



**PORT OF LOS ANGELES  
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

Audit of Federal Awards under OMB Circular A-133

Year ended June 30, 2010

**PORT OF LOS ANGELES  
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

**Table of Contents**

	<b>Page</b>
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance with Requirements Applicable to the Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	7



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**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***

The Board of Harbor Commissioners  
Port of Los Angeles (Harbor Department  
of the City of Los Angeles):

We have audited the statement of net assets 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 June 30, 2010 and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended, and have issued our report thereon dated January 18, 2011. We conducted our audit in accordance with 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Port's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Port's financial statements are free of 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*.

This report is intended solely for the information and use of management, the Board of Harbor Commissioners, the audit committee, others within the Port, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 18, 2011



KPMG LLP  
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355 South Grand Avenue  
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**Report on Compliance with Requirements Applicable to the  
Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133**

The Board of Harbor Commissioners  
Port of Los Angeles (Harbor Department  
of the City of Los Angeles):

**Compliance**

We have audited the Port of Los Angeles (Harbor Department of the City of Los Angeles) (the Port)'s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Port's major federal programs for the year ended June 30, 2010. The Port's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Port's management. Our responsibility is to express an opinion on the Port's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the Port's compliance with those requirements.

In our opinion, the Port complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2010-1.

**Internal Control over Compliance**

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Port's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2010-1 and 2010-2. 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.

#### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the Port as of and for the year ended June 30, 2010, and have issued our report thereon dated January 18, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Port's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Port's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Port's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Harbor Commissioners, the audit committee, others within the Port, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

March 30, 2011 except for  
the schedule of expenditures of  
federal awards, which is as of  
January 18, 2011

**PORT OF LOS ANGELES  
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Federal grantor/program title</u>	<u>CFDA number</u>	<u>Grant number</u>	<u>Federal grant expenditures</u>
Federal – U.S. Department of Homeland Security: Transportation Security Administration (TSA): Port Security Grant Round 3 Projects	97.056	HSTS-04-04-GP-GPS307	\$ 1,797,218
Federal Emergency Management Agency (FEMA*): Port Security Grant Round 5 Projects	97.056	2005-GB-T5-0116	677,511
Port Security Grant Round 6 Projects	97.056	2006-GB-T6-0100	435,830
Port Security Grant Round 7 Projects	97.056	2007-GB-T7-K096	4,261,932
Port Security Grant Round 7 Supplemental Projects	97.056	2007-GB-T7-K429	94,889
Port Security Grant Round 8 Projects	97.056	2007-GB-T8-K014	44,575
Federal (Indirect) – Pass through from U.S. Small Business Administration to Long Beach Community College Port Tech Development Center	59.037	9-603001-Z-0062-04	75,866
Federal (Indirect) – Pass through from U.S. Department of Transportation to State of California Transportation (Cal-Trans) to Department of Public works – Bureau of Street Services: Harry Bridges Blvd. Improvement Project – ISTEA Bill 2000 – 2004	20.205	LA07-5006R-396-N	22,307
(ARRA) Harry Bridges Blvd. Improvement Project	20.205	ESPL-5006-602	626,578
Total federal financial assistance and federal expenditures			\$ <u>8,036,706</u>

\* Formerly Transportation Security Administration

See accompanying notes to schedule of expenditure of federal awards and report on compliance with requirements applicable to the major program and on internal control over compliance in accordance with OMB Circular A-133.

**PORT OF LOS ANGELES  
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

**(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, 2010. The information in this Schedule is presented in accordance with the requirement of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organization*. 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 assets 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**

The accompanying Schedule is prepared based on the accrual basis of accounting. Expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain type of expenditures are not allowable or are limited as to reimbursements. Pass-through entity identifying numbers are presented where applicable.



**PORT OF LOS ANGELES  
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

**(1) Summary of Auditors' Results**

***Financial Statements***

- (a) Type of report on financial statements: **Unqualified.**
- (b) Internal control over financial reporting:
  - Material weakness(es) identified: **No.**
  - Significant deficiency(ies) identified that are not considered to be material weakness(es): **None reported.**
- (c) Noncompliance that is material to the financial statements: **No.**

***Federal Awards***

- (d) Internal control over major programs:
  - Material weakness(es) identified: **No.**
  - Significant deficiency(ies) identified that are not considered to be material weakness(es): **Yes. See items 2010-1 and 2010-2.**
- (e) The type of report issued on compliance for major programs: **Unqualified opinion.**
- (f) Any audit findings that are required to be reported under Section 0.510(a) of OMB Circular A-133: **Yes. See items 2010-1 and 2010-2.**
- (g) Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000.**
- (h) Major program:
  - U.S. Department of Homeland Security – Port Security Grant Program (CFDA number 97.056)
  - U.S. Department of Transportation – Harry Bridges Boulevard Improvement Project (CFDA number 20.205)
- (i) Auditee qualified as a low-risk auditee under Section 0.530 of OMB Circular A-133: **Yes.**

**(2) Findings Related to the Financial Statements Reported in Accordance with *Government Auditing Standards***

None.

**(3) Findings and Questioned Costs Related to Federal Awards**

**Finding 2010-01**

**Report Review, Submission, and Retention**

**PORT OF LOS ANGELES  
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

**Federal Program:** Harry Bridges Boulevard Improvement Project

**CFDA Number:** 20.205

**Federal Agency:** U.S. Department of Transportation

**Pass-Through Entity:** Not Applicable

**Federal Award Year:**

Harry Bridges Blvd. Improvement Project – ISTEA Bill 2000-2004  
Harry Bridges Blvd. Improvement Project – ARRA of 2009

May 28, 1998 – May 27, 2012  
June 19, 2009 – June 18, 2012

**Compliance Requirement:** Reporting

*Criteria*

Per OMB A-133, Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB. In addition, nonfederal entities may be required to submit other reporting, which may be used by the federal agency for such purposes as allocating program funding.

