



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

“FOR DISCUSSION ONLY”

DATE: FEBRUARY 8, 2018

TO: AUDIT COMMITTEE OF THE BOARD OF HARBOR COMMISSIONERS

SUBJECT: ANNUAL SINGLE AUDIT

Submitted for your review is the draft report for the Harbor Department's Single Audit for fiscal year 2016-17. Macias Gini & O'Connell, LLP (MGO), an independent public accounting firm, has performed an audit on the Harbor Department's schedule of Expenditures of Federal Awards (SEFA) and compliance for each major Federal program.

At the Audit Committee meeting, the partner from MGO will present its required communications regarding the audit.

TRANSMITTAL:

1. Draft Single Audit Report for fiscal year 2016-17
2. Draft Corrective Action Plan

EUGENE D. SEROKA
Executive Director

**PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles,
California)**

Single Audit Report

For the Fiscal Year Ended June 30, 2017

DRAFT

Port of Los Angeles
(Harbor Department of the City of Los Angeles, California)
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**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

Honorable Members of the Board of Harbor Commissioners
Port of Los Angeles (Harbor Department of the City of Los Angeles)

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles) (the Port), an enterprise fund of the City of Los Angeles, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 18, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Port's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Port's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Los Angeles, California
December 18, 2017

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Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Honorable Members of the Board of Harbor Commissioners
Port of Los Angeles (Harbor Department of the City of Los Angeles, California)

Report on Compliance for the Major Federal Program

We have audited the Port of Los Angeles (Harbor Department of the City of Los Angeles, California) (the Port) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Port's major federal program for the year ended June 30, 2017. The Port's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Port's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Port's compliance.

Opinion on the Major Federal Program

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-001 and 2017-002. Our opinion on the major federal program is not modified with respect to these matters.

The Port's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Port's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

The Port's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Port's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Port as of and for the year ended June 30, 2017, and the related notes to the financial statements, have issued our report dated December 18, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Los Angeles, California
February xx, 2018

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PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles)
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Catalog of Federal Domestic Assistance (CFDA) Number</u>	<u>Grant Number / Pass- Through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>Amounts Passed Through to Subrecipients</u>
<u>U.S. Department of Transportation</u>				
<i>Passed through State of California, Department of Transportation:</i>				
Highway Planning and Construction				
John S. Gibson Blvd./I-110 Freeway Access Ramps and SR-47/I-110 Northbound Connector	20.205	HPLUL-5006(757)	\$ 189,533	\$ --
I-110 Freeway on/off-ramp at C Street Interchange	20.205	STPL-5006(761)	1,246,210	--
Subtotal CFDA No. 20.205			<u>1,435,743</u>	<u>--</u>
Total U.S. Department of Transportation			<u>1,435,743</u>	<u>--</u>
<u>U.S. Environmental Protection Agency</u>				
<i>Direct Program:</i>				
National Clean Diesel Emissions Reduction Program				
Cargo Handling Equipment Retrofit	66.039*	DE-83561601-0	34,546	30,000
Crane Replacement Project	66.039*	DE-83581601-0	9,463	--
Port Terminal Equipment	66.039*	DE-99T42201-0	632,635	629,702
Subtotal CFDA No. 66.039			<u>676,644</u>	<u>659,702</u>
Total U.S. Environmental Protection Agency			<u>676,644</u>	<u>659,702</u>
<u>U.S. Department of Homeland Security</u>				
<i>Direct Program:</i>				
Port Security Grant Program				
Security System Maintenance, Repair and Integration	97.056	EMW-2015-PU-00450	503,171	--
Department Operation Center Integration Phase I	97.056	EMW-2015-PU-00450	385,268	--
Information Security Interdiction Phase I	97.056	EMW-2015-PU-00450	293,711	--
Subtotal CFDA No. 97.056			<u>1,182,150</u>	<u>--</u>
Total U.S. Department of Homeland Security			<u>1,182,150</u>	<u>--</u>
Total Expenditures of Federal Awards			<u>\$ 3,294,537</u>	<u>\$ 659,702</u>

* Denotes major program

See Accompanying Notes to Schedule of Expenditures of Federal Awards

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles, California)
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal award programs of the Port of Los Angeles (Harbor Department of the City of Los Angeles) (the Port) for the year ended June 30, 2017. The information in the Schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Port, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Port.

