.

Generally accepted accounting principles require that the Port have both the intent and ability to repay a liability for it to be appropriately reported in its financial statements. The Port's intent to repay is documented in the promissory note. However, its ability to repay is in substantial doubt.

It has repaid only approximately \$285,000 in the last 25 years including none in the last four years. The Port's five-year financial forecast shows an aggregate operating deficit of over \$2 million during fiscal years 2011-12 through 2014-15.

Recommendations

The City should locate and document the specific services provided to the Port that led to the \$8,762,397 of loans. For any portion of the loans for which documentation is not available, the City and Port should remove the related loan amount from their accounting records. Note that removing the loan from the accounting records does not necessarily remove the legal liability to repay the loan should the Port later gain the ability to repay.

The City and Port should determine the Port's ability to repay the loans. If it is not clear that the Port has such ability within a reasonable time, the amount exceeding the Port's ability to repay should be removed from the accounting records.

The City should recalculate the amount of interest due on the outstanding balance since its inception based on a consistent and defensible methodology. The method described in the promissory note (three year rolling average of LAIF applied to the average outstanding balance each year) is an example of a reasonable method.

The City and Port should update the promissory note to better define the services for which the Port is repaying, update the repayment schedule and clarify how the interest rate is determined.

4. LAYBERTH VESSELS

The Port is missing out on significant revenue per year from layberth vessels. Layberth means temporary docking of vessels between assignments. In approximately December 2009, the Port stopped accepting layberth vessels. In order to accept layberth vessels, Federal law requires the Port to have a security officer and to have a security plan approved by the Coast Guard. The Port was previously allowed to accept layberth vessels using the security officer and security plan of a former tenant. Layberth revenue averaged approximately \$175,000 per year for fiscal years 2007-08 and 2008-09.

In Resolution 18-98, the City Council authorized the Port Director to enter into Temporary Berthing Assignment Agreements and provided the format of such agreement. However, the Port has not used this agreement nor any other written agreement for layberth vessels using Port facilities. The Port requires only a reservation request form to be completed; this form does not have any clauses to protect the Port against risks of damage to facilities or other losses.

Recommendations

The Port should appoint a security officer, develop and security plan, and submit it to the Coast Guard for review. If the workload of current Port managers is deemed more mission-critical, then a consultant should be hired to complete this task. As soon as the security plan is approved, the Port should advertise its reopening as a layberth location.

The Port should follow Resolution 18-98 by executing the Temporary Berthing Assignment Agreement for every vessel docking at the Port.

5. TENANT AGREEMENTS

The Port enters into lease agreements with each tenant. Of the Port's thirteen fiscal year 2009-10 tenants, there was no lease agreement in the Port's files for two tenants and for two others the lease agreements were not signed. The Port's leases were entered into at various dates since 1998. Six of the thirteen leases do not have a provision for rent increases. If these six agreements had automatic rent increases of 3% per year, the Port would have earned approximately \$20,000 more during fiscal year 2009-10.

Of the Port's thirteen fiscal year 2009-10 tenants, four lease agreements are with the Surplus Property Authority of the City of Richmond (the "Authority"). Per discussions with management of the Port, Finance, City Attorney and City Clerk departments, none knew of the origin nor purpose of the Authority. The City's annual financial report states that the Authority was "formed to become the owner of certain property declared surplus by the U.S. Government" and that "the Authority is inactive".

The Port's lease agreements with Auto Warehousing Company (AWC) and Honda of California are large (several million dollars of Port revenue each year) and complex (minimum annual guarantee, volume rebate, significant capital improvements, different requirements during the construction period). Much of the information needed to determine the correct billing to tenants is received from the tenants. The only verification of such tenant-provided information is comparison of quantities to Port records. An example of a complex issue needing interpretation is that AWC sent its calculation of the minimum annual guarantee deficiency that used the tariff rate per vehicle of \$23.10 instead of the wharfage rate per the Honda agreement of \$25.50.

Recommendations

The Port should obtain signed copies of each active tenant agreement. It should negotiate lease amendments to include an escalation clause as each agreement expires. In the future, all lease agreements should include a provision for automatic rent increases.

The City should verify the status and purpose of the Surplus Property Authority. If it is determined to be beneficial to maintain, the City's annual report disclosure about the Authority should be updated. If it is not deemed beneficial to maintain, it should be dissolved.

Port operating personnel should study the Auto Warehousing and Honda leases to assure thorough understanding of their complexities and gain both City management and City attorney interpretations as necessary. Information received from the tenants that affect the Port's revenue should be closely scrutinized with knowledge of the agreements, historical trends and tenant operations.

6. FINANCIAL REPORTING

The Port's primary financial reports (budget, monthly financial statements, annual financial statements and five-year projection) are inconsistent in format. For example, the CAFR and the five-year projection use different expense categories:

- CAFR - salaries & wages, general & administration, maintenance, depreciation, and other.
- Budget, five-year projection, monthly financial statements - professional & administration, other operating, equipment & contract services, utilities, insurance, cost pool, capital outlay and debt service.

