

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF
THE CITY OF LOS ANGELES, CALIFORNIA)
A COMPONENT UNIT OF
THE CITY OF LOS ANGELES, CALIFORNIA**

Single Audit Reports

Year ended June 30, 2008

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA**

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**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):

We have audited the financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles, California) (the Port), a component unit of the City of Los Angeles, California, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 17, 2008. 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

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 *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 of the Port of Los Angeles, the members of the 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.

Macias Fini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 17, 2008



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**Report on Compliance with Requirements Applicable to Each
Major Program, Internal Control over Compliance in Accordance with
OMB Circular A-133, and the Schedule of Expenditures of Federal Awards**

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, California) (the Port), a component unit of the City of Los Angeles, California, with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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. 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 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. 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 item 08-01.

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, 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 preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 08-01 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Port's response to the finding identified in our audit is 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 it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Port of Los Angeles as of and for the year ended June 30, 2008, and have issued our report thereon dated December 17, 2008. Our audit was performed for the purpose of forming an opinion on 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.

This report is intended solely for the information and use of management of the Port of Los Angeles, the members of the 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.

Macias Tini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
January 9, 2009

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA**

Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number/ Pass-through grantor's number</u>	<u>Federal Entitlement Amount</u>	<u>Federal Grant Expenditures</u>
Federal - U.S. Department of Homeland Security - Transportation Security Administration (TSA): Office of Grants & Training Operation Safe Commerce (OSC) Cooperative Agmt. Program	97.058	DTSA20-03-H-1292	\$ 20,597,053	\$ -
Federal - U.S. Department of Homeland Security - Transportation Security Administration (TSA): Office of Grants & Training Port Security Grant Round 3 Projects	97.056	HSTS-04-04-G-GPS307	10,371,319	2,981,951
Port Security Grant Round 4 Projects	97.056	HSTS-04-04-G-GPS557	281,325	281,325
Port Security Grant Round 5 Projects	97.056	2005-GB-T5-0116	11,243,932	2,400,571
Port Security Grant Round 6 Projects	97.056	2006-GB-T6-0100	4,646,477	-
Port Security Grant Round 7 Projects	97.056	2007-GB-T7-K096	6,564,527	-
Federal - U.S. Department of Homeland Security - Federal Emergency Management Agency Joint-Agency Container Inspection Facility (JCIF)	97.056	2003-EU-T3-0006	2,500,000	654,896
Federal - U.S. Dept. of Transportation: Maritime Administration U.S./China Cooperation Agreement on Managing Air Pollution (MARAD)	20.814	DTMA1H06001	280,000	166,721
Federal - U.S. Environmental Protection Agency (U.S.EPA) Pacific Rim Air Quality Monitoring Program (PAH)	66.034	XA-96963101-0	250,000	59,988
Federal (Indirect) - Pass Through from U.S. Department of Transportation to State of California Transportation (Cal-Trans) to Department of Public Works - Bureau of Street Services Harry Bridges Blvd. Improvement Project - ISTEAL Bill 2000-2004	20.205	LA960176-P21-TEA21978	6,500,000	-
Vincent Thomas Bridge Studies - SAFETEA-LU Bill 2005-2009	20.205	LA0D391- HPP # 2885	1,600,000	-
I-110/SR 47/Harbor Blvd Interchange Improvement Phase 1 - SAFETEA-LU Bill 2005-2009	20.205	LA0D390 - HPP # 297	4,000,000	-
Total Federal Financial Assistance and Federal Expenditures			<u>\$ 68,834,633</u>	<u>\$ 6,545,452</u>

See accompanying notes to schedule of expenditure of federal awards.

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(1) General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal award programs of the Port of Los Angeles. The Port of Los Angeles' reporting entity is defined in Note 1 of the notes to the Port's financial statements as of and for the year ended June 30, 2008. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the Schedule of Expenditures of Federal Awards.