For the purposes of the Schedule, federal awards include all grants and contracts entered into directly between the Port and agencies and departments of the federal government and pass-through agencies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the accompanying Schedule is reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where applicable.

The Port has elected to not use the ten percent de minimis indirect cost rate as allowed under Uniform Guidance.

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles, California)
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2017

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor’s report issued on whether the financial Statements were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? No
 Significant deficiency(ies) identified? No

Noncompliance material to the financial statements noted? No

FEDERAL AWARDS

Internal control over major federal programs:
 Material weakness(es) identified? No
 Significant deficiency(ies) identified? Yes

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
66.039	National Clean Diesel Emissions Reduction Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as a low-risk auditee? Yes

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles, California)
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2017

Section II – Financial Statement Findings

A. Internal Control Matters

None reported.

B. Compliance Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

Compliance Findings:

Reference Number: 2017-001
Federal Program Title: National Clean Diesel Emissions Reduction Program
Federal Catalog Number: 66.039
Federal Agency: U.S. Environmental Protection Agency

Federal Award Number and Year: DE-83561601-0- 2013
DE-99T42201 -2016

Type of Finding: Noncompliance Reported under Other Matters and Significant Deficiency in Internal Control Over Compliance

Category of Finding: Subrecipient Monitoring

Criteria:

In accordance with 2 CFR Section 200.328 -- Monitoring and Reporting Program Performance, the Port is required to perform the following:

(a) *Monitoring by the non-Federal entity.* The non-Federal entity is responsible for oversight of the operations of the Federal award supported activities. The non-Federal entity must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved.

The Cooperative Agreements between the U.S. Environmental Protection Agency (EPA) and the City of Los Angeles-Harbor Department (the Port) under the EPA General Terms and Conditions section 7.3 states:

“Prior to making subawards, ensure that each subrecipient has a “unique entity identifier”. This identifier is required for registering in the System for Award Management (SAM) and by 2 CFR Part 25 and 2 CFR 200.331 (a) (1). The unique entity identifier currently is the subrecipient’s Data Universal Numbering System (DUNS) number...”

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles, California)
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2017

The Cooperative Agreements between the U.S. Environmental Protection Agency (EPA) and the City of Los Angeles-Harbor Department (the Port) under the EPA General Terms and Conditions section 9.1 states:

“Unless exempted from this requirement under 2 CFR 25.110, the recipient must maintain the currency of the organization’s information in SAM until the submittal of the final financial report required under this award or receipt of the final payment whichever is later. This requires that the recipient reviews and updates the information at least annually after the initial registration, and more frequently if required by changes in the information or another award. “

In addition, 2 CFR 200.213 states the following:

“Non-federal entities are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR Part 190. These regulations restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

Condition:

- 1) The Port did not require the subrecipients to submit the DUNS number nor require subrecipients to register in the SAM website prior to the execution of the subrecipient agreements.
- 2) The Port did not verify if the subrecipients were debarred or suspended prior to execution of the subrecipient agreements.

Cause:

The non-compliance as noted above was due to the Port not having adequate internal control and written policies and procedures to ensure that program staff monitor the subrecipients’ activities to be in compliance with the requirements of the Uniform guidance, the Cooperative Agreements and the Grant Administration Manual.

Effect:

Lack of adequate internal control and written policies and procedures resulted in noncompliance with regulations, statutes and terms and conditions of the Cooperative Agreements.

Questioned Costs:

None.

Context:

Based on the testing performed:

- 1) For three (3) out of the three (3) subrecipients selected for testing for grant years 2013 and 2016, it was noted that no DUNS numbers were provided by the subrecipients to the Port prior to the execution of the subrecipient agreements.

