



**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, 2006

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

**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, 2006, and have issued our report thereon dated October 16, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the 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 the internal control over financial reporting and its operation that we consider to be material weaknesses.

**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 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

October 16, 2006



KPMG LLP  
Suite 2000  
355 South Grand Avenue  
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, California) (the Port), a component unit of the City of Los Angeles, California, 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 each of its major federal programs for the year ended June 30, 2006. 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 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 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 each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as findings F06-01 and F06-02.

**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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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 the 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, 2006, and have issued our report thereon dated October 16, 2006. 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 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 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

October 16, 2006

**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, 2006

<u>Federal grantor/program title</u>	<u>Catalog of federal domestic assistance</u>	<u>Grant number/ pass-through grantor's number</u>	<u>Federal entitlement amount</u>	<u>Accrued grant revenue, July 1, 2005</u>	<u>Grant revenue received</u>	<u>Federal grant expenditures</u>	<u>Accrued grant revenue, June 30, 2006</u>
U.S. Department of Homeland Security: Port Security Grant Program (1)	97.056	DTSA20-03-G-01061	\$ 800,000	—	793,769	502,224	—
Operation Safe Commerce (OSC) Cooperative Agreement Program (1)	97.058	DTSA20-03-H-1292	<u>20,597,053</u>	<u>282,806</u>	<u>2,203,636</u>	<u>3,814,032</u>	<u>1,069,065</u>
Total federal financial assistance			<u>\$ 21,397,053</u>	<u>282,806</u>	<u>2,997,405</u>	<u>4,316,256</u>	<u>1,069,065</u>

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

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

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

**(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 the notes to the Port's financial statements as of and for the year ended June 30, 2006. All federal financial assistance is passed through other government agencies and is included in the accompanying 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 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 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 (CFDA No. 97.056) and Operation Safe Commerce (OSC) Cooperative Agreement Program (CFDA No. 97.058) are considered to be major federal programs for the year ended June 30, 2006. (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 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, 2006

**(1) Summary of Auditors' Results**

**Financial Statements**

- (a) The type of report issued on the financial statements: **Unqualified Opinion.**
- (b) Reportable conditions in internal control were disclosed by the audit of the financial statements: **None reported**; Material weaknesses: **None noted.**
- (c) Noncompliance which is material to the financial statements: **None noted.**

**Federal Awards**

- (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: **Yes – see findings F06-01 and F06-02.**
- (g) Major programs:
  - Department of Homeland Security – Port Security Grant Program (CFDA No. 97.056)**
  - Department of Homeland Security – Operation Safe Commerce (OSC) Cooperative Agreement Program (CFDA No. 97.058)**
- (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: **Yes.**

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

**None noted.**

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Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**(3) Findings and Recommendations Relating to Federal Awards**

**Finding F-06-01 – Preparation of the Schedule of Expenditures of Federal Awards**

*Program affected:* U.S. Department of Homeland Security, Port Security Grant Program (CFDA #97.056) and Operation Safe Commerce (CFDA #97.058)

*Award Year:* 2005-2006

*Award Numbers:* DTSA20-03-G-01061, and DTSA20-03-H-1292

***Condition***

During our procedures performed over the Port's schedule of expenditures of Federal awards (the Schedule), we noted that there were Federal programs reported with incorrect CFDA numbers, expenditures for Federal programs that were not recorded in the work order ledger (e.g., accounting sub-ledger of Federally funded programs), other Federally funded programs that were recorded in the work order ledger twice, and still other Federally funded programs that incorrectly commingled with non-federally funded expenditures in the total Federal award expenditures. These exceptions noted by the auditor were communicated to the Port, who made the necessary adjustments to correct the Schedule for the fiscal year ended June 20, 2006; however, there does not appear to be adequate internal controls in place to ensure the Schedule is prepared accurately.

***Criteria***

DEPARTMENT OF HOMELAND SECURITY, PART 13 UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS-Subpart C-Post-Award Requirements, Sec. 13.41 Financial reporting. B. Accounting basis.

Each grantee will report program outlays and program income on a cash or accrual basis as prescribed by the awarding agency. If the Federal agency requires accrual information and the grantee's accounting records are not normally kept on the accrual basis, the grantee shall not be required to convert its accounting system but shall develop such accrual information through an analysis of the documentation on hand.

Circular A-133 requires the auditee to prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements. At a minimum, the schedule should:

- List individual federal programs by federal agency. For federal programs included in a cluster of programs, list individual federal programs within a cluster of programs.
- Include, for federal awards received as subrecipient, the name of the pass-through entity and the identifying number assigned by the pass-through entity.
- Provide the total federal awards expended for each individual federal program and the CFDA number or other identifying number when the CFDA information is not available.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2006

*Effect*

As the determination of the Port's major federal programs are based on the amounts expended and the CFDA numbers reported on the schedule of federal awards, incorrect reporting will lead to the incorrect determination of the Port's major federal programs for the purposes of the Single Audit.

*Questioned Costs*

None

*Recommendation*

We recommend that the Port improve processes and controls over the compiling of information used to prepare the Schedule. We recommend the respective program director to submit the following to the department responsible for the preparation of the Schedule: 1) a copy of the page(s) from the grant award agreement, award letter, or fiscal letter that indicates the Catalog of Federal Domestic Assistance (CFDA) number, program award number, and the amount awarded; and 2) a reconciliation of program expenditures from the work order ledger to the total of any expenditure reports, which are on the same basis of accounting, for the corresponding fiscal year. We also recommend that once the schedule has been prepared that it be reviewed by someone other than the preparer to help ensure its accuracy and completeness.

*Views of Responsible Officials*

The Port will draft a collective action plan to address the finding above to improve controls in gathering the information to complete the schedule of expenditures of federal awards, as recommended.

**Finding No. 06-02 – Reporting**

**Program Affected:** Department of Homeland Security – Operation Safe Commerce (OSC) Cooperative Agreement (CFDA No. 97.058)

**Award Year:** 2005 and 2006

**Award Number:** DTSA 2003H1292

*Condition*

During our audit of the reporting requirements in accordance with OMB Circular A-133, we noted that the Port did not submit five required monthly request for reimbursement reports and technical quarterly progress reports.

*Criteria*

The reporting compliance requirement is in accordance with OMB Circular A-133 Compliance Supplement requires that reports be submitted in a timely manner.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2006

*Effect*

Noncompliance with the aforementioned reporting deadlines requirements can impact the amount of funding received by the Port from federal and state agencies.

*Recommendation*

We recommend that the Port implement procedures to ensure that all monthly and quarterly reports are submitted in a timely manner.

*Views of Responsible Officials*

Monthly request for reimbursement and technical quarterly progress reports will be submitted in a timely manner and procedures will be implemented to ensure compliance.