



## AUDIT COMMITTEE

Report to the  
Board of Harbor Commissioners

**“FOR DISCUSSION ONLY”**

**DATE: MARCH 16, 2017**

**TO: AUDIT COMMITTEE OF THE BOARD OF HARBOR COMMISSIONERS**

**SUBJECT: ANNUAL SINGLE AUDIT**

Submitted for your review is the final report for the Harbor Department's Single Audit for fiscal year 2015-16. Macias Gini & O'Connell, LLP (MGO), an independent public accounting firm, has performed an audit on the Harbor Department's schedule of Expenditures of Federal Awards (SEFA) and compliance for each major Federal program.

At the Audit Committee meeting, the partner from MGO will present its required communications regarding the audit.

**TRANSMITTAL:**

1. Single Audit Report for the fiscal year ended June 30, 2016

EUGENE D. SEROKA  
Executive Director

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

Single Audit Report

For the Fiscal Year Ended June 30, 2016



Certified  
Public  
Accountants

**Port of Los Angeles**  
**(Harbor Department of the City of Los Angeles)**  
*Table of Contents*

	<i>Page</i>
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	1
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.....	3
Schedule of Expenditures of Federal Awards.....	7
Notes to the Schedule of Expenditures of Federal Awards.....	8
Schedule of Findings and Questioned Costs.....	9
Summary Schedule of Prior Audit Findings .....	13



**Independent Auditor's 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***

Honorable Members of the Board of Harbor Commissioners  
Port of Los Angeles (Harbor Department of the City of Los Angeles)

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) (the Port), an enterprise fund of the City of Los Angeles, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 23, 2016.

**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) to determine the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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 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*.

**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.

Macias Gini & O'Connell LLP

Los Angeles, California  
December 23, 2016



**Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

Honorable Members of the Board of Harbor Commissioners  
Port of Los Angeles (Harbor Department of the City of Los Angeles)

**Report on Compliance for Each Major Federal Program**

We have audited the Port of Los Angeles (Harbor Department of the City of Los Angeles) (the Port) compliance with the types of compliance requirements described in the *OMB 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, 2016. The Port’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

***Management’s Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for each of the Port’s major federal programs based on our audit of the types of compliance requirements referred to above. 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 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). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Port’s compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Port complied, in all material respects, with the types of 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, 2016.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on each major federal program is not modified with respect to this matter.

The Port's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Port's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 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. *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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 2016, and the related notes to the financial statements, have issued our report dated December 23, 2016, which contained an unmodified opinion on those 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.

*Macias Gini & O'Connell LLP*

Los Angeles, California  
March 2, 2017



**This page left blank intentionally.**

**PORT OF LOS ANGELES**  
**(Harbor Department of the City of Los Angeles)**  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number / Pass- Through Grantor's Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Transportation</u></b>			
<i>Direct Programs:</i>			
National Infrastructure Investments TIGER II, West Basin Railyard	20.933	DTMA1G11003	\$ 1,590,459
<i>Passed through State of California, Department of Transportation</i>			
National Infrastructure Investments Port Truck Traffic Reduction Program - West Basin Railyard	20.933	CML-5006(724)	<u>2,592,828</u>
Subtotal CFDA No. 20.933			<u>4,183,287</u>
Highway Planning and Construction John S. Gibson Blvd./I-110 Freeway Access Ramps and SR-47/I-110 Northbound Connector	20.205	HPLUL-5006(757)	1,888,455
I-110 Freeway on/off-ramp at C Street Interchange	20.205	STPL-5006(761)	<u>2,211,165</u>
Subtotal CFDA No. 20.205			<u>4,099,620</u>
<b>Total U.S. Department of Transportation</b>			<u>8,282,907</u>
<b><u>U.S. Environmental Protection Agency</u></b>			
<i>Direct Program:</i>			
National Clean Diesel Emissions Reduction Program Cargo Handling Equip. Retrofit	66.039*	DE-83561601-0	239,000
Crane Replacement Project	66.039*	DE-83581601-0	<u>1,312,000</u>
Subtotal CFDA No. 66.039			<u>1,551,000</u>
International Financial Assistance Projects Sponsored by the Office of International and Tribal Affairs USEPA Grant-PPCAC Support	66.931	X4-83594601-0	<u>15,000</u>
<b>Total U.S. Environmental Protection Agency</b>			<u>1,566,000</u>
<b><u>U.S. Department of Homeland Security</u></b>			
<i>Direct Program:</i>			
Port Security Grant Program Security System Integration Maintenance and Repair	97.056*	EMW-2012-PU-00151	333,756
IT Cyber Security Improvement - Phase II	97.056*	EMW-2013-PU-00386	714,597
Security System Maint. Repair and Integration	97.056*	EMW-2015-PU-00450	246,829
Information Security Interdiction Phase I	97.056*	EMW-2015-PU-00450	<u>81,289</u>
<b>Total U.S. Department of Homeland Security</b>			<u>1,376,471</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 11,225,378</u>

