



PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles)
Single Audit Reports
Fiscal year ended June 30, 2012
(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 Commissioners
Port of Los Angeles (Harbor Department of the City of Los Angeles):

We have audited 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, 2012, and have issued our report thereon dated November 14, 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.

Internal Control over Financial Reporting

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 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 Port's Board of Commissioners, others within the entity, pass-through entities, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 14, 2012



KPMG LLP
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355 South Grand Avenue
Los Angeles, CA 90071-1568

**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, 2012. 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, 2012. 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 2012-01 through 2012-04.

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.

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 2012-01, 2012-02, and 2012-03. 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 basic financial statements of the Port as of and for the year ended June 30, 2012, and 2011, and have issued our report thereon dated November 14, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the financial statements that collectively comprise the Port's basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to November 14, 2012. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic 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 expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Port's response 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 response and, accordingly, we express no opinion on the response.

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.

KPMG LLP

March 22, 2013

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles)
Schedule of Expenditures of Federal Awards
Fiscal year ended June 30, 2012

<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	\$ 46,867
ARRA – Highway Planning and Construction – Harry Bridges Boulevard Improvement Project	20.205	ESPL-5006-002	6,927,013
Total U.S. Department of Transportation			<u>6,973,880</u>
U.S. Environmental Protection Agency:			
National Clean Diesel Emissions Reduction – Ecocrane Project	66.039	DE-83467301-0	362,367
ARRA – National Clean Diesel Emissions Reduction – Equipment and Vessels	66.039	2A-00T13601-0	421,274
Total U.S. Environmental Protection Agency			<u>783,641</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	335,681
Total U.S. Department of Energy			<u>335,681</u>
U.S. Department of Homeland Security:			
Port Security Grant Program Round 6 Projects	97.056	2006-GB-T6-0100	1,384,054
Port Security Grant Program Round 7 Projects	97.056	2007-GB-T7-K096	459,869
Port Security Grant Program Round 7 Supplemental Projects	97.056	2007-GB-T7-K429	2,273,890
Port Security Grant Program Round 8 Projects	97.056	2008-GB-T8-K014	11,267,223
CFDA Total			<u>15,385,036</u>
ARRA – Port Security Grant Program	97.116	2009-PU-R1-0176	5,566,572
Total U.S. Department of Homeland Security			<u>20,951,608</u>
Total expenditures of federal awards			<u>\$ 29,044,810</u>

See accompanying notes to schedule of expenditures of federal awards and 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.

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, 2012

(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, 2012. 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	\$ 5,032,178
ARRA – National Clean Diesel Emissions Reduction	66.039	783,641

(4) Federal Financial Assistance

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

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, 2012

(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, 2012

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified		
Internal control over financial reporting:			
• Material weakness(es) identified?	_____	yes	_____ <u>X</u> _____ no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____	yes	_____ <u>X</u> _____ none reported
Noncompliance material to the financial statements noted?	_____	yes	_____ <u>X</u> _____ no

Federal Awards

Internal control over major programs:			
• Material weakness(es) identified?	_____	yes	_____ <u>X</u> _____ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ <u>X</u> _____	yes	_____ _____ none reported
Type of auditors' report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	_____ <u>X</u> _____	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. 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:	\$871,344		
Auditee qualified as low-risk auditee?	_____ <u>X</u> _____	yes	_____ _____ no

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

None noted.

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles)
Schedule of Findings and Questioned Costs
Fiscal year ended June 30, 2012

(3) Findings and Questioned Costs Relating to Federal Awards

2012-01 – Suspension and Debarment

Federal Program Information

<i>Federal Catalog Number:</i>	97.056, 97.116
<i>Federal Program Name:</i>	Port Security Grants ARRA – Port Security Grant
<i>Federal Agency:</i>	U.S. Department of Homeland Security
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	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.

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.”

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles)
Schedule of Findings and Questioned Costs
Fiscal year ended June 30, 2012

Condition Found and Context

Port Security grants (97.056)

In our sample of 11 vendors that had expenditures incurred during the fiscal year ended June 30, 2012, we noted that 4 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 sampled associated with contracts for which nonsuspension and debarment was not verified prior to disbursement of federal funds amounted to \$5,203,104 of the \$15,385,036 of total federal program expenditures for the Port Security program.

ARRA – Port Security grants (97.116)

In our sample of 4 vendors that had expenditures incurred during the fiscal year ended June 30, 2012, we noted that all 4 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 sampled associated with contracts for which nonsuspension and debarment was not verified prior to disbursement of federal funds amounted to \$5,566,572 of the \$5,566,572 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 award 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 implementation of prior year findings were effective July 1, 2012, and due to the timing from the fiscal year 2010-2011 finding date of March 2012, and the corrective action plan implementation date of July 2012, this audit period does not capture the efforts made by the Port of Los Angeles to curtail these findings. Therefore, the audit reports indicated partially implemented due to timing of report and audit period herein.