



PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles)
Single Audit Reports
Fiscal year ended June 30, 2011
(With Independent Auditors' Report Thereon)

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

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**Independent Auditors' 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)
Los Angeles, California:

We have audited the basic 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 years ended June 30, 2011 and 2010, and have issued our report thereon dated February 17, 2012. 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.

Management of the Port is responsible for establishing and maintaining effective 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 opinions 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, Board of Harbor Commissioners, others within the entity, and federal award 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

February 17, 2012



KPMG LLP
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**Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each 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)
Los Angeles, California:

Compliance

We have audited the Port of Los Angeles' (Harbor Department of the City of Los Angeles) (the Port) 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, 2011. The Port's major federal programs are identified in the summary of auditors' 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 of Los Angeles 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, 2011. 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 items 2011-01 through 2011-03.

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 in order 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.

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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-01 to be a material weakness.

A significant deficiency in internal control over financial reporting is a deficiency, or 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-02 and 2011-03 to be a significant deficiencies.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Port as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated February 17, 2012. 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, Board of Harbor Commissioners, others within the entity, 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.

March 29, 2012, except for the
Schedule of Expenditures of
Federal Awards, which is as
of February 17, 2012.

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles)
Schedule of Expenditures of Federal Awards
Fiscal year ended June 30, 2011

<u>Federal grantor/ pass-through grantor/ program or cluster title</u>	<u>CFDA number</u>	<u>Grant number</u>	<u>Federal grant expenditures</u>
U.S. Department of Transportation:			
Passed through State of California, Department of Transportation:			
Highway Planning and Construction – Harry Bridges Boulevard Improvement Project – ISTEA Bill 2000-2004	20.205	LA07-5006R-396-N	\$ 811,699
ARRA – Highway Planning and Construction – Harry Bridges Boulevard Improvement Project	20.205	ESPL-5006-002	8,322,106
Total U.S. Department of Transportation			<u>9,133,805</u>
U.S. Small Business Administration:			
Passed through Long Beach Community College Port Tech Development Center:			
Port Tech Los Angeles Development Center	59.037	9-603001-Z-0062-04	33,784
Port Tech Los Angeles Development Center (subrecipient portion)	59.037	9-603001-Z-0062-04	34,169
Total U.S. Small Business Administration			<u>67,953</u>
U.S. Environmental Protection Agency:			
National Clean Diesel Emissions Reduction – Ecocrane Project			
ARRA – National Clean Diesel Emissions Reduction – Equipment and Vessels	66.039	DE-83467301-0	143,934
	66.039	2A-00T13601-0	1,278,246
Total U.S. Environmental Protection Agency			<u>1,422,180</u>
U.S. Department of Energy:			
Passed through City of Los Angeles, Community Development Center:			
ARRA – Energy Efficiency and Conservation Block Grant	81.128	DE-EE0000869	760,267
Total U.S. Department of Energy			<u>760,267</u>
U.S. Department of Homeland Security:			
Port Security Grant Program Round 6 Projects	97.056	2006-GB-T6-0100	2,435,391
Port Security Grant Program Round 7 Projects	97.056	2007-GB-T7-K096	1,788,062
Port Security Grant Program Round 7 Supplemental Projects	97.056	2007-GB-T7-K429	1,413,245
Port Security Grant Program Round 8 Projects	97.056	2008-GB-T8-K014	150,582
CFDA Total			<u>5,787,280</u>
ARRA – Port Security Grant Program	97.116	2009-PU-R1-0176	287,724
Total U.S. Department of Homeland Security			<u>6,075,004</u>
Total federal financial assistance and federal expenditures			<u>\$ 17,459,209</u>

See accompanying notes to schedule of expenditures of federal awards and independent auditors' 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

Fiscal year ended June 30, 2011

(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, 2011. The information in this Schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 Policies

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 allowed or are limited as to reimbursements. Pass-through entity identifying numbers are presented where applicable.

(3) Subrecipients

Of the federal expenditures presented in the Schedule, the Port provided federal awards to subrecipients as follows:

<u>Program title</u>	<u>CFDA number</u>	<u>Amount provided to subrecipients</u>
Port Security	97.056	\$ 2,048,355
ARRA – National Clean Diesel Emissions Reduction	66.039	1,304,680
Port Tech Los Angeles Development Center	59.037	34,169

(4) Federal Financial Assistance

Pursuant to the Single Audit Act and the OMB *Circular A-133 Compliance Supplement*, the 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.