(2) Basis of Accounting

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

(3) Definition of Major Federal Award Program

The Single Audit Act Amendments of 1996 define major federal award programs based upon total federal expenditures of the grantee during the period reported and inherent risk of the programs audited. The U.S. Department of Homeland Security – Port Security Grant Program and Joint-Agency Container Inspection Facility (CFDA No. 97.056) is considered to be a major federal program for the year ended June 30, 2008. (See summary of auditor's 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 in all material respects to amounts reported in the respective federal financial reports.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Section I - Summary of Auditor's Results

(a) Financial Statements

The type of auditor's report issued on the financial statements: **Unqualified Opinion.**

Internal control over financial reporting:

- Material weakness(es) identified: **None Noted.**
- Significant deficiency(ies) identified that are not considered to be material weaknesses: **None Noted.**

Noncompliance material to the financial statements noted: **None Noted.**

(b) Federal Awards

Internal control over major programs:

- Material weakness(es) identified: **None Noted.**
- Significant deficiency(ies) identified that are not considered to be material weaknesses: **Yes – see finding 08-01.**

The type of auditor's report issued on compliance for major programs: **Unqualified Opinion.**

Any audit findings which are required to be reported in accordance with Section 510(a) of Circular A-133: **Yes – see finding 08-01.**

Identification of major program:

<u>CFDA number</u>	<u>Name of federal program</u>
CFDA No. 97.056	U.S. Department of Homeland Security: Port Security Grant Program Joint-Agency Container Inspection Facility

Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**

Auditee qualified as a low-risk auditee: **Yes**

Section II - Financial Statement Findings

None noted.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Section III – Federal Award Findings and Questioned Costs

Finding No. 08-01 – Controls over Reporting and Late Submission of Report

Program Affected: U.S. Department of Homeland Security – Port Security Grant Program (PSGP) and Joint-Agency Container Inspection Facility (JCIF) (CFDA No. 97.056)

Award Year: 2008

Award Numbers: *HSTS04-04-G-GPS307 and 2003-EU-T3-0006*

Condition

During our audit of the reporting requirements in accordance with OMB Circular A-133, we noted that the 4th Quarterly Performance Report for PSGP for fiscal year (FY) 2007 was not submitted to the U.S. Department of Homeland Security on a timely basis. The report was due on July 31, 2007, but was submitted together with the 1st Quarterly Performance Report for FY 2008 on November 29, 2007. Also, there was no evidence that the 3rd Quarter Financial Status Report (Form SF 270) for JCIF was reviewed and approved prior to submittal.

Criteria

The Port Security Grant Program Agreement requires “quarterly performance (technical) reports to be submitted to the Program Manager on the last day of the month following completion of the quarter, or provide reports electronically if so instructed in a Special Award Condition.” Also, per OMB Circular A-133§_300(b), management should maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions or grant agreements that could have a material effect on each of its Federal programs. For example, sound internal controls dictate that a review and approval of documents should be performed prior to submission to the granting agency.

Questioned Costs

Not applicable

Systemic or Isolated

Systemic

Effect

Failure to submit quarterly reports on a timely basis results in noncompliance with grant requirements as listed in the Port Security Grant Agreement and OMB Circular A-133. Furthermore, failure to follow internal control procedures over quarterly reporting may result in noncompliance with the federal grant guidelines.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Recommendation

We recommend that the Port establish formal procedures to ensure the timely submission of all reports required by the U.S. Department of Homeland Security and follow internal controls over SF 270 reporting.

Views of Responsible Officials

The Port understands the importance of submitting quarterly reports on-time and continues its commitment to adhere to the reporting requirements at the required frequency. Port staff will work closely with the awarding agencies to ensure timely submission, or electronic upload, of the required reports and will modify its procedures by aggressively enforcing its existing internal controls, such as providing quarterly notifications to all program managers and taking corrective action(s), when applicable. Further, Port will develop and implement an agency specific grant policy covering timely progress, financial and semi-annual report requirements and escalated internal controls to ensure that management has "...reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions or grant agreements that could have a material effect on each of its Federal programs."

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Summary Schedule of Prior Year Findings

Year ended June 30, 2008

Finding No. 07-01:	Semi-Annual Performance Reporting	
Federal Agency:	Department of Homeland Security	
Program Name:	Homeland Security Grant Program	
Condition:	The Port did not submit the semi-annual performance reports during the fiscal year as required by the Port Authority Grant Agreement.	
CFDA # and Program Expenditures:	#97.073	\$ 750,000
Award Year:	June 30, 2007	
Questioned Costs:	Not applicable.	
Status:	The Homeland Security Grant Program was closed as of May 2007. However, this control deficiency over reporting is discussed further in finding 08-01.	