

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, 2010

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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, 2010

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	\$ 377,274
Port Security Grant Program - ARRA	97.056	N/A	<u>1,275,631</u>
Subtotal			1,652,905
Pass Through: Texas Department of Public Safety			
Public Assistance Grant Program	97.036	000-UMGRI-00	<u>4,541,297</u>
Total U.S. Department of Homeland Security			6,194,202
U.S. Department of Defense			
Direct Program			
Project Cooperation Agreement	12.XXX	N/A	<u>1,571,347</u>
Total U.S. Department of Defense			1,571,347
U.S. Environmental Protection Agency			
Direct Program			
National Clean Diesel Funding Assistance Program	66.039	N/A	158,467
National Clean Diesel Funding Assistance Program - ARRA	66.039	N/A	<u>1,235,997</u>
Total U.S. Environmental Protection Agency			<u>1,394,464</u>
Total			<u><u>\$ 9,160,013</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, 2010

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 Corporation 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 2010, the Authority provided federal awards to subrecipients for the National Clean Diesel Grant Program (CFDA 66.039) in the amount of \$855,747.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the year ended December 31, 2010

<u>State Grantor/Pass-Through Grantor/Program Title</u>	<u>Grant number</u>	<u>Expenditures</u>
Texas Commission on Environmental Quality:		
Direct Program		
Texas Emissions Reduction Plan	582-9-90474-0150	\$ 83,263
Pass Through: Houston Galveston Area Council		
Texas Emissions Reduction Plan	TC 9103-02	<u>760,242</u>
Total Texas Commission on Environmental Quality		<u>\$ 843,505</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 STATE AWARDS
Year ended December 31, 2010

1. The accompanying Schedule of Expenditures of State Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the *State of Texas Single Audit Circular* ("Audit Circular"). The Audit Circular was issued under the authority of the Texas Government Code, Chapter 783, entitled Uniform Grants Management and Contract Management. The circular sets standards for obtaining consistency and uniformity among state agencies for the coordinated audit of local governments expending state awards. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.
2. In fiscal year 2010, there were no state awards provided to subrecipients.

Part II - Internal Controls and Compliance Reports

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**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, 2010, and have issued our report thereon dated August 3, 2011. Our report was modified to include an explanatory paragraph related to the restatement of the 2009 financial statements. 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 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 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. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2010-01 that we consider to be a material weakness in the Authority's internal control over financial reporting.

Our audit was also not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2010-02 through 2010-06 that we consider to be significant deficiencies in the Authority's internal control over financial reporting.

The Port Commission
Port of Houston Authority of Harris County, Texas
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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*.

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 and state 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
August 3, 2011



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

To the Port Commission
Port of Houston Authority of Harris County

Compliance

We have audited the compliance of 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* and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2010. The Authority's major federal and state 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 and state 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 as 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; the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Texas Single Audit Circular*. Those standards, the OMB Circular A-133 and the State of Texas Single Audit Circular 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 or state 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.

Our audit disclosed the following material noncompliance with Subrecipient Monitoring and Special Tests and Provisions for Awards with ARRA Funding – Subrecipient Monitoring applicable to the National Clean Diesel Funding Assistance Program and Reporting applicable to the Port Security Grant Program during the year ended December 31, 2010 described in the accompanying Schedule of Findings and Questioned Costs as items 2010-07, 2010-08 and 2010-11.

The Port Commission
Port of Houston Authority of Harris County, Texas
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In our opinion, except for the material noncompliance described in the previous paragraph, 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 and state programs for the year ended December 31, 2010. The results of our audit procedures also disclose an instance of noncompliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2010-12.

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 and state 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 or state 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 on the effectiveness of 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 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 or state program on a timely basis. A material weakness is a deficiency, or 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 or state 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. However, we identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2010-07, 2010-08 and 2010-11 that we consider to be material weaknesses in the Authority's internal control over compliance.

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 deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2010-09, 2010-10 and 2010-12 that we consider to be significant deficiencies 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.