\* Denotes major program

See Accompanying Notes to Schedule of Expenditures of Federal Awards

**PORT OF LOS ANGELES**  
**(Harbor Department of the City of Los Angeles)**  
Notes to the Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2016

**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, 2016. The information in the Schedule is presented in accordance with 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). 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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the accompanying Schedule is reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where applicable.

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

**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 No.</u>	<u>Provided to Subrecipients</u>
National Clean Diesel Emissions Reduction Program - Cargo Handling Equip. Retrofit	66.039	\$ 239,000
National Clean Diesel Emissions Reduction Program - Crane Replacement Project	66.039	1,312,000
International Financial Assistance Projects	66.039	15,000
	Total	<u>\$ 1,566,000</u>

**PORT OF LOS ANGELES**  
**(Harbor Department of the City of Los Angeles)**  
 Schedule of Findings and Questioned Costs  
 For the Fiscal Year Ended June 30, 2016

---

**Section I – Summary of Auditor’s Results**

---

**FINANCIAL STATEMENTS**

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

Internal control over financial reporting:  
 Material weakness(es) identified? No  
 Significant deficiency(ies) identified? No

Noncompliance material to the financial statements noted? No

**FEDERAL AWARDS**

Internal control over major federal programs:  
 Material weakness(es) identified? No  
 Significant deficiency(ies) identified? No

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) Yes

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.039	National Clean Diesel Emissions Reduction Program
97.056	Port Security Grant Program

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

Auditee qualified as a low-risk auditee? Yes

**PORT OF LOS ANGELES**  
**(Harbor Department of the City of Los Angeles)**  
Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2016

---

---

**Section II – Financial Statement Findings**

---

---

**A. Internal Control Matters**

None reported.

**B. Compliance Findings**

None reported.

---

---

**Section III – Federal Award Findings and Questioned Costs**

---

---

**Compliance Findings:**

**Reference Number:** 2016-001  
**Federal Program Title:** National Clean Diesel Emissions Reduction Program  
**Federal Catalog Number:** 66.039  
**Federal Agency:** U.S. Environmental Protection Agency

**Federal Award Number and Year:** DE-83561601-0- 2013  
DE-83581601-0- 2014

**Category of Finding:** Reporting

***Criteria:***

In accordance with 2 CFR Section 200.328 -- Monitoring and Reporting Program Performance:

(a) *Monitoring by the non-Federal entity.* The non-Federal entity is responsible for oversight of the operations of the Federal award supported activities. The non-Federal entity must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved.

(b) *Non-construction performance reports.* The non-Federal entity must submit performance reports at the interval required by the Federal awarding agency...”

The Cooperative Agreement between the U.S. Environmental Protection Agency (EPA) and the Port of Los Angeles (the Port) states the following:

“Quarterly progress reports will be required...Quarterly reports are due according to the following schedule...”

April 1- June 30 Reporting Period: report due date July 30  
July 1- September 30 Reporting Period: report due date October 30  
October 1- December 31 Reporting Period: report due date January 30  
January 1- March 31 Reporting Period: report due date April 30”

Per 40 CFR Section 33.502 “Reports (EPA 5700-52A Form) are due by October 30<sup>th</sup> of each fiscal years or 30 days after the end of the project period, whichever comes first.”

**PORT OF LOS ANGELES**  
**(Harbor Department of the City of Los Angeles)**  
Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2016

In accordance with 2 CFR Section 200.303 – Internal Controls, “The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

***Condition:***

Of the two (2) quarterly performance reports selected as part of reporting testing, one (1) quarterly performance report could not be located by the Port and, as such, it could not be determined that the applicable reporting criteria were met. In addition, the Port could not provide support indicating that the quarterly performance report had been submitted to the EPA.