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles, California)
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2017

- 2) For three (3) out of the three (3) subrecipients selected for testing for grant years 2013 and 2016, it was noted that the Port did not verify if the subrecipients were debarred or suspended prior to execution of the subrecipient agreements.

All samples selected for testing are statistically valid.

Recommendation:

We recommend the Port strengthen its internal controls to ensure that program staff monitor the subrecipients' activities in compliance with the requirements of the Uniform Guidance, the Cooperative Agreements and the Grant Administration Manual and applicable statutory requirements.

Management Response and Corrective Action Plan:

Program staff at the Port's Environmental Management Division will create an administrative checklist to help keep track of compliance requirements under regulations, statutes and terms and conditions of the Cooperative Agreements.

Implementation Date:

Corrective action in place as of the date of this report.

Reference Number: 2017-002
Federal Program Title: National Clean Diesel Emissions Reduction Program
Federal Catalog Number: 66.039
Federal Agency: U.S. Environmental Protection Agency

Federal Award Number and Year: DE-83561601-0- 2013
DE-83581601-0- 2014
DE-99T42201 -2016

Type of Finding: Noncompliance Reported under Other Matters

Category of Finding: Reporting

Criteria:

In accordance with 2 CFR Section 200.328 -- Monitoring and Reporting Program Performance, the Port is required to perform the following:

(a) *Monitoring by the non-Federal entity.* The non-Federal entity is responsible for oversight of the operations of the Federal award supported activities. The non-Federal entity must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved.

(b) *Non-construction performance reports.* The non-Federal entity must submit performance reports at the interval required by the Federal awarding agency..."

In addition, in accordance with 2 CFR Section 200.303 – Internal Controls, "The non-Federal entity must:

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles, California)
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2017

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

In accordance with General Compliance, 40 CFR Part 33, Subpart E- Reporting Condition and Administrative Condition Section E of the 2016 DE 99T42201 agreement, MBE/WBE reporting is required annually. Final reports are due by October 30 or 90 days after the end of the project period, whichever comes first.

Condition:

Of the two (2) annual reports selected as part of reporting testing, we noted that one (1) annual report was submitted after the due date. The program personnel did not comply with the Port’s policies and procedures over the preparation and timely submission of the reports.

Cause:

The non-compliance as noted above was due to lack of enforcement of policies and procedures over the preparation and submission of reports.

Effect:

Lack of enforcement of policies and procedures, and lack of supervisory and review procedures led to non-compliance with 2 CFR Section 200.328, the General Compliance, 40 CFR Part 33, Subpart E- Reporting Condition, the Administrative Condition Section E of the 2016 DE 99T42201 agreement and 2 CFR Section 200.303.

Questioned Costs:

None.

Context:

One (1) out of the two (2) annual report test was submitted after the required due date. The MBE/WBE annual report was due on October 30, 2016, however, the report was submitted to the grantor on November 9, 2016.

In addition, this is a repeat finding because an instance of non-compliance was reported in the prior year as finding number 2016-001.

All samples selected for testing are statistically valid.

Recommendation:

The Port should enforce supervisory review as indicated in the policies and procedures to ensure all reports are prepared properly and submitted in a timely manner.

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles, California)
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2017

Management Response and Corrective Action Plan:

Since March 1, 2017, the Environmental Management Division (EMD) has implemented an internal control to ensure that grant reporting is submitted in a timely manner as follows:

- A master list of EMD grants and reporting due dates is compiled and tracked by EMD's Marine Environmental Manager (MEM).
- The MEM notifies the Project Manager (PM) that a report is due at least two weeks prior to the due date.
- The PM is be required by EMD to submit the report to the granting agency and MEM one week prior to the granting agency due date.
- If the MEM does not receive the report one week prior to the EMD due date, the PM is reminded and on notice to submit the report to ensure that the report is received by the granting agency deadline.

Implementation Date:

Corrective action in place as of the date of this report.