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Notes to Schedule of Expenditures of Federal Awards

Fiscal year ended June 30, 2011

(5) Major Programs

The Single Audit Act and OMB Circular A-133 establish criteria to be used in defining major federal financial assistance programs. Major programs for the Port are those programs selected for testing by the auditor using a risk assessment model, as well as certain minimum expenditure requirements, as outlined in OMB Circular A-133. Programs with similar requirements may be grouped into a cluster for testing purposes.

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles)
Schedule of Findings and Questioned Costs
Fiscal year ended June 30, 2011

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on the basic financial statements: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness _____ yes X none reported

Noncompliance material to the financial statements: _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified X yes _____ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses X yes _____ none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported under Section 510(a) of OMB Circular A-133: X yes _____ no

Identification of Major Programs

- U.S. Department of Transportation – Highway Planning and Construction – Harry Bridges Boulevard Improvement Project – CFDA 20.205
- U.S. Environmental Protection Agency – National Clean Diesel Emissions Reduction – CFDA 66.039
- U.S. Department of Energy – Energy Efficiency and Conservation Block Grant – CFDA 81.128
- U.S. Department of Homeland Security – Port Security Grant – CFDA 97.056
- U.S. Department of Homeland Security – Port Security Grant – CFDA 97.116

Dollar threshold used to distinguish between Type A and Type B programs: \$523,776

Auditee qualified as low-risk auditee? X yes _____ no

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles)
Schedule of Findings and Questioned Costs
Fiscal year ended June 30, 2011

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

None noted.

(3) Findings and Questioned Costs Relating to Federal Awards

2011-01 – Suspension and Debarment

Federal Program Information

Federal Catalog Number: 66.039, 81.128, 97.056, 97.116

Federal Program Name: National Clean Diesel Emissions Reduction
ARRA – National Clean Diesel Emissions Reduction
ARRA – Energy Efficient and Conservation Block Grant
Port Security Grants
ARRA – Port Security Grant

Federal Agency: U.S. Environmental Protection Agency
U.S. Department of Energy
U.S. Department of Homeland Security

Pass-Through Entity: City of Los Angeles

Federal Award Number and Award Year: 2A-00T13601-0 (2009); DE-83467301-0 (2010); DE-EE0000859 (2009); 2006-GB-T6-0010 (2006); 2007-GB-T7-K096 (2007); 2007-GB-T7-K429 (2007); 2008-GB-T8-K014 (2008); and 2009-PU-R1-0176 (2009)

Criteria or Requirement

Title 40 – PROTECTION OF ENVIRONMENT, Part 3+81 – UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, SUBPART C, Section 31.35.

Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party, which is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549, “Debarment and Suspension.”

Title 10 – ENERGY, Part 600 – UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, SUBPART C, Section 600.235.

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Schedule of Findings and Questioned Costs

Fiscal year ended June 30, 2011

Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party, which is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549, "Debarment and Suspension."

Title 44 – EMERGENCY MANAGEMENT AND ASSISTANCE, Part 13 – UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, SUBPART C, Section 13.35.

Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party, which is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549, "Debarment and Suspension."

Condition Found and Context

National Clean Diesel Emissions Reductions grants (66.039)

In our sample of 7 vendors that had expenditures incurred during the fiscal year ended June 30, 2011, we noted that all 7 contract files did not have certification of nonsuspension and debarment or Excluded Parties List System (EPLS) verification within its documentation. However, subsequent verification did not reveal that these vendors were suspended or debarred.

Total expenditures associated with contracts for which nonsuspension and debarment was not verified prior to disbursement of federal funds amounted to \$1,422,179 of the \$1,422,179 of total federal program expenditures for the National Clean Diesel Emissions Reduction program.

Energy Efficient and Conservation Block grants (81.128)

In our sample of 3 vendors that had expenditures incurred during the fiscal year ended June 30, 2011, we noted that all 3 contract files did not have certification of nonsuspension and debarment or EPLS verification within its documentation. However, subsequent verification did not reveal that these vendors were suspended or debarred.

