

**OFFICE OF THE CITY AUDITOR**

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City Auditor

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Richard Steinke, Executive Director  
Harbor Department  
City of Long Beach, California

At the request of the Harbor Department, we have applied certain review procedures to operation and accounting records of certain tenants of the Port of Long Beach (POLB). The tenants reviewed were:

**Container Terminals**

California United Terminals (CUT)  
International Transportation Service (ITS)  
Long Beach Container Terminal (LBCT)  
Matson Terminal - SSA Terminal Pier C (Matson)  
Pacific Container Terminal (PCT)  
SSA Terminals - Pier A (SSAT)  
Total Terminals International (TTI)

**Liquid Bulk Terminals**

ARCO Terminal (ARCO)  
BP Pipelines North America (BP)  
Shell Oil Products U.S. (Shell)

**Dry Bulk Terminals**

Metropolitan Stevedore Co. (Metro)  
Pacific Coast Recycling, LLC (PCR)

**Vehicle Terminal**

Toyota Logistics Services (Toyota)

The purpose of this review was to determine whether tenants are:

1. Submitting accurate wharfage data to the POLB, in accordance with their respective leases and the Port of Long Beach – Tariff No. 004.
2. Complying with wharf demurrage provisions of the Port of Long Beach – Tariff No. 004.

The scope of our review was fiscal years ending September 30, 2003 and 2004, for wharfage and August and September, 2005, for wharf demurrage.

The review procedures performed included:

### **General**

- Reviewing the pertinent sections of the lease agreements between the POLB and its tenants.
- Obtaining an understanding of the POLB process of capturing revenue information from its tenants.
- Obtaining an understanding of the wharfage and demurrage sections of the Port of Long Beach – Tariff No. 004.

### **Wharfage**

- Obtaining an understanding of procedures the tenants use to report to the POLB the units on which the POLB bills wharfage to these tenants.
- For container terminals, selecting and testing a sample of five vessels for each tenant and tracing the quantities reported to the Port by the tenant to the quantities billed by the tenant to the tenant's customers. For one vessel out of the five tested, agreeing in detail the information provided to the Port to the shift report, planning document, and stowage map in the tenant's vessel folder.
- For liquid bulk terminals, selecting and testing a sample of ten vessels and agreeing the quantities reported to the Port by the tenant to the independent surveyor's report in the tenant's vessel folder. Where available, comparing the amounts received in the shore tanks with the amounts delivered by the vessel.
- For Metropolitan Stevedoring, selecting and testing a sample of twenty vessels and agreeing the quantities reported to the Port to the independent surveyor's report or certified rail cars, depending on the product type.
- For Pacific Coast Recycling, selecting and testing a sample of ten vessels and agreeing the quantities reported to the Port to the quantities on the independent surveyor's report, the quantities billed by the tenant to its customers, and the quantities invoiced by the third-party stevedoring company to the tenant.
- For the vehicle terminal, selecting and testing a sample of five vessels and agreeing the number of vehicles reported to the Port to the following information in the tenant's vessel folder: the number of vehicles on the vessel stowage plan, the number of vehicle on the U.S. Customs clearance letter, and the number of vehicles listed by the third-party terminal service.

### **Demurrage**

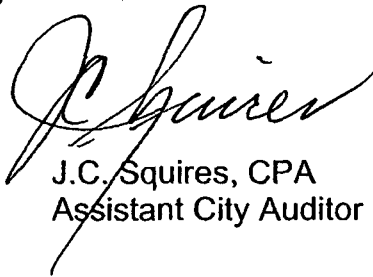
- Obtaining an understanding of the tenants' procedures to capture information, calculate wharf demurrage, and collect the amounts due.
- Selecting and testing for each container terminal a sample of twenty containers that had exceeded the free time and recalculating the demurrage charge due.
- Tracing the demurrage due for the sample tested to the payment or settlement of the demurrage invoiced.

Based on the results of the review procedures performed, we found no evidence that the terminals listed above were not in compliance with reporting requirements in accordance with the Port of Long Beach – Tariff No. 4.