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February 7, 2018

**SUBJECT: CORRECTIVE ACTION PLAN FOR THE LOS ANGELES HARBOR
DEPARTMENT 2016-17 SINGLE AUDIT**

Under the provisions Uniform Administrative Requirement, Cost Principles, and Audit Requirement for Federal Awards at 2 CFR 200 (Uniform Guidance), the auditee is responsible for follow-up and corrective action plans on all single audit findings. As part of this responsibility, the Port of Los Angeles (Harbor Department of the City of Los Angeles) (the Port) has prepared a summary schedule of prior audit findings (Attachment No.1) and a corrective action plan for current year audit findings (Attachment No. 2).

Sincerely,

EUGENE D. SEROKA
Executive Director

MB/FL/Accounting Division
Author: F. Liu

Attachments

cc: Mike DiBernardo, Deputy Executive Director
Christopher Cannon, Environmental Management Division
Teresa Pisano, Environmental Management Division
Lisa Wunder, Environmental Management Division
Damien Young, Contracts & Purchasing Division

Attachment No. 1 – Summary Schedule of Prior Audit Finding

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles)
For the Fiscal Year Ended June 30, 2017

Finding No.	Program	CFDA No.	Compliance Requirement	Status of Corrective Action
2016-001	National Clean Diesel Emissions Reduction Program	66.039	Reporting	Implemented

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Attachment No. 2 – Corrective Action Plan for Current Year Audit Findings

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles)
For the Fiscal Year Ended June 30, 2017

Reference Number: 2017-001
Federal Program Title: National Clean Diesel Emissions Reduction Program
Federal Catalog Number: 66.039
Federal Agency: U.S. Environmental Protection Agency

Federal Award Number and Year: DE-83561601-0- 2013
DE-99T42201 -2016

Category of Finding: Subrecipient Monitoring

Criteria:

In accordance with 2 CFR Section 200.328 -- Monitoring and Reporting Program Performance, the Port is required to perform the following:

- (a) Monitoring by the non-Federal entity. The non-Federal entity is responsible for oversight of the operations of the Federal award supported activities. The non-Federal entity must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved.

The Cooperative Agreements between the U.S. Environmental Protection Agency (EPA) and the City of Los Angeles-Harbor Department (the Port) under the EPA General Terms and Conditions section 7.3 states:

"Prior to making subawards, ensure that each subrecipient has a "unique entity identifier". This identifier is required for registering in the System for Award Management (SAM) and by 2 CFR Part 25 and 2 CFR 200.331 (a) (1). The unique entity identifier currently is the subrecipient's Data Universal Numbering System (DUNS) number...."

The Cooperative Agreements between the U.S. Environmental Protection Agency (EPA) and the City of Los Angeles-Harbor Department (the Port) under the EPA General Terms and Conditions section 9.1 states:

“Unless exempted from this requirement under 2 CFR 25.110, the recipient must maintain the currency of the organization’s information in SAM until the submittal of the final financial report required under this award or receipt of the final payment whichever is later. This requires that the recipient reviews and updates the information at least annually after the initial registration, and more frequently if required by changes in the information or another award.”

In addition, 2 CFR 200.213 states the following:

“Non-federal entities are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR Part 190. These regulations restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.”

Condition:

- 1) The Port did not require the subrecipients to submit the DUNS number nor require subrecipients to register in the SAM website prior to the execution of the subrecipient agreements.
- 2) The Port did not verify if the subrecipients were debarred or suspended prior to execution of the subrecipient agreements.

Cause:

The non-compliance as noted above was due to the Port not having adequate internal control and written policies and procedures to ensure that program staff monitor the subrecipients’ activities to be in compliance with the requirements of the Uniform guidance, the Cooperative Agreements and the Grant Administration Manual.

Effect:

Lack of adequate internal control and written policies and procedures resulted in noncompliance with regulations, statutes and terms and conditions of the Cooperative Agreements.

Questioned Costs:

None.