Total expenditures associated with contracts for which nonsuspension and debarment was not verified prior to disbursement of federal funds amounted to \$760,267 of the \$760,267 of total federal program expenditures for the Energy Efficient and Conservation Block program.

Port Security grants (97.056)

In our sample of 11 vendors that had expenditures incurred during the fiscal year ended June 30, 2011, we noted that all 11 contract files did not have certification of nonsuspension and debarment or EPLS verification within its documentation. However, subsequent verification did not reveal that these vendors were suspended or debarred.

Total expenditures associated with contracts for which nonsuspension and debarment was not verified prior to disbursement of federal funds amounted to \$4,069,019 of the \$5,787,280 of total federal program expenditures for the Port Security program.

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

Schedule of Findings and Questioned Costs

Fiscal year ended June 30, 2011

ARRA – Port Security grants (97.116)

In our sample of 3 vendors that had expenditures incurred during the fiscal year ended June 30, 2011, we noted that all 3 contract files did not have certification of nonsuspension and debarment or EPLS verification within its documentation. However, subsequent verification did not reveal that these vendors were suspended or debarred.

Total expenditures associated with contracts for which nonsuspension and debarment was not verified prior to disbursement of federal funds amounted to \$287,724 of the \$287,724 of total federal program expenditures for the ARRA – Port Security program.

Possible Asserted Cause and Effect

The Port does not have adequate procedures and controls in place to ensure that vendors are not suspended or debarred prior to disbursement of federal funds for covered transactions. Noncompliance with procurement requirements could result in disbursement of federal funds to suspended or debarred vendors.

Questioned Costs

None noted.

Recommendation

We recommend the Port implement policies and procedures that include periodic reviews of its vendor files to ensure the applicable compliance requirements were met and it is not contracting with suspended or debarred vendors in its federally funded contracts.

Views of Responsible Officials and Planned Corrective Action

The Port understands the importance of adequate procedures and internal controls to ensure that federal funds are not released to vendors that are suspended or debarred. The Port revisited its debarment and suspension compliance policies and procedures in March 2011 and subsequently, amended said policies and implemented a new suspension and debarment procedure to ensure adequate internal controls over compliance, effective July 1, 2011. In addition, requisition and pre-service forms were amended to clearly identify when grant funds are being used to procure a good or services using grant funds. This audit period does not provide evidence of said new procedure due to the short implementation period between March 2011 (date external auditor, KPMG LLP, notified Port of weak internal control) and July 2011 (date new procedure went into effect). The Port is confident that in Fiscal Year 2011/2012 evidence will be available to document the positive effects or outcomes from this newly implemented procedure for suspension and debarment review and verification.

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Schedule of Findings and Questioned Costs
Fiscal year ended June 30, 2011

2011-02 – Reporting

Federal Program Information

<i>Federal Catalog Number:</i>	66.039, 97.116
<i>Federal Program Name:</i>	National Clean Diesel Emissions Reduction ARRA – National Clean Diesel Emissions Reduction ARRA – Port Security Grant
<i>Federal Agency:</i>	U.S. Environmental Protection Agency U.S. Department of Homeland Security
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	2A-00T13601-0 (2009); DE-83467301-0 (2010); and 2009-PU-R1-0176 (2009)

Criteria or Requirement

Title 40 – PROTECTION OF ENVIRONMENT, Part 31 – UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, SUBPART C, Section 31.41.

(b) *Financial Status Report (4) Due date.* When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. When required on an annual basis, they will be due 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of grant support.

Title 40 – PROTECTION OF ENVIRONMENT, Part 31 – UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, SUBPART C, Section 31.20.

(b) The financial management systems of other grantees and subgrantees must meet the following standards: (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

Title 44 – EMERGENCY MANAGEMENT AND ASSISTANCE, Part 13 – UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, SUBPART C, Section 13.20.

