

**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, 2007

**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, 2007, and have issued our report thereon dated December 7, 2007. 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, 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 the 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 the members of the board of commissioners and management of the Port of Los Angeles, 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 Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 7, 2007



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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, 2007. 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, 2007. 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 finding 07-01.

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 and to test and report on the internal control over 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.

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.

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.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all matters in the internal control that might be 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.

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, 2007, and have issued our report thereon dated December 7, 2007. 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 the members of the board of commissioners and management of the Port of Los Angeles, 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 Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
January 24, 2008

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

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

<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 Award Expenditures</u>
Federal - U.S. Department of Homeland Security - Transportation Security Administration (TSA): Office of Grants & Training Operation Safe Commerce (OSC) Cooperative Agreement Program	97.058	DTSA20-03-H-1292	\$ 20,597,053	2,958,894
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	4,881,739
Port Security Grant Round 4 Projects	97.056	HSTS-04-04-G-GPS557	281,325	-
Port Security Grant Round 5 Projects	97.056	2005-GB-T5-0116	11,243,932	-
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 Justice - Transportation Security Administration (TSA): Office of Justice Programs Joint-Agency Container Inspection Facility (JCIF)	97.056	2003-EU-T3-0006	2,500,000	1,845,104
Federal - U.S. Department of Transportation: Maritime Administration U.S./China Cooperation Agreement on Managing Air Pollution (MARAD)	20.814	DTMA1H06001	280,000	79,181
Federal - U.S. Environmental Protection Agency (U.S. EPA) Pacific Rim Air Quality Monitoring Program (PAH)	66.034	XA-96963101-0	250,000	165,655
Federal (Indirect) - Pass Through from U.S. Department of Transportation to State of California Department of Transportation (Caltrans) to City of Los Angeles Department of Public Works - Bureau of Street Services Harry Bridges Blvd. Improvement Project - ISTEPA 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	-
Federal (Indirect) - Pass Through from U.S. Department of Homeland Security (DHS) to State of California Governor's Office of Homeland Security (OHS) 2005 State Homeland Security Grant Program	97.073	2005-15-037-95008	750,000	750,000
Total Federal Awards			<u>\$ 69,584,633</u>	<u>10,680,573</u>

See accompanying notes to schedule of expenditures of federal awards.

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

(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, 2007. 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 (CFDA No. 97.056) and U.S. Department of Homeland Security - Homeland Security Grant Program (CFDA No. 97.073) are considered to be major federal programs for the year ended June 30, 2007. (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, 2007

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 Reported.**

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: **None Reported.**

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 07-01.**

Identification of major programs:

<u>CFDA number</u>	<u>Name of federal program</u>
CFDA No. 97.056	U.S. Department of Homeland Security, Port Security Grant Program
CFDA No. 97.073	U.S. Department of Homeland Security, Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: **\$320,417**

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, 2007

Section III – Federal Award Findings and Questioned Costs

Finding No. 07-01 – Semi-Annual Performance Reporting

Program Affected: Department of Homeland Security – Homeland Security Grant Program (HSGP)
(CFDA No. 97.073)

Award Year: 2007

Award Number: 2005-15-037-95008

Condition

During our audit of the reporting requirements in accordance with OMB Circular A-133, we noted that the Port did not submit the semi-annual performance reports during the fiscal year.

Criteria

The Homeland Security Grant Program - Port Authority Grant Agreement requires “semi-annual performance reports must be prepared and submitted to The Governor’s Office of Homeland Security (OHS) for the duration of the grant period or until all activities are completed and the grant is formally closed.”

Effect

Noncompliance with the aforementioned reporting requirements can impact the amount of funding received by the entity from federal agencies or the federal awards could be revoked.

Recommendation

We recommend that the Port file all semi-annual performance reports and establish procedures to ensure that semi-annual performance reports are prepared and submitted in a timely manner.

Views of Responsible Officials

The Port will continue its efforts to prepare and submit progress report (s) to the awarding agency at the required frequency per the grant reporting requirements. In addition, procedures will be developed and implemented to ensure reporting compliance.

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Summary Schedule of Prior Year Findings

Year ended June 30, 2007

Finding 06-01: Preparation of the Schedule of Expenditures of Federal Awards
Federal Agency: Department of Homeland Security
Program Name: Port of Security Grant Program and Operation Safe Commerce
Condition: The Port had 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 were incorrectly commingled with non-federally funded expenditures in the total Federal award expenditures.

CFDA # and Program Expenditures	#97.056	\$ 502,224
	#97.058	\$3,814,032
Award Year	June 30, 2006	

Corrective action has been implemented.

Finding 06-02: Reporting
Federal Agency: Department of Homeland Security
Program Name: Operation Safe Commerce (OSC) Cooperative Agreement
Condition: The Port did not submit five required monthly request for reimbursement reports and technical quarterly progress reports.

CFDA # and Program Expenditures	#97.058	\$3,814,032
Award Year	June 30, 2006	

Corrective action has been implemented.