

Schedule of Expenditures of Federal and  
State Awards and Report of Independent  
Certified Public Accountants

**Port of Houston Authority of Harris County,  
Texas**

Year ended December 31, 2011

# Contents

|  | Page |
|--|------|
| Part I - Financial   |      |
| Schedule of Expenditures of Federal Awards   | 3    |
| Notes to Schedule of Expenditures of Federal Awards  | 4    |
| Part II - Internal Controls and Compliance Reports   |      |
| Report of Independent Certified Public Accountants on<br>Internal Control over Financial Reporting and on Compliance and<br>Other Matters                  | 6    |
| Report of Independent Certified Public Accountants on Compliance Related to<br>Major Programs (OMB Circular A-133) and on Internal Control Over Compliance | 8    |
| Report of Independent Certified Public Accountants on<br>Supplementary Information   | 10   |
| Part III - Schedule of Findings and Questioned Costs   |      |
| Section I – Summary of Auditor’s Results   | 12   |
| Section II – Financial Statement Findings  | 13   |
| Section III – Federal Award Findings and Questioned Costs  | 13   |
| Section V – Summary of Prior Audit Findings  | 14   |

## Part I - Financial

**Port of Houston Authority of Harris County, Texas**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended December 31, 2011

| Federal Grantor/Pass-Through<br>Grantor/Program Title   | Federal<br>CFDA<br>number | Pass-through<br>entity<br>identifying<br>number | Expenditures        |
|---|---------------------------|---|---------------------|
| Expenditures of Federal Awards:                         |                           |   |                     |
| U.S. Department of Homeland Security                    |                           |   |                     |
| Direct program  |                           |   |                     |
| Port Security Grant Program                             | 97.056                    | N/A   | \$ 1,390,309        |
| Pass Through: Texas Department of Public Safety         |                           |   |                     |
| Public Assistance Grant Program                         | 97.036                    | 000-UMGRI-00                                    | <u>5,841</u>        |
| Total U.S. Department of Homeland Security              |                           |   | 1,396,150           |
| U.S. Department of Defense                              |                           |   |                     |
| Direct Program  |                           |   |                     |
| Project Cooperation Agreement                           | 12.XXX                    | N/A   | <u>1,821,954</u>    |
| Total U.S. Department of Defense                        |                           |   | 1,821,954           |
| U.S. Environmental Protection Agency                    |                           |   |                     |
| Direct Program  |                           |   |                     |
| National Clean Diesel Funding Assistance Program        | 66.039                    | N/A   | 1,329,441           |
| National Clean Diesel Funding Assistance Program - ARRA | 66.039                    | N/A   | <u>1,324,151</u>    |
| Total U.S. Environmental Protection Agency              |                           |   | <u>2,653,592</u>    |
| Total   |                           |   | <u>\$ 5,871,696</u> |

The accompanying notes are an integral part of this schedule.

**Port of Houston Authority of Harris County, Texas**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended December 31, 2011

1. The accompanying Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.
2. The expenditures of federal awards reported for the Project Cooperation Agreement (PCA), CFDA 12.XXX, reflect design and engineering costs incurred by the Authority which will be submitted to the U.S. Army Corps of Engineers for credit under the PCA. The Corps of Engineers has preapproved the projects for which such costs can be incurred, but retains the right to deny credit for costs submitted.
3. In fiscal year 2011, the Authority provided federal awards to subrecipients for the National Clean Diesel Grant Program (CFDA 66.039) in the amount of \$2,608,120.

Part II - Internal Controls  
and Compliance Reports



Audit • Tax • Advisory

**Grant Thornton LLP**  
333 Clay Street, 27th Floor  
Houston, TX 77002-4168

T 832.476.3600  
F 713.655.8741  
[www.GrantThornton.com](http://www.GrantThornton.com)

**Report of Independent Certified Public Accountants on  
Internal Control Over Financial Reporting and on  
Compliance and Other Matters**

To the Port Commission  
Port of Houston Authority of Harris County, Texas

We have audited the financial statements of the Port of Houston Authority of Harris County, Texas (the "Authority") as of and for the year ended December 31, 2011, and have issued our report thereon dated April 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants 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 Authority's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion.

A deficiency in internal control over financial reporting 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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the Authority's internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority'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

The Port Commission  
Port of Houston Authority of Harris County, Texas  
Page 2

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, the Port Commission, others within the Authority, 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.

*Grant Thornton LLP*

Houston, Texas  
April 18, 2012





Audit • Tax • Advisory

**Grant Thornton LLP**

333 Clay Street, 27th Floor  
Houston, TX 77002-4168

T 832.476.3600

F 713.655.8741

[www.GrantThornton.com](http://www.GrantThornton.com)

**Report of Independent Certified Public Accountants on  
Compliance Related Major Programs (OMB Circular A-133)  
and on Internal Control Over Compliance**

To the Port Commission  
Port of Houston Authority of Harris County

**Compliance**

We have audited the compliance of the Port of Houston Authority of Harris County, Texas (the "Authority") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The Authority'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 Authority's management. Our responsibility is to express an opinion on the Authority'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 established by the American Institute of Certified Public Accountants, 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 Authority'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 Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. However, the results of our audit procedures disclosed an instance of noncompliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1 that is required to be reported in accordance with OMB Circular A-133.

The Port Commission  
Port of Houston Authority of Harris County, Texas  
Page 2

### **Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of the Authority's internal control over compliance. Accordingly, we express no such opinion.

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 is a deficiency, or a 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.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the Authority's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Our audit was also not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies. A significant deficiency 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, yet important enough to merit attention by those charged with governance. We identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1 that we consider to be a significant deficiency in the Authority's internal control over compliance.

We did not audit the Authority's written response to the matters described in the accompanying Schedule of Findings and Questioned Costs and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Port Commission, others within the Authority, 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.

*Grant Thornton LLP*

Houston, Texas  
July 9, 2012



**Report of Independent Certified Public Accountants  
on Supplementary Information**

**Audit • Tax • Advisory**  
**Grant Thornton LLP**  
333 Clay Street, 27th Floor  
Houston, TX 77002-4168  
T 832.476.3600  
F 713.655.8741  
www.GrantThornton.com

To the Port Commission  
Port of Houston Authority of Harris County, Texas

We have audited the basic financial statements of the Port of Houston Authority of Harris County, Texas (the Authority) as of and for the year ended December 31, 2011 and have issued our report thereon dated April 18, 2012. 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, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This schedule is the responsibility of the Authority's management. The schedule 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.

*Grant Thornton LLP*

Houston, Texas  
April 18, 2012