Compliance testing of performance and special reporting are only required for data that are quantifiable and meet the following criteria:

- 1) Have a direct and material effect on the program
- 2) Are capable of evaluation against objective criteria stated in the laws, regulations, contract, or grant agreements pertaining to the program.

*Condition Found*

In our procedures performed over required special reporting for the Harry Bridges Boulevard Improvement Project, we identified the review of the project manager as a key control in their reporting process. Of the items selected for testwork, we did not see any evidence that the control is performed. In addition, we reviewed the accuracy, completeness, and timeliness of the reports submitted for the two grant awards and noted the following exceptions:

- No reports (Special Report 1587) were submitted for 2 out of the 5 months selected for testwork over the Harry Bridges Boulevard Improvement Project Program.
- In testing the mathematical accuracy of reports submitted for the Harry Bridges Boulevard Improvement Project Program, we noted that the reported payroll amount for the June report was \$87,631. However, supporting documents is only showing \$61,984.

*Questioned Costs*

\$25,647 (\$87,631 less \$61,984)

**PORT OF LOS ANGELES  
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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

**Potential Cause and Effect**

Insufficient documentation prevented KPMG to validate the operating effectiveness of the control activity. In addition, the Port does not appear to have adequate retention policies and procedures to ensure that required documentation is retained as required for federal audit purposes.

**Recommendation**

We recommend that the Port revisit its policies and procedures and take the necessary action to strengthen its current documentation of control activities. The Port should also consider implementing policies and procedures that are designed with adequate checks and balances to help ensure accurate and timely reporting of required information to federal agencies. We also recommend the Port implement policies and procedures to ensure that documentation to support its federal grant programs is retained for the required period.

***Views of Responsible Officials***

The Port understands the importance of documenting control activities and submitting timely reports. The Port continues its commitment to adhere to required reporting frequencies and record retention. Port staff will continue to work closely with (1) the awarding and/or pass-through agencies to ensure timely submission or electronic upload of the required reports and (2) request that the Grant Administration Office provide electronic quarterly notifications to all program (project) managers regarding report due dates in compliance with the grant terms and conditions, including OMB Circulars. In addition, the Grant Administration Office will develop a procedure to verify and confirm timely reporting submissions and control activities by verifying grant documentation and program (project) manager approvals. Further, the Grants Administration Office will escalate any internal weaknesses identified to the Port's Grants Oversight Committee and make recommendation for corrective action(s), when applicable. Lastly, the Port will develop and implement an agency specific grant policy covering timely report submissions, internal controls, and grant document record retention.

**PORT OF LOS ANGELES  
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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

**Finding 2010-02**

**Procurement Controls**

**Federal Program:** Port Security Grant

**CFDA Number:** 97.056

**Federal Agency:** U.S. Department of Homeland Security

**Pass-Through Entity:** Not Applicable

**Federal Award Year:**

Port Security Grand Round 3 Projects	May 1, 2004 – December 31, 2009
Port Security Grand Round 5 Projects	September 1, 2005 – September 30, 2010
Port Security Grand Round 6 Projects	October 1, 2006 – June 30, 2011
Port Security Grand Round 7 Projects	June 1, 2007 – November 30, 2012
Port Security Grand Round 7 Supplemental Projects	October 1, 2007 – March 31, 2011
Port Security Grand Round 8 Projects	August 1, 2008 – July 31, 2011

**Compliance Requirement:** Procurement and Suspension and Debarment

***Criteria***

Requirements for nonprocurement suspension and debarment are contained in the OMB guidance in 2 CFR part 180, which implements Executive Orders 12549 and 12689, Debarment and Suspension.

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR Section 180.220 of the nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR Section 180.300).

**PORT OF LOS ANGELES  
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

***Condition Found***

During our testwork over the Port's Port Security Grant, we performed procedures to determine whether the Port had appropriately established and maintained internal controls to ensure compliance with program regulations. Within these procedures, we did not note any specific control activities in place surrounding the verification of vendors to ensure that the Port is not transacting business with federally suspended or debarred parties.

***Questioned Costs***

None.

**Potential Cause and Effect**

No instances of noncompliance were found in our samples of purchase transactions. However, we did not observe any specific documented controls in this area.

**Recommendation**

We recommend that the Port revisits its policies and procedures and take the necessary action to strengthen its current documentation of control activities.

***Views of Responsible Officials***

The Port has revisited its policies and procedures and understands the importance of documenting control activities, specifically debarment and suspension compliance. Currently, the Port's contracting and procurement policies requires the verification of said activity through the Federal's Excluded Parties List System yet the current policies and procedures do not have adequate controls to verify if and when Port staff has fully complied. Therefore, the Port will amend its pre-approval and purchase requisition forms (e.g. form starts the internal procurement of goods or contract for services process, respectively) that requires a requesting operating division to certify adherence to OMB guidance and Executive Orders 12549 and 12689. In addition, the Grant Administration Office will develop a procedure to verify and confirm debarment and suspension compliance as a control activity by verifying proof of the result from the Federal's Excluded Parties List System. Further, the Port intends to develop and implement an agency specific grant policy, which will require staff to retain grant related document(s) that verify compliance with record retention and OMB Circulars.