Context:

Based on the testing performed:

- 1) For three (3) out of the three (3) subrecipients selected for testing for grant years 2013 and 2016, it was noted that no DUNS numbers were provided by the subrecipients to the Port prior to the execution of the subrecipient agreements.
- 2) For three (3) out of the three (3) subrecipients selected for testing for grant years 2013 and 2016, it was noted that the Port did not verify if the subrecipients were debarred or suspended prior to execution of the subrecipient agreements.

All samples selected for testing are statistically valid.

Recommendation:

We recommend the Port strengthen its internal control to ensure that program staff monitor the subrecipients' activities in compliance with the requirements of the Uniform Guidance, the Cooperative Agreements and the Grant Administration Manual and applicable statutory requirements.

Management Response and Corrective Action Plan:

Program staff at the Port's Environmental Management Division will create an administrative checklist to help keep track of compliance requirements under regulations, statutes and terms and conditions of the Cooperative Agreements.

Contact Person: Lisa Wunder, Marine Environment Manager

Implementation Date:

Corrective action in place as of the date of this report.

Reference Number: 2017-002
Federal Program Title: National Clean Diesel Emissions Reduction Program
Federal Catalog Number: 66.039
Federal Agency: U.S. Environmental Protection Agency

Federal Award Number and Year: DE-83561601-0- 2013
DE-83581601-0- 2014
DE-99T42201 -2016

Category of Finding: Reporting

Criteria:

In accordance with 2 CFR Section 200.328 -- Monitoring and Reporting Program Performance, the Port is required to perform the following:

- (a) Monitoring by the non-Federal entity. The non-Federal entity is responsible for oversight of the operations of the Federal award supported activities. The non-Federal entity must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved.
- (b) Non-construction performance reports. The non-Federal entity must submit performance reports at the interval required by the Federal awarding agency..."

In addition, in accordance with 2 CFR Section 200.303 – Internal Controls, "The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

In accordance with General Compliance, 40 CFR Part 33, Subpart E- Reporting Condition and Administrative Condition Section E of the 2016 DE 99T42201 agreement, MBE/WBE reporting is required annually. Final reports are due by October 30 or 90 days after the end of the project period, whichever comes first.

Condition:

Of the two (2) annual reports selected as part of reporting testing, we noted that one (1) annual report was submitted after the due date. The program personnel did not comply with the Port's policies and procedures over the preparation and timely submission of the reports.

Cause:

The non-compliance as noted above was due to lack of enforcement of policies and procedures over the preparation and submission of reports.

Effect:

Lack of enforcement of policies and procedures, and lack of supervisory and review procedures led to non-compliance with 2 CFR Section 200.328, the General Compliance, 40 CFR Part 33, Subpart E- Reporting Condition, the Administrative Condition Section E of the 2016 DE 99T42201 agreement and 2 CFR Section 200.303.

Questioned Costs:

None.

Context:

One (1) out of the two (2) annual report test was submitted after the required due date. The MBE/WBE annual report was due on October 30, 2016; however, the report was submitted to the grantor on November 9, 2016.

In addition, this is a repeat finding because an instance of non-compliance was reported in the prior year as finding number 2016-001.

All samples selected for testing are statistically valid.

Recommendation:

- 1) The Port should enforce supervisory review as indicated in the policies and procedures to ensure all reports are prepared properly and submitted in a timely manner.

Management Response and Corrective Action Plan:

Since March 1, 2017, the Environmental Management Division (EMD) has implemented an internal control to ensure that grant reporting is submitted in a timely manner as follows:

- A master list of EMD grants and reporting due dates is will be compiled and tracked by EMD's Marine Environmental Manager (MEM).
- The MEM notifies the Project Manager (PM) that a report is due at least two weeks prior to the due date.
- The PM is be required by EMD to submit the report to the granting agency and MEM one week prior to the granting agency due date.
- If the MEM does not receive the report one week prior to the EMD due date, the PM is reminded and on notice to submit the report to ensure that the report is received by the granting agency deadline.

Contact Person: Lisa Wunder, Marine Environment Manager

Implementation Date:

Corrective action in place as of the date of this report.