Sincerely,

GARY L. BURROUGHS, CPA  
City Auditor

By



J.C. Squires, CPA  
Assistant City Auditor

cc: Steve Rubin, Managing Director-Administration/Finance, Harbor Department  
Mike Slavin, Chief Financial Officer, Harbor Department  
Kathryn McDermott, Director of Properties, Harbor Department  
Don Snyder, Director of Trade and Maritime Services, Harbor Department

## Wharfage – Container Terminals

### General

The Tariff states that container wharfage is charged on a per unit basis according to the following factors:

- Container size in feet
- Inbound general cargo
- Inbound European cargo
- Outbound general cargo
- Outbound European cargo
- Exception cargo
- Empty general containers
- Empty European containers

The container terminals prepare and send a one page “Container Report” to the POLB revenue department that is used to prepare the invoices billed to the terminal. The container reports vary in presentation but all include the following data:

#### *General:*

- Vessel name
- Voyage number
- Arrival date
- Departure date
- Berth

#### *Detailed:*

- Container quantities by:
  - size
  - discharged or loaded
  - full or empty
  - shipping line
- Any other non-containerized cargo

The “Container Report” does not include the number of containers of inbound European, outbound European, or exempt cargo. This information is provided to the POLB by the shipping lines and is examined by the POLB revenue department to calculate discounts given to the terminal. The terminal does not report these amounts; therefore we did not examine these discounts.

It is our understanding that, in general, overstating exemptions by the shipping lines, which results in lower tariff, may not necessarily benefit the shipping lines. These shipping lines are the terminal’s customers and are billed by the terminal. The terminal

usually bills its customers an amount per container or movement without regards to whether it contains exempt cargo. Long term, however, one would assume that these exempt cargo discounts eventually will be reflected in negotiations between the terminal and its customers.

We examined each container terminal's processes used to prepare the container report and noted the following procedures were used:

#### Inbound/Discharging

The vessel operator sends an electronic stowage plan to the terminal. The stowage plan details the containers that are on the arriving vessel. It contains the following information:

- Container number
- Container location
- Container type
- Container size
- Whether the container is holding hazardous cargo
- Whether the container is empty
- Container load port
- Container destination port

The terminal downloads the stowage plan into their computer system and uses its planning software to sequence the discharge of containers by shift and by crane. The planning software creates the working sheets used by the longshoremen to discharge the vessel.

As containers are discharged from the vessel by a specific crane, the container number is noted. The container is then taken to a predetermined area in the container yard and when the container is "spotted" in the yard, its location is noted.

The total containers discharged for the shift by each crane are summarized by bay and by size by the supervising longshoreman (SuperCargo) on the SuperCargo Report. At the completion of every shift, the terminal reconciles the number of containers scheduled to be discharged from the vessel to the SuperCargo Report. Typical reconciling items are containers that have been discharged from the vessel but not spotted in the yard by the end of the shift. The planning software is updated with the shifts activity and updated working sheets are produced.

When the vessel has discharged all the containers, a final reconciliation is performed. Container reports are not produced until all reconciling items have been resolved.

### Export/Loading

Shipping lines provide container information to the terminal for stowing a departing vessel with full and empty containers. The terminal's planning software creates the vessel's stowage plan. The shipping line informs the terminal of how many empty containers it would like loaded onto the vessel by size. Containers holding cargo arriving at the terminal have "bookings" noting the container size and onto which vessel the container is scheduled to be loaded. Empty containers arriving at the terminal are processed as empty and stored in specific areas within the container yard.

The terminal's planning software creates a general stowage plan that includes the container number, container size, container planned location on the vessel, whether the container is empty and whether the container contains hazardous material or needs refrigeration. The general stowage plan is used to create the working sheets for the longshoremen to load the vessel.

The working sheets detail by shift, by crane and by location the full containers that are to be loaded onto the vessel. The working sheets also include the quantities and sizes of empty containers to be loaded onto the vessel.

The total containers loaded for the shift by each crane are summarized by bay and by size by the SuperCargo on the SuperCargo Report. At the completion of every shift, the terminal reconciles the number of containers scheduled to be loaded onto the vessel to the SuperCargo Report. The planning software is updated with the shifts activity and updated working sheets are produced.

When all the containers are loaded onto the vessel, a final reconciliation is performed. Container Reports are not produced until all reconciling items have been cleared.

The final stowage plan for a loaded vessel is forward to the shipping line to be forwarded to the next port of call.

### Wharfage Review Procedures Performed On Container Terminals

We selected five vessels' "Container Reports" for testing from POLB's billing records within the audit scope period and performed the following procedures:

1. Compared the number of containers reported on the terminal's "Container Report" to the number of containers invoiced by the terminal to their shipping line customers to substantiate: container discharged or loaded, size, and whether it is empty or full

2. Selected one of the five vessels tested and obtained the terminal's "Vessel Folder" which includes the SuperCargo Reports for each shift, final and working stowage plans and working sheets of the vessel and performed the following:
  - i. Totaled the number of containers by date, shift, crane, size, bay and discharge or load and compared them to the planning spreadsheets used by the terminal and also to the "Container Report" sent to the POLB.
  - ii. Counted the number of empty containers by size on the stowage map for each bay and for both discharge and loading and compared these numbers to those on the "Container Report" sent to the POLB.