Another example is that the bases of accounting used for each of these reports differs: the annual financial statements use the full accrual basis, the budget and monthly financial statements use the cash basis, and the five-year projection uses a working capital basis.

There were several errors noted in the Port's primary financial reports, including:

- In the annual financial statements (CAFR):
 - Revenue from layberth vessels was incorrectly reported as "marina berth rentals" in fiscal years 2006-07 and 2007-08.
 - Lease revenue from Auto Warehousing Company was reported as "lease income" while all other lease revenue was reported as "service charges".
 - Port staff was unable to fully reconcile fiscal year 2009-10 revenue per the CAFR to the general ledger and the revenue report.
- In the five-year projection:
 - The Port's repayment to the City of \$750,000 for an advance to fund Subaru improvements scheduled for fiscal years 2011-12 through 2015-16 were inadvertently added rather than deducted from operating surplus/deficit.
 - Rental income for fiscal year 2010-11 of \$6,504,113 was input in error and should have been \$7,054,113.
 - Although the projection purportedly uses the working capital basis, unused debt proceeds was not included. This leads to the need to add an arbitrary revenue line item in the five-year projection for the estimated amount of debt proceeds to be used to finance capital projects. The Port called this amount (\$8,066,540 for fiscal year 2010-11) "operating transfers in" even though it is not a transfer.
 - A negative amount of \$1 million is shown for the terminal 2 wharf improvements capital project in fiscal year 2010-11.
 - The five-year projection repeated the expected amount of grant revenue and related capital outlay expenditures in multiple years. Specifically, the grant revenues discussed on page 12 and related capital expenditures were shown in their entirety in fiscal year 2010-11; the amounts not used during that year were then carried forward and shown again in the five-year projection in fiscal year 2011-12. This resulted in an overstatement in total revenues and expenditures during the forecast period of over \$8 million.

- In the budget and monthly financial statements:
 - Although the budget purportedly uses the cash basis, unused debt proceeds were not included. This leads to the need to add arbitrary revenue line items in the five-year projection for the amount of debt proceeds to be used to finance capital projects. The Port called these amounts “bond proceeds” and “capitalized interest” (\$30,636,961 and \$1,449,700, respectively, for fiscal year 2009-10).

Because of the inconsistent formats and errors, the Port’s primary financial reports are hard to interpret, internally inconsistent, difficult to answer questions about, difficult to reconcile to each other and therefore of limited reliability to Port and City management.

Recommendations

The City should determine the most appropriate format, level of detail and basis of accounting to depict Port operations. This format should be used for every Port financial report or presentation. If the City determines that the Port’s budget must be prepared on a basis of accounting other than full accrual, then the budget format should depart as little as possible from the format determined for the Port reports. The five-year projection should be prepared on the full accrual basis, consistent with enterprise fund and business organizations.

The number of errors and inconsistencies in the financial reports indicates an inadequate level of review. Each report should be reviewed in detail by both Port management and City Finance prior to finalization and distribution.

7. SECURITY DEPOSITS

The Port collects security deposits from some of its tenants and returns it or applies it to the final rent payment when a tenant leaves. The amount of the deposit is typically equal to one month’s rent. The Port has no standard procedure for determining whether a security deposit will be required. Seven of the Port’s thirteen leases require security deposits. Of the six tenants required to have a security deposit, the Port holds such deposits only for two of them. The Port also holds a security deposit of \$3,000 for a former tenant who left the Port in 2009.

Recommendation

The Port should develop written procedures for security deposits, including the following:

- Circumstances a deposit is required, and how the amount is determined
- Include requirement for a security deposit in the standard lease agreement
- Maintain a separate listing of security deposits
- Account for security deposits in the general ledger
- Conduct annual reconciliation of security deposits to the general ledger
- Circumstances and method used to refund deposits
- Amount of time Port will wait before writing off unrefunded deposit

The Port should immediately collect security deposits from the four tenants having such requirement in their lease agreement who have not yet paid.

8. CERTIFICATES OF INSURANCE

All the Port's lease agreements call for the tenants to maintain adequate insurance. Of the Port's fifteen fiscal year 2009-10 tenants, the Port did not have certificates of insurance or other evidence of insurance for all required coverages for nine tenants. In addition, one certificate of insurance on file had expired and one certificate evidenced a lower amount of coverage than required by the lease agreement.

Recommendation

The Port should obtain certificates of insurance from each tenant demonstrating the appropriate coverages, limits and effective dates. They should develop and implement procedures to assure that certificates of insurance are obtained when new tenants move in and each year thereafter upon expiration of each policy.

9. GOALS AND OPERATING STATISTICS

The Port develops objectives, strategic goals, supporting actions and success indicators as part of the budget process each year. For the fiscal year 2011-12 budget, the Port identified five key objectives, two strategic goals, twelve supporting actions and 24 success indicators. Success indicators are linked to supporting actions which are, in turn, linked to goals. However, the goals are not clearly linked to the key objectives.

