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Executive Director

January 20, 2026

**SUBJECT: CORRECTIVE ACTION PLAN FOR THE PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES,
CALIFORNIA) 2024-25**

In accordance with 2 Code of Federal Regulations (CFR) Part 200 – Uniform Administrative Requirement, Cost Principles, and Audit Requirement for Federal Awards (Uniform Guidance), the auditee is responsible for corrective action plans on all single audit findings. As part of this responsibility, the Port of Los Angeles (Harbor Department of the City of Los Angeles, California) (the Port) has prepared a corrective action plan for current year audit finding (Attachment No. 1) and a summary schedule of prior audit finding (Attachment No. 2).

Sincerely,

EUGENE D. SEROKA
Executive Director

JAS/FL/Accounting Division
Author: F. Liu

Attachments

cc: Felicia Ansley, Contracts & Purchasing Division
Jeffrey Strafford, Chief Financial Officer and
Director of Financial Planning and Analysis

Attachment No. 1 – Corrective Action Plan for Current Year Audit Finding

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles, California)
For the Fiscal Year Ended June 30, 2025

Reference Number: 2025-001 – Significant Deficiency in Internal Control over Financial Reporting.

Condition: The Port of Los Angeles (“Port”) financial close and reporting controls failed to prevent, detect or correct misstatements timely during the financial close and preparation of the annual comprehensive financial report (ACFR). The resulting failures in the operating effectiveness of the financial close and reporting process resulted in the release of multiple trial balances received with material audit adjustments, journal entries and delays in receiving underlying audit support. Significant correcting entries were related to bond defeasance, bond refunding, interest expense, capital assets, grant revenue, restricted investments and accounts payable.

Significant Impacts:

1. Six versions of the final trial balances received covering 66 adjusting journal entries.
2. Adjustments to capital assets and construction in progress - \$17.6 million.
3. Adjustments to accumulated depreciation - \$11.6 million.
4. Adjustments to depreciation expense - \$11.6 million.
5. Adjustments to interest expense - \$9.0 million.
6. Adjustments to loss on retirement of bonds - \$7.3 million.
7. Classification of restricted investments and accounts payable – Restricted investments and accounts payable originally overstated by \$43.5 million.
8. Adjustments to state capital grants - \$12.4 million.

Context and Criteria: Accurate recording of transactions and reporting is reliant upon strong internal controls and timely communication between accounting and other divisions of the Port.

Cause: Monitoring controls in place over financial close and reporting process were not sufficient to prevent or detect transaction errors on a timely basis.

Effect: The Port staff provided corrective journal entries to the June 30, 2025 annual comprehensive financial report.

Recommendation: Management should evaluate the existing process over financial close and reporting. Additional review and monitoring controls should be incorporated over financial close and reporting to prevent, or detect and correct, misstatements on a timely basis.

Management Response and Corrective Action Plan (CAP):

During the fiscal year ended June 30, 2025, the Port launched a new Enterprise Resource Planning (ERP) system. While the new system ultimately automates workflows and enhances accuracy, the implementation introduces complexity on process changes and resource strain. Items reported as Significant Impacts under Condition section above can be categorized in the following 4 areas:

A. Timeliness in fiscal year end close processes

1. Six versions of the final trial balances received covering 66 adjusting journal entries.

Response and CAP: For a fiscal-year end (FYE) close in past years, there were approximately 150 to 180 adjusting journal entries that were normally posted between the beginning of July and the end of October. For the close of fiscal year (FY) 2024-25, certain adjusting journal entries were prepared and posted in the late December and the early January. These delays were primarily due to the fact that the FYE close of FY 2024-25 was the first FYE closing after the launch of the new ERP system. With the transition to the new ERP, new business processes re-engineering, new system reporting, as well as testing of such activities, additional time to ensure accurate financial reporting was required.

Port's corrective action plan - With the experiences gathered from the close of FY 2024-25, the Port Accounting staff will evaluate and improve the existing FYE close procedure to align with the new business processes and work with Information Technology Division to produce timely reports from the ERP system for the next FYE close of FY 2025-26.

B. Adjustments to Projects and Capital Assets accounts

2. Adjustments to capital assets and construction in progress - \$17.6 million.
3. Adjustments to accumulated depreciation - \$11.6 million.
4. Adjustments to depreciation expense - \$11.6 million.

Response and CAP: One of system integrations between the City's human resources and payroll system and the Port's ERP Projects module has been requiring significant time, attention, and resources for additional validations. This situation has caused a delay in both analyzing information for the FYE close of FY 2024-25 and preparing adjusting journal entries.

For the close of FY 2024-25, as a result of staff relocations and transfers, the staff assigned to Projects and Capital Assets accounting functions was reduced to a single member from three (3) members. The single staff member has been performing her regular work assignments while also learning the new ERP system and its related new business processes, and performing various additional work assignments resulting from the two other vacant positions. This situation has caused delays in preparing the FYE analysis on closing Projects and Capital Assets modules in the ERP and providing requested audit supporting information to the auditors.

Port's corrective action plan - To address the issues identified above, (1) The Port Accounting staff will continue working with the Information Technology Division and ERP system consultants to improve the recently implemented system interfaces. (2) The Port's Accounting division has started to backfill vacant positions and plans to backfill them as soon as possible so the Port will have proper staffing for the next FYE close of FY 2025-26. The Port will also explore alternative staffing options.

C. Adjustments to related to refunding and defeasance transactions

5. Adjustments to interest expense - \$9.0 million.
6. Adjustments to loss on retirement of bonds - \$7.3 million.
7. Classification of restricted investments and accounts payable – Restricted investments and accounts payable originally overstated by \$43.5 million.

Response and CAP: During the FY 2024-25, the Port restructured its debt portfolio by defeasing and refunding a large portions of old debts. Defeasance and refunding events do not occur annually as regular transactions, occurring infrequently and many years apart. The timing of these two events in FY 2024-25 coincided with the system conversion activities for the ERP implementation. During this period Port staff faced heavy and complicated workloads: performing regular assignments, researching and validating infrequent bond related transactions, while concurrently working with and learning the new ERP system which included validating data migrations and implementing new business processes, amongst other activities. The recordation and reconciliation of related accounts for interest expense, gain/loss on retirement of bonds, and restricted cash took longer than the regular FYE close timeline.

Port's corrective action plan - Effective in February 2026, General Accounting staff will work with the Debt and Financial Analysis Division to review monthly cash reconciliations for proper resolution of reconciling items and recordation of account balance during the month-end close and the FYE close processes.

D. Adjustments to Grants accounts

8. Adjustments to state capital grants - \$12.4 million.

Response and CAP: For the close of FY 2024-25, the Principal Accountant I position assigned to Grants Accounting became vacant because the employee was promoted to another City department. With the limited staffing resources and adoption of the new ERP system and new business processes, the analysis and preparation of FYE adjustments were delayed.

Port's corrective action plan - The Port's Accounting division will start to backfill the vacant position as soon as possible so the Port will have proper staffing for the next FYE close of FY 2025-26. The Port will also explore alternative staffing options.

Contact Person: Frank Liu, Director of Accounting

Anticipated Implementation Date: June 30, 2026

Attachment No. 2 – Summary Schedule of Prior Audit Finding

PORT OF LOS ANGELES
(Harbor Department of the City of Los Angeles, California)
For the Fiscal Year Ended June 30, 2025

Finding No.	Summary of Prior Audit Finding	Status of Corrective Action
2024-001	Significant Deficiency in Internal Control over Financial Reporting, Cash and Cash Equivalents, restricted and restricted net position	Implemented