



**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
AN ENTERPRISE FUND OF THE CITY OF LOS ANGELES, CALIFORNIA**

Single Audit Reports

Year ended June 30, 2003

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
AN ENTERPRISE FUND OF THE CITY OF LOS ANGELES, CALIFORNIA**

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355 South Grand Avenue
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**Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Basic Financial
Statements 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 basic financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles, an Enterprise Fund of the City of Los Angeles, California) (Port) as of and for the year ended June 30, 2003 and have issued our report thereon, dated September 16, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Port's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Port's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.



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

KPMG LLP

September 16, 2003



355 South Grand Avenue
Suite 2000
Los Angeles, CA 90071-1568

**Report on Compliance with Requirements Applicable to Each
Major Program and on Internal Control over Compliance in Accordance with
U.S. Office of Management and Budget 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 compliance of the Port of Los Angeles (Harbor Department of the City of Los Angeles, an Enterprise Fund of the City of Los Angeles) (Port) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The Port's major federal program is 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 its major federal program 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 on the Port's compliance with those requirements.

In our opinion, the Port complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003. 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 *Findings 03-01* and *03-02*.



Internal Control over Compliance

The management of the Port is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our 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.

Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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, 2003 and have issued our report thereon, dated September 16, 2003. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures 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.

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

KPMG LLP

September 16, 2003

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
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Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Federal grantor/program title	Federal CFDA number	Grant number/ through grantor's number	Federal entitlement amount	Accrued grant revenue, July 1, 2002	Grant revenue received	Federal grant expenses	Accrued grant revenue, June 30, 2003
Department of Transportation Security Authority: Passed through the California State Department of Transportation, Federal Aid Highway Program	20.205	CML-5006(240)	\$ 7,541,000	7,541,000	7,541,000	—	—
Passed through the Department of Transportation, Maritime Administration Port Security Act Program (1)	20.401	DTMA 1G02054	1,500,000	—	—	650,437	650,437
Total Department of Transportation			9,041,000	7,541,000	7,541,000	650,437	650,437
Total federal financial assistance			\$ 9,041,000	7,541,000	7,541,000	650,437	650,437

(1) This program is considered a major program (note 3).

See accompanying notes to Schedule of Expenditures of Federal Awards and independent auditors' report on supplementary information.

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

(1) General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal financial assistance programs of the Port of Los Angeles. The Port of Los Angeles' reporting entity is defined in note 1 of notes to the Port's basic financial statements as of and for the year ended June 30, 2003. All federal financial assistance is passed through other government agencies and is included in the schedule.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, whereby grant revenues are recognized when earned and expenses are recognized when incurred.

(3) Definition of Major Federal Financial Assistance Program

The Single Audit Act Amendments of 1996 defines major federal award programs based upon total federal expenditures of the grantee during the period reported and inherent risk of the programs audited. The Port Security Act Program (CFDA No. 20.401) is considered to be a major federal financial assistance program for the year ended June 30, 2003. (See summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.)

(4) Relation to Federal Financial Reports

The accompanying amounts identified in the Schedule of Expenditures of Federal Awards agree to amounts reported in the respective federal financial reports.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2003

(1) Summary of Auditors' Results

- (a) The type of report issued on the basic financial statements: **Unqualified Opinion.**
- (b) Reportable conditions in internal control were disclosed by the audit of the basic financial statements: **None reported**; Material weaknesses: **None noted.**
- (c) Noncompliance which is material to the basic financial statements: **None noted.**
- (d) Reportable conditions in internal control over major programs: **None reported.**
- (e) The type of report issued on compliance for major programs: **Unqualified Opinion.**
- (f) Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **Findings # 03-01 and 03-02.**
- (g) Major programs: Department of Transportation Security Authority – Port Security Act Program (CFDA No. 20.401)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000.**
- (i) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **No.**

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

None noted.

(3) Findings and Recommendations Relating to Federal Awards

Finding # 03-01 (Suspension and Debarment)

Federal Program: U.S. Department of Transportation Security Authority (CFDA #20.401), passed through the Department of Transportation, Maritime Administration Port Security Act Program.

Specific Requirement: The OMB Circular A-133, Suspension and Debarment federal requirements state that nonfederal 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 procurement contracts for goods or services equal to or in excess of \$100,000.

Condition: During our review with Suspension and Debarment federal requirements, although we noted that two contractors were not on the list of Parties Excluded From Federal Procurement or Nonprocurement Programs, we noted that Port of Los Angeles (Port) did not obtain certification from their contractor stating that the organization and its principals were not suspended or debarred. Additionally, the Port did not check for suspended and debarred parties which are listed in the List of Parties Excluded From Federal Procurement or Nonprocurement Programs, issued by the General Services Administration (GSA).

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Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Questioned costs: None

Recommendation: We recommend that the Port obtain certificates of suspension and debarment and implement policies and procedures that require a signed certificate of suspension and debarment prior to authorizing a contract award. We also recommend that the Port mandate a suspension and debarment clause in all Port contracts with subrecipients/subcontractor vendors and for all contracts receiving individual awards of \$100,000 or more in federal and state funding. We further recommend that the Port utilize the Federal Excluded Parties website (<http://epls.arnet.gov>), to ensure that contractors engaged by the Port are not suspended from receiving federally funded contracts.

03-02 (Activities Allowed or Unallowed)

Federal Program: U.S. Department of Transportation Security Authority (CFDA #20.401), passed through the Department of Transportation, Maritime Administration Port Security Act Program.

Specific Requirement: The OMB Circular A-102, Common Rule for States, Subpart C – Uniform Administration Requirements for Grants and Cooperative Agreements to States and Local Governments, Section 12.60, Standards for Financial Management Systems, Subparagraph a(2), related to Source Documentation indicates that Grantees must have fiscal control and accounting procedures sufficient to “permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.”

Condition: During our review of the activities/costs allowed or unallowed and allowable, we noted that contractor invoices do not contain supporting documentation related to subcontractor billings to the contractor. Invoices submitted to the Port by the contractor are in a one-page summary format listing the contractor expenses as well as expenses incurred by subcontractors.

Questioned costs: None

Recommendation: We recommend that the Port require the contractor to provide additional supporting documentation with its invoices to ensure that all activities allowed or unallowed and allowable cost principles requirements are being followed in accordance with the contract agreement. In addition, this will reduce the risk of noncompliance with the grant agreement and OMB Circular A-102.