### Results of Detailed Wharfage Review Procedures Performed – Container Terminals

While testing the terminals internal operating reports and comparing them with what was reported to the POLB, we found several clerical errors. Upon further investigation and reconciling with other sources of data, we conclude that these errors did not result in inaccurate reporting to the POLB or inaccurate billing by the POLB.

### **Wharfage – Liquid Bulk Terminals**

#### General

The tariff states that liquid bulk wharfage is charged on a per barrel basis according to the type of liquid. The liquid bulk terminals prepare and send to the POLB revenue department a one page "Wharfage Statement" that has the number of barrels which is in turn used to prepare invoices billed to the terminal.

We examined the terminal's processes used to prepare the "Wharfage Statement" and noted the following procedures were used by the terminals reviewed:

Volumes are measured by an independent third-party surveyor (loading or discharging a vessel). All parties involved with the transaction rely on the third-party surveyor for measuring quantities.

In most cases, the surveyor calculates the total gross barrels that were discharged from the vessel by measuring (dipping) the vessel tanks before the transfer and after the transfer. The surveyor also measures the shore tanks that the liquid is being delivered to before and after the transfer. The gross barrels calculated are then adjusted to net

standard barrels by subtracting the sediment and water from crude oil and adjusting the volume to the industry standard measuring temperature of 60°F.

In certain cases, the surveyor will not be able to measure the tanks on the vessel. This happens when the vessel tanks are pressurized while discharging of the product. Also, in certain cases, the tank that the liquid is being delivered to on shore cannot be measured if it is actively transferring fluids to another location.

Variances between the vessel quantities and the tank quantities are normally investigated by the terminal and resolved between all parties.

The terminals report to the POLB the quantities received in the shore tanks as stated on the third-party surveyor's report. If the shore tanks were not measured, as discussed above, the vessel quantities are used instead.

#### Detailed Wharfage Review Procedures Performed On All Liquid Bulk Terminals

We selected a sample of invoices from the POLB revenue department records for each terminal within the audit scope period and performed the following procedures:

1. Obtained the terminal's "Vessel Folder" that corresponds to each invoice being tested. The "Vessel Folder" contains the independent third-party surveyors report for the product movement.
2. Compared the product on the POLB invoice to the product on the independent third-party surveyors report.
3. Where available, compared the volume the shore tanks receive to the volume discharged by the vessel.

#### Additional detailed Wharfage Review Procedures Performed at the Shell Terminal Only

In addition to receiving products for their own usage, Shell receives products for third parties. The procedures for reporting the quantity of barrels related to these movements are the same as for Shell's own products. We selected a sample of five third party transactions from Shell's vessel logs and agreed the quantity reported to the POLB to the invoice from Shell to its customer, in addition to the third-party surveyors report on file.

#### Results of Detailed Wharfage Review Procedures – Liquid Bulk Terminals

No reportable issues.



## Wharfage – Dry Bulk Terminals

### Metropolitan Stevedore Co. (Metro)

Metro loads outbound vessels with the following products using two POLB owned ship loaders:

- Petroleum Coke
- Sodium Sulfate
- Soda Ash
- Sulfur

Metro does not discharge any vessels. The products loaded are from barns/sheds or directly from trucks or rail. Metro prepares and sends a one page “wharfage statement” to the POLB revenue department which is in turn used to prepare the invoice billed to Metro. Wharfage is charged on a per metric ton basis.

We examined Metro’s procedures used to capture tonnage loaded onto the vessels for their own internal purposes and for preparing the “wharfage statement” and noted the following:

For black product, Petroleum Coke and Sulfur, independent third-party vessel surveyors are used to calculate tonnage loaded onto the vessel. The surveyor calculates the vessels weight prior to loading and then once again when the loading has been completed. The surveyor’s calculated amount is relied upon by all parties involved in the transaction.

For white product, soda ash and sodium sulfate, third-party rail cars with certified weights are used to calculate tonnage amounts loaded onto the vessel. The certified rail car weights are provided by the chemical company that is selling the product to the end buyer.

