



REPORTS OF INDEPENDENT AUDITORS
AND SINGLE AUDIT REPORTS

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

June 30, 2022

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* Incorporated by reference only

Report of Independent Auditors 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 Members of the Board of Harbor Commissioners
Port of Los Angeles
City of Los Angeles, California

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, California) (the “Port”), an Enterprise Fund of the City of Los Angeles (the “City”), as of and for the year ended June 30, 2022, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2022.

Report on 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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a significant deficiency.

Report on 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 financial statements. 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*.

Port's Response to the Finding

Government Auditing Standards requires the Port's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The Port's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

El Segundo, California
December 12, 2022

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

The Members of the Board of Harbor Commissioners
Port of Los Angeles
City of Los Angeles, California

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the Port of Los Angeles' (Harbor Department of the City of Los Angeles, California) (the "Port"), an Enterprise Fund of the City of Los Angeles (the "City") 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, 2022. 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.

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 the major federal program for the year ended June 30, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Port and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Port's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Port's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Port's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Port's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Port's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Port's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Port's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, 2022, and have issued our report thereon dated December 12, 2022, which contained an unmodified opinion on those financial statements. Our report contained an emphasis-of-matter paragraph indicating the financial statements present only the Port's 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.

Moss Adams LLP
El Segundo, California
December 12, 2022

Port of Los Angeles
Harbor Department of the City of Los Angeles, California
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Assistance Listing Number (ALN)	Grant Number/ Pass-Through Grantor's Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Justice:				
Direct Program:				
Equitable Sharing Program	16.922	Unknown	\$ 64,778	\$ -
ALN No. 16.922 Total			<u>64,778</u>	<u>-</u>
U.S. Department of Transportation:				
Passed through California Transportation Commission:				
Trade Corridor Enhancement Program (TCEP):				
Alameda Corridor Southern Terminus				
Gap Closure Project	20.205	TCEP SB1 5006 (881)	4,602,314	-
Terminal Island Railyard Enhancement Project	20.205	TCEP SB1 5006 (882)	134	-
ALN No. 20.205 Total			<u>4,602,448</u>	<u>-</u>
Total Highway Planning and Construction Cluster			<u>4,602,448</u>	<u>-</u>
U.S. Department of Homeland Security:				
Direct Program:				
Port Security Grant Program:				
Security System Expansion and Integration	97.056	EMW-2018-PU-00469	78,905	-
Security System Maintenance	97.056	EMW-2019-PU-00431	937,500	-
Security System Expansion and Integration	97.056	EMW-2019-PU-00431	937,500	-
Security System Maintenance and Repair	97.056	EMW-2020-PU-00198	212,130	-
ALN No. 97.056 Total			<u>2,166,035</u>	<u>-</u>
Passed through City of Los Angeles, Office of the Mayor:				
Homeland Security Grant Program:				
Urban Areas Security Initiative Grant	97.067	CF 19-0695	3,423,548	-
ALN No. 97.067 Total			<u>3,423,548</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 10,256,809</u>	<u>\$ -</u>

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 Schedule of Expenditures of Federal Awards

Note 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, 2022. The information in the Schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) 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.

Note 2 – Summary of Significant Accounting Policies

The accompanying Schedule is prepared based on the accrual basis of accounting. Expenditures are recognized following the cost principles contained in Title 2 CFR Part 225, *Cost Principles for State, Local and Indian Tribal Governments* (OMB Circular A-87), wherein certain type of expenditures are not allowed or are limited as to reimbursements. Pass-through entity identifying numbers are presented where applicable.

Note 3 – Federal Financial Assistance

Pursuant to the Single Audit Act and the Uniform Guidance, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, nonmonetary federal assistance is included in federal financial assistance and, therefore, is reported on the Schedule, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the state and federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

Note 4 – Indirect Costs

The Port has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Port of Los Angeles
Harbor Department of the City of Los Angeles, California
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

Section I – Summary of Auditor’s Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major federal programs and type of auditor’s report issued on compliance for major federal programs:

<i>Assistance Listing Numbers</i>	<i>Name of Major Federal Program or Cluster</i>	<i>Type of Auditor’s Report Issued on Compliance for Major Federal Programs</i>
20.205	U.S. Department of Transportation – Federal Highway Amin. (FHWA)	Unmodified

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

Auditee qualified as low-risk auditee? Yes No

Port of Los Angeles
Harbor Department of the City of Los Angeles, California
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

Section II – Financial Statement Finding

Finding 2022-001 – Significant Deficiency in Internal Control over Financial Reporting, Capital Assets

Condition: During testing of internal controls over capital assets, Moss Adams identified \$35.7 million of completed construction projects that were incorrectly classified as construction in progress as of June 30, 2022. The identified capital projects were completed and placed in service during the year but have not been transferred in the accounting records from construction in progress accounts to depreciable facilities and equipment capital assets accounts, resulting in misclassification of assets on the statement of net position and understatement of depreciation as of and for the year ended June 30, 2022.

Context and Criteria: Accurate classification of completed construction projects and the timely capture of depreciation expense related to capital assets is reliant upon timely and clear communications between Engineering staff and Accounting staff.

Cause: Monitoring controls in place over capital projects completion and close out were not sufficient to prevent or detect classification errors between capital assets not depreciated and capital assets depreciated.

Effect: Port of Los Angeles staff determined that the total amount of projects incorrectly classified as construction in progress rather than depreciable facilities and equipment, and therefore not started depreciation as of June 30, 2022 totaled \$35.7 million. These misclassifications were corrected with an audit adjustment in the 2022 financial statements reflecting proper classification of the capital assets and capturing related depreciation expense in the amount of \$1.5 million for the year ended June 30, 2022.

Recommendation: Management should evaluate the existing process for capital project closings. Additional review and monitoring controls should be incorporated over construction project activity to ensure that projects that meet the criteria for capitalization are timely reported to accounting to allow their timely closing and classification to capital assets and for the start of depreciation. These reviews should include enhanced coordination between Engineering staff and Accounting staff to ensure timely updates to financial records for assets placed in service throughout the year.

Views of Responsible Officials: Currently, to close a completed construction work order/project and capitalize acquired assets, an Analysis of Completed Engineer's Work Orders/Projects (aka Form A-500) is provided by Engineering staff and submitted to Accounting staff to initiate the process for work order/project closeout and capitalization in the Enterprise Resource Planning (ERP) system, the Port's financial management system. Form A-500 provides final account of project costs and itemization of acquired assets based on cost information in Project Information Control System (PICS) and ERP.

Port of Los Angeles
Harbor Department of the City of Los Angeles, California
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

Section II – Financial Statement Findings (continued)

Depending on the size of a work order/project, the finalization of Form A-500 for the closeout of the work order/project could take several months to more than 1 year from the date when the work order/project is marked as 100% completed in PICS. The extended timeline in finalizing Form A-500 has prevented the capitalization of acquired assets on a timely basis when a work order/project is completed and its acquired assets are placed in service.

As the corrective action plan, (1) beginning in December 2022, on a quarterly basis, Accounting staff will review PICS construction-in-progress (CIP) Status report manually and request Engineering staff to identify completed work orders/projects that are placed in service so proper capitalization and related depreciation can be calculated and recorded in ERP manually; (2) A new field will be added in PICS CIP Status report for identifying whether a work order/project is operational or placed in service to facilitate the determination for capitalization; and (3) Preliminary Form A-500 will be prepared by Engineering staff and submitted to Accounting staff within 90 days after a work order/project is identified operational or placed in service.

Section III – Federal Award Findings and Questioned Costs

None reported.

