

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

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

Year ended December 31, 2013

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Part I - Financial

Port of Houston Authority of Harris County, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA number	Pass-through entity identifying number	Expenditures
Expenditures of Federal Awards:			
U.S. Department of Homeland Security			
Direct program			
Port Security Grant Program	97.056	N/A	\$ 192,126
Pass Through: Harris County			
Port Security Grant Program	97.056	746011946	<u>13,196,844</u>
Total U.S. Department of Homeland Security			13,388,970
U.S. Department of Defense			
Direct Program			
Project Cooperation Agreement	12.XXX	N/A	<u>675,573</u>
Total U.S. Department of Defense			<u>675,573</u>
Total			<u><u>\$ 14,064,543</u></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, 2013

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.

Part II - Internal Controls
and Compliance Reports

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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

We have audited, 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, the financial statements of the Port of Houston Authority of Harris County, Texas (the “Authority”) as of and for the year ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated April 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority’s internal control over financial reporting (“internal control”) to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control.

A deficiency in internal control 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, 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the Authority’s internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Our consideration of internal control was also not designed to identify all deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2013-1 that we consider to be a significant deficiency in the Authority's internal control.

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 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*.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Houston, Texas
April 15, 2014



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

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To the Port Commission
Port of Houston Authority of Harris County

Report on compliance for each major federal program

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’s (*OMB Circular A-133 Compliance Supplement*) that could have a direct and material effect on its major federal programs for the year ended December 31, 2013. 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.

Management’s responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the Authority’s federal programs.

Auditor’s responsibility

Our responsibility is to express an opinion on compliance for each of the Authority’s major federal programs based on our audit of the types of compliance requirements referred to above. 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*.

The above-mentioned 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on each major federal program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2013.

Report on internal control over compliance

Management of the Authority is responsible for designing, implementing, and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Authority's internal control over compliance.

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 in internal control over compliance 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 over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 have not been identified.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Houston, Texas
April 15, 2014



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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133**

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

We have audited, 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, the basic financial statements of the Port of Houston Authority of Harris County, Texas (the Authority) as of and for the years ended December 31, 2013 and 2012 and our report thereon dated April 15, 2014 expressed an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on these basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Grant Thornton LLP

Houston, Texas
April 15, 2014

Part III - Schedule of Findings
and Questioned Costs

Port of Houston Authority of Harris County

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2013

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major federal program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
12.XXX	Project Cooperation Agreement
97.056	Port Security Grant Program

Dollar threshold used to distinguish between Type A and Type B federal programs:	\$300,000
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Auditee qualified as low-risk auditee?	No
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Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding # 2013-01

Misapplication of GAAP

Type of Finding: Significant Deficiency

Criteria:

Generally accepted accounting principles (GAAP) require financial statements or disclosures to be presented on an accrual basis of accounting. Accrual basis accounting is the method of accounting where revenues are recognized when earned, and expenses are recognized when incurred.

Condition and Context:

It was noted that revenue and unearned revenue for pipeline leases was not being properly recorded. Revenue was recorded (and the client invoiced) when the Channel Development Department drafts a contract. The contract is subsequently approved by the Commission one to two months after the contract and related invoice are sent to the client.

Cause:

There is no formalized process in place to ensure the revenue is recorded after the approval of the Port Commission.

Effect:

The Authority recorded revenue related to the pipeline leases in the incorrect reporting period.

Recommendation:

We recommend the Authority ensure revenue is properly recognized based on the earnings process. This can be facilitated by ensuring the contract is approved by the Commission prior to the time the contract and related invoice are sent to the client.

Views of Responsible Officials

Management agrees with this finding. It is PHA procedure to obtain the client or customer approval of the agreement prior to obtaining the Commission approval in order to avoid iterations of requesting approval by the Commission. The agreement provided as a 'final draft' to the customer has the approval of the sponsoring PHA business department and the legal department; PHA will maintain the process of providing that final draft in order to obtain customer approval prior to requesting Commission approval. However, in order to avoid recognition of revenue prior to execution by both parties, a new type of invoice will be provided with the final draft which will not result in revenue recognition when provided with the final draft. Revenue will be recognized only upon subsequent execution of the agreement by the customer and the Commission.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The results of our audit procedures disclosed no findings to be reported for the year ended December 31, 2013.

Part IV – Summary of Prior Audit Findings

Port of Houston Authority of Harris County, Texas

SUMMARY OF PRIOR AUDIT FINDINGS

None identified.