In addition, program personnel did not comply with the Port’s policies and procedures over the preparation and submission of the quarterly performance report to ensure the report is submitted to the EPA by the required deadline.

Per review of the one (1) special report (EPA 5700-52A Form) selected as part of reporting testing, the Port did not submit the EPA 5700-52A Form to the EPA by the required deadline.

***Cause:***

The non-compliance as noted above was due to the following:

- 1) Lack of enforcement of policies and procedures over the preparation and submission of performance.
- 2) Lack of enforcement of policies and procedures over the submission of special reports.

***Effect:***

Lack of enforcement of policies and procedures led to non-compliance with 2 CFR Section 200.328, the Cooperative Agreement between the EPA and the Port, 40 CFR Section 33.502, and 2 CFR Section 200.303.

***Questioned Costs:***

None.

***Context:***

Based on the testing performed:

- 1) Support could not be provided for one (1) of two (2) quarterly performance reports indicating the report has been prepared and submitted in a timely manner. In addition, there is a lack of controls in place to ensure all quarterly performance reports are submitted to the EPA by the required deadline.
- 2) One (1) special report was not submitted by the required deadline.

**PORT OF LOS ANGELES**  
**(Harbor Department of the City of Los Angeles)**  
 Schedule of Findings and Questioned Costs (Continued)  
 For the Fiscal Year Ended June 30, 2016

***Recommendation:***

The Port should enforce its policies and procedures to ensure quarterly performance reports and special reports are prepared and presented in a timely manner.

***Management Response and Corrective Action Plan:***

On a weekly basis, Environmental Management Division (EMD) project staff and supervisors meet to discuss project milestones, progresses, and due dates (including report due dates). If a report is due in the near future, it will be discussed in the meeting with project staff and supervisors who provide information for preparing the report. The report is then compiled and submitted to the grantor. The responsible staff reports the completion/submission of the report in the subsequent weekly meeting. The table below shows that most of quarterly reports were submitted on time except for one.

<b>Quarter</b>	<b>Period</b>	<b>Date Submitted</b>
2014 2nd Quarter	03/01/2014-06/30/2014	07/22/2014 – On Time
2014 3rd Quarter	07/01/2014-09/30/2014	10/30/2014 – On Time
2014 4th Quarter	10/01/2014-12/31/2014	01/30/2015 – On Time
2015 1st Quarter	01/01/2015-03/31/2015	04/30/2015 – On Time
2015 2nd Quarter	04/01/2015-06/30/2015	07/30/2015 – On Time
2015 3rd Quarter	07/01/2015-09/30/2015	10/30/2015 – On Time
2015 4th Quarter	10/01/2015-12/31/2015	01/29/2016 – On Time
2016 1st Quarter	01/01/2016-03/31/2016	February 2017 - Late
2016 2nd Quarter	04/01/2016-06/30/2016	07/29/2016 – On Time

As of March 1, 2017, EMD will implement an internal control to ensure that grant reporting is submitted in a timely manner as follows:

- A master list of EMD grants and reporting due dates will be compiled and tracked by EMD’s Marine Environmental Manager (MEM).
- The MEM will notify the Project Manager (PM) that a report is due at least two weeks prior to the due date.
- The PM will be required by EMD to submit the report to the granting agency and MEM one week prior to the granting agency due date.
- If the MEM does not receive the report one week prior to the EMD due date, the PM will be reminded and on notice to submit the report to ensure that the report is received by the granting agency deadline.

***Anticipated Completion Date:*** March 2, 2017

**PORT OF LOS ANGELES**  
**(Harbor Department of the City of Los Angeles)**  
 Summary Schedule of Prior Audit Findings  
 For the Fiscal Year Ended June 30, 2016

<b>Finding No.</b>	<b>Program</b>	<b>CFDA No.</b>	<b>Compliance Requirements</b>	<b>Status of Corrective Action</b>
2015-001	Highway Planning and Construction	20.205	Activities Allowed and Unallowed	Fully Implemented
2015-002	Port Security Grant Program	97.056	Equipment Management	Fully Implemented