Metro invoices their customers based upon metric tons loaded. An authorized representative of the vessel signs a “Shipmate’s Receipt” agreeing to the tonnage loaded onto the vessel.

### Detailed Wharfage Review Procedures Performed on Metro

We selected 20 invoices from the POLB billing records within the audit scope period and obtained Metro’s “Job File” for each vessel related to these invoices and performed the following procedures:

1. Compared the product and tonnage on the POLB invoice to Metro to the signed "Shipmate's Receipt" and product in the "Job File."
2. Compared the product and tonnage on Metro's invoices to their customers to the products and tonnages invoiced by the POLB.
3. For Petroleum Coke and Sulfur, we compared the tonnage reported on the third-party surveyors report to the tonnages invoiced by the POLB.
4. For Soda Ash and Sodium Sulfate, we selected one vessel loaded with Sodium Sulfate and recalculated the tonnage loaded by totaling the certified rail cars loaded onto the vessel. We compared the certified rail car weights to the consolidated shipping report from the chemical company selling the product.

#### Pacific Coast Recycling, LLC (PCR)

PCR sells mixed steel scrap metal to overseas customers. PCR stores its product on the wharf. It uses Pasha Stevedoring and Terminals for vessel loading services.

PCR prepares and sends a one page "Wharfage Statement" to the POLB revenue department that the POLB uses to prepare the invoice billed to PCR.

We examined PCR's procedures used to capture tonnage loaded onto the vessels for their own internal purposes and for preparing the "wharfage statement" and noted the following:

An independent third-party vessel surveyor prepares a report detailing the tonnage loaded onto the vessel. The surveyor calculates the vessel's weight prior to loading and then once again when the vessel has completed loading. The surveyor's calculated amount is relied upon by all parties involved with the transaction. A representative of the vessel signs the draft survey. A bill of lading containing the tonnage loaded is signed by the vessel's agent or captain. Pasha Stevedoring calculates the amount loaded onto the vessel. PCR invoices their customers based upon tonnage.

#### Detailed Wharfage Review Procedures Performed on PCR

We selected 10 invoices from the POLB billing records within the audit scope period and obtained PCR's accounts receivable file for each vessel related to the invoices selected and performed the following:

1. Compared the tonnage on the POLB invoice to the independent third-party surveyor's report.

2. Compared the tonnage on the POLB invoice to the tonnage invoiced by PCR to its customer.
3. Compared the tonnage on the POLB invoice to the tonnage reported by Pasha Stevedoring and Terminals.
4. Traced the dollar amount of one PCR invoice to its customer to the subsequent cash receipt and also to PCR's bank statement.

#### Results of Detailed Wharfage Review Procedures Performed – Dry Bulk Terminals

No reportable issues.

#### **Wharfage – Vehicle Terminal – Toyota Logistics Services**

The tariff states that passenger auto wharfage is charged on a per unit basis. Toyota uses Transpac Terminal Services for terminal operations. Transpac sends the POLB the number of vehicles discharged. In addition, some shipping lines send to the Port their manifest which includes the number of vehicles on board. The POLB uses the shipping line information, if supplied, and/or the Transpac report, which should contain identical information, to invoice Toyota.

Two weeks prior to the vessel's arrival, Toyota receives the "Vessel Shipment Recap" (VSR) generated by Toyota in Japan. The VSR totals all vehicles on the vessel. Prior to the vessel's arrival, the shipping line provides the stowage plan of the vessel to Toyota. One or two days prior to the vessel's arrival, Toyota holds a pre-discharge meeting with the POLB wharfingers and provides them with the vessel discharge information. The wharfingers enter the number of vehicles to be discharged, and loaded, if any, in the POLB Port Operations system.

One to two days prior to the vessel's arrival, Toyota receives a clearance letter from the United States Customs. The Customs clearance letter contains the total vehicles on the vessel.

#### Detailed Wharfage Review Procedures Performed on Toyota

We selected 5 invoices from the POLB billing records within the audit scope period and obtained vessel folder for each vessel related to the invoices selected and performed a four-way comparison:

1. number of vehicles on the POLB invoice,
2. number of vehicles on the vessel stowage plan,
3. number of vehicles on the United States Customs clearance letter, and
4. number of vehicles listed by Transpac Terminal Services.

### Results of Detailed Wharfage Review Procedures Performed – Toyota

No reportable issues.

### **Demurrage – Container Terminals**

#### General

The container terminals included in this review are subject to the Port of Long Beach – Tariff No. 004, Section 2 – Rules, Rule 34-D, Section 4 – Wharf Demurrage, Wharf Storage and Free Time.