The two strategic goals (maximize revenue and improve facilities) and key objectives have been the same every year for each of the last three years. Having the same goals each year is indicative that goals are not specific enough.

Most of the success indicators gathered and reported are not useful for management decision making nor accountability, or they are not clear. The cost to gather the information therefore outweighs their benefit. Examples of ineffective success indicators are:

- # of annual customer satisfaction survey completed (1)
- # of Port industry conferences and meetings attended (4)
- Generate and review monthly P & L with Port management (12)
- % of state/fed security agency oversight compliance (100%)

Examples of effective success indicators used by the Port include revenue generated per acre and total cost per acre.

Recommendation

The Port should clearly link its strategic goals to its key objectives each year. The goals should be very specific and measurable enough to know when they have been accomplished. The Port should also revise its success indicators to assure that they are meaningful, cost-beneficial to gather, and accurate. It is better to have a small number of meaningful success indicators than a large number that are not important or hard to interpret.

10. FINANCIAL PROCEDURES

The Port has no documented financial procedures except those adopted at the City level. Some of the Port's financial operations are unique and are therefore not adequately covered by City policies and procedures. The Government Finance Officers Association recommends in its

Recommended Practices that every government document its accounting procedures "...as an essential component of a comprehensive framework of internal controls." Documentation of comprehensive accounting procedures will allow:

- Management to understand and evaluate whether procedures provide adequate internal controls and mitigation of risks
- Employees to review and revise procedures as circumstances, laws, technology and accounting standards change
- Internal and external auditors to assess the adequacy of the Port's internal controls
- New employees to be trained to provide consistent service and quality upon staff turnover

The Port has been awarded eight grants totaling \$14,550,038 for capital improvements as discussed on page 12. Although the Port had a significant grant in fiscal year 2007-08, it has no written or otherwise well-established procedures for accounting for grant expenditures, preparation and review of reimbursement requests and compliance with grant requirements.

Recommendation

The Port should identify and document its significant financial procedures, except for any existing City procedures that are considered adequate to address the Port's activities. Procedures should include those tasks required to be performed by Port employees for all of the main types of business transactions, including:

- Cash receipts (invoicing, writing receipts, billing and collection)
- Purchasing (use of purchase orders, petty cash, purchasing cards, contracting, receiving)
- Payroll (distribution of costs, travel and expense reimbursements)
- Capital assets (acquisition of land and equipment, periodic physical inventories, capitalization thresholds, depreciation calculations)
- Reporting (internal monthly reports, periodic reports to the Council, annual audit)
- Budget (annual budgeting, budget vs. actual comparisons, cash flow projections, long-range planning)
- Grants (cost accumulation, reimbursement requests, compliance monitoring)
- Internal controls (segregation of duties, responsibilities for establishing and monitoring controls)

11. OPERATING PROCEDURES

The Port has not documented its standard operating procedures. Written procedures will:

- Ensure that everyone doing the work understands the task, including current and future employees
- Ensure consistency with other City departments doing similar tasks
- Improve efficiency by assuring each task is thoroughly understood and reviewed by management, eliminating time spent "reinventing the wheel" each time a task is done, and reducing the need for re-work
- Improve quality by reducing inconsistencies in the work product

A Port tenant went bankrupt in November 2008, owing the Port 37 months of rent. \$134,800 was approved for write off at the June 2011 City Council meeting, more than four years after the tenant moved out. The City did not file a claim with the bankruptcy court and therefore did not collect any amount through bankruptcy proceedings. The Port has no formal procedures for checking credit of tenants before they move in. The City did not comply with Administrative policy AP251 "Write Off of Delinquent Accounts" which states:

"Each quarter the Finance Department, the appropriate operating department director and the City Attorney shall review delinquent accounts receivable as shown on the Accounts Receivable Aging Report form (Exhibit 503-6) to assess their collectivity."

Recommendation

The Port should identify its major operating procedures. These procedures may include property mgmt, disaster planning, communication with tenants, communication with vessels, tenant move-in and move-out, tenant background checks, security, budgeting and related monitoring, capital project planning and funding. For each major operating procedure, the Port should document the related tasks. This documentation is best done by employees during their normal performance of each task and then reviewed by Port management.

12. MARINA DREDGING PROJECT

The City has asked the Port to manage the Marina dredging project. The Port is budgeting this project in fiscal year 2011-12. It is anticipated that the Richmond Marina enterprise fund will transfer \$2.1 million to the Port to cover the cost of dredging. However, no mechanism for reimbursement of the Port for the cost of management and staff time has been established. The City charges the Port \$942,802 per year for its share of City indirect costs so it is consistent with City practice to reimburse the Port for its costs of managing this non-Port project.

Recommendation

The City should estimate the cost of Port management and staff time on the Marina dredging project. This amount should be included in the budget for reimbursement to the Port.