(b) The financial management systems of other grantees and subgrantees must meet the following standards: (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of

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(Harbor Department of the City of Los Angeles)

Schedule of Findings and Questioned Costs

Fiscal year ended June 30, 2011

financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

Condition Found and Context

During our procedures performed over reporting requirements of the program, we noted the following:

National Clean Diesel Emissions Reductions grants (66.039)

- Three of the four quarterly financial reports (SF 425) were not submitted in a timely manner by the Port to the federal granting agency as required by the terms of the grant agreement.
- Management reported \$17,543 and \$1,024,750 of cumulative federal funds expended on the progress reports for the quarters ended September 30, 2010 and December 31, 2010, respectively. However, the supporting documentation totaled \$126,293 and \$1,004,042, respectively, resulting in an understatement of \$108,750 for the quarter ended September 30, 2010 and an overstatement of \$20,708 for the quarter ended December 31, 2010.

ARRA – Port Security grants (97.116)

- Management reported \$29,955 of the Port’s federal share of expenditures in the 1512 report for the quarter ended December 31, 2010. However, the supporting documentation totaled \$207,104, resulting in an understatement of \$177,149 of the Port federal share of grant expenditures.

Questioned Costs

$(\$108,750 - \$20,708 + \$177,149) = \$265,191$

Possible Asserted Cause and Effect

Management does not have adequate controls in place to ensure that required financial reports are prepared and submitted on a timely basis or that the reports are complete and accurate prior to submission. Noncompliance could result in retraction of federal funds by the awarding agency.

Recommendation

We recommend that the Port enhance its controls over the review of the quarterly financial reports and progress reports prior to submission and establish a documented process to reconcile variances between the reports and source documentation.

Views of Responsible Officials and Planned Corrective Action

The Port will revisit its controls over the review of financial reports to enhance the accuracy, form, and content of said reports. The Grants Administration Office will implement new procedures and develop a flow chart demonstrating adequate internal controls in the financial report preparation and verification process prior to its submission to the corresponding grantor agency. Therefore, respective divisions that prepare financial reports (i.e. SF425) will be required to work with the Grants Administration Office closely to ensure compliance in reporting. Most important, any discrepancy identified will be reported to the Port’s Grants Oversight Committee for proper handling.

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Schedule of Findings and Questioned Costs
Fiscal year ended June 30, 2011

2011-03 – Reporting

Federal Program Information

<i>Federal Catalog Number:</i>	20.205
<i>Federal Program Name:</i>	ARRA – Highway Planning and Construction – Harry Bridges Boulevard Improvement Project
<i>Federal Agency:</i>	U.S. Department of Transportation
<i>Pass-Through Entity:</i>	State of California, Department of Transportation
<i>Federal Award Number and Award Year:</i>	ESPL-50006-002 (June 19, 2009 – June 18, 2012)

Criteria or Requirement

Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form). Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency.

Condition Found and Context

During our procedures performed over the reporting requirements of the program, we noted the following discrepancies:

- Management reported \$85,449 related to payroll expenditures in the August 2010 report submission. Actual payroll expenditures amounted to \$158,250.
- Management reported DBE payment of \$214,460 in the September 2010 report submission. The actual DBE payment should have amounted to \$216,460.

Questioned Costs

None.

Possible Asserted Cause and Effect

Management does not have adequate controls in place to ensure that required reports are complete and accurate prior to submission. Noncompliance could result in retraction of federal funds by the awarding agency.

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Schedule of Findings and Questioned Costs

Fiscal year ended June 30, 2011

Recommendation

We recommend that the Port enhance its controls over the review of financial reports prior to submission and further improve the documented process to reconcile amounts included in the reports to source documentation.

Views of Responsible Officials and Planned Corrective Action

The Port understands the importance of adequate controls to identify reporting inaccuracies and will revisit its controls over the review of the 1587 report to enhance the accuracy, form, and content. The Grants Administration Office will discuss potential opportunities to improve the adequacy of controls in the 1587 report preparation and verification/review process prior to its submission to the corresponding grantor agency. Due to projected construction completion scheduled for the Harry Bridges project in April 2012 and the timing from this finding in March 2012 by KMPG, our external auditor, the proposed corrective action plan may not provide adequate time to capture potential inaccuracies from reports already submitted between July 2011 and March 2012. However, the Port continues its commitment to prepare and submit accurate reports; therefore, the respective division will be required to work with the Grants Administration Office closely to ensure reporting accuracy. If any adjustments are required, the final project report will be modified accordingly. Most important, any discrepancy identified will be reported to the Port's Grants Oversight Committee for proper handling.