The tariff states that container demurrage is based on:

- o Time on the wharf or wharf premises
- o Free time
- o Type of trade (inter-coastal, foreign, etc.)
- o Size of Container

We examined container terminals' processes used to calculate and charge demurrage on inbound containers and noted the following procedures were used:

The terminals have agreements with their shipping line customers to charge demurrage rates that are at least equal to the amount of the POLB tariff demurrage rates (Port rate). Most of the shipping lines charge "line rate" amounts which are in excess of the POLB tariff demurrage rate. The terminal retains the POLB tariff rate but, by agreement, the amount in excess of the POLB tariff rate is remitted to the shipping line. Most terminals charge an administrative fee.

When a container is taken off of a vessel by a crane, the container is loaded onto a chassis and taken to a location in the container yard. After the container is placed in the yard, longshoremen record the date and time in addition to the container number and its location. This information is entered into the terminal's operating system. At this point in time, the container is considered discharged and ready for pickup. The free time starts at the time the container is "spotted" in the yard by the longshoremen.

Utilizing the terminals operating system, Line and Port demurrage amounts are automatically calculated based upon the demurrage calendar, the time and date of "spotting" in the yard and time and date that the container arrives at the exit gate.

When the container arrives at the exit gate, the container number is entered into the operating system and any "line" demurrage due must be collected prior to the container being allowed to exit the gate.

The "line" demurrage is paid by cash, check, electronically (emodal), or is guaranteed by the shipping line and settled by it at a later time. If a shipping line guarantees the demurrage, it is agreeing to pay the "Port" demurrage on the container and the container is allowed to leave the terminal.

When testing the terminals demurrage receipts, we found that occasionally the demurrage is waived by the terminal. The demurrage was waived for: (1) Terminal Delays – e.g. if the terminal was unable to locate the container for the trucker, or (2) The container was selected for inspection by the U.S. Customs and Border Protection (CBP). In the latter case, the free time will start upon the release of hold by the CBP. In order for demurrage to be waived, management approves and notes the reason in the terminal's system. Waiving demurrage for other than CBP hold is not in compliance with the Port's Tariff. We did not find this practice to be widespread; however, we recommend that the Port notifies the terminals of the requirement to bill for demurrage.

#### Detailed Demurrage Review Procedures Performed On All Container Terminals

We obtained the August and September 2005 container demurrage reports from the terminals. These reports show the containers that have exceeded the POLB free time and therefore have demurrage due. The report includes:

- Container #
- Discharge date
- Port Demurrage Due
- Line Demurrage Due
- Gate out date

We selected 20 containers from the report and performed the following procedures:

1. Recalculated the "Port" demurrage due based upon free days (per 2005 demurrage calendar), discharge date, gate out date and container size.
2. Determined the method of payment of the demurrage.

3. Determined that the amount received was equal to or greater than the "Port" demurrage due.
4. For cash/checks received:
  - a. Compared the container number on the demurrage report to the container number on the terminal's demurrage receipt.
  - b. Compared the amount received to the deposit slip for the terminal's bank account.
  - c. Compared the total amount on one deposit slip discussed in (b) to the terminal's bank statement.
5. For electronic payments received (emodal):
  - a. Compared the container number on the demurrage report to the container number on the email notification that the demurrage has been paid.
  - b. Compared the amount of demurrage calculated in #1 to the amount paid.
  - c. For one emodal transaction – compared the amount deposited into the terminal's bank account to the total of the batch containing that emodal transaction. The amount that was deposited into the terminal's bank account is the total for the batch less the emodal transaction percentage.
6. For demurrage guaranteed by the shipping Line:
  - a. Compared the container number on the demurrage report to the container number on the supporting documentation attached to the invoices sent to the shipping line.
  - b. Compared the amount of demurrage calculated in #1 to the amount billed to the shipping line.

Results of Detailed Demurrage Review Procedures Performed – Container Terminals

There were no reportable issues.

The Matson Shipping Line retains all the demurrage revenue from the Matson Terminal. When Matson Shipping Line guarantees demurrage, there is no invoicing that takes place since in essence, Matson would be invoicing itself. In our testing, we did not go beyond the terminal's invoicing to determine when a shipping line is guaranteeing

demurrage, that in fact the shipping line is invoicing its customer. Therefore, we were not able to determine, in the Matson case, as well, whether Matson Shipping Line was invoicing its customer for demurrage.