The Port Commission
Port of Houston Authority of Harris County, Texas
Page 3

This report is intended solely for the information and use of the Port Commission and management of the Authority, federal and state 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
August 3, 2011



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

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, 2010 and have issued our report thereon dated August 3, 2011. Our report was modified to include an explanatory paragraph related to the restatement of the 2009 financial statements. 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. The accompanying Schedule of Expenditures of State Awards is presented for purposes of additional analysis as required by the *State of Texas Single Audit Circular* and is not a required part of the basic financial statements. These schedules are the responsibility of Authority's management. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Grant Thornton LLP

Houston, Texas
August 3, 2011

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, 2010

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? Yes
- 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? Yes
- Significant deficiencies identified that are not considered to be material weaknesses? Yes

Type of auditor’s report issued on compliance for major programs: Unqualified for all major programs except for the Port Security Grant Program and the National Clean Diesel Funding Assistance Program.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
12.XXX	Project Corporation Agreement
66.039, 66.039-ARRA	National Clean Diesel Funding Assistance Program
97.036	Public Assistance Grant Program
97.056, 97.056-ARRA	Port Security Grant Program

Dollar threshold used to distinguish between Type A and Type B federal programs: \$300,000

Auditee qualified as low-risk auditee? No

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

State Awards

Internal control over major programs:

- | | |
|--|-----|
| • Material weakness identified? | No |
| • Significant deficiencies identified that are not considered to be material weaknesses? | Yes |

Type of auditor's report issued on compliance for major programs:	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
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Identification of major state programs:

<u>Grant Number</u>	<u>Name of Federal Program or Cluster</u>
582-9-90474-0150 and TC 9103-02	Texas Emissions Reduction Plan

Dollar threshold used to distinguish between Type A and Type B state programs:	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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SECTION II – FINANCIAL STATEMENT FINDINGS

Finding #: 2010-01

Departure from GAAP

Type of Finding: Material Weakness

Criteria:

In accordance with Governmental Accounting Standards Board Statement No. 34, generally accepted accounting principles indicate that capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition — such as freight and transportation charges, site preparation costs, and professional fees. Additionally, outlays that extend the estimated useful lives of the assets (preservation costs) or improve their efficiency (improvements) or capacity (additions) are to be capitalized and depreciated.

Condition and Context:

During the course of the FY 2010 audit, it was noted that the Port improperly capitalized approximately \$21,100,000 of litigation costs associated with a breach of contract dispute on a construction contract as part of the cost of a capital asset (Bayport PH1A Wharf). The first phase of the project was completed and placed in service during 2007 while the litigation costs associated with the lawsuit began in 2008 and were capitalized through 2010. The litigation costs consist of attorney's fees and other professional fees as a result of the litigation between the Port and the contractor.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

The litigation costs do not represent ancillary charges necessary to place the asset into its intended location and condition for use. Additionally, the litigation costs incurred do not represent outlays that extend the estimated useful life of the asset or improve the efficiency or service capacity of the capital asset. Based on these facts, the Authority made adjustments to its current year financial statements to treat these costs as period costs and therefore, appropriately expense the costs. These adjustments resulted in a restatement of beginning of the year net assets reflecting a decrease of approximately \$14,568,000, a current year decrease in capital assets of approximately \$19,380,000 and a current year increase in general and administrative expenses of approximately \$4,812,000. Based on our discussions with management, management noted the Authority discussed the accounting treatment of the litigation costs with its previous auditors and recorded the costs based on those discussions.

Recommendation:

The Authority has adjusted the financial statements to appropriately reflect the financial statements in accordance with GAAP and we recommend that litigation costs be treated as period costs and expensed prospectively.

Views of Responsible Officials and Planned Corrective Action:

Management strongly disagrees with the assertion of material weakness for the following reasons:

- The Authority had proactively identified and reviewed the accounting treatment for Zachry-related legal fees with the former auditor, for its financial statements for fiscal years 2008 and 2009. The former auditor considered this accounting treatment acceptable during the previously audited fiscal years. This supports our position that the probability of a misstatement occurring and not being detected and corrected on a timely basis is remote and thus the deficiency should not be considered a material weakness in internal control.
- With regards to materiality, measured as a percent of Net Assets for each fiscal year 2008, 2009 and 2010, the impact was 0.49%, 1.12% and 0.52%, respectively. The cumulative effect on fiscal 2010 was 2.08% of Net Assets. Considering Total Assets as an appropriate benchmark for materiality, the impact was 0.28%, 0.62% and 0.26% for fiscal years 2008, 2009 and 2010, respectively. The cumulative effect on fiscal 2010 was 1.06% of Total Assets. Given this, the Authority believes the magnitude of this item would not change or influence the judgment of a reasonable person relying upon the financial statements and thus the deficiency should not be considered a material weakness in internal control.

Management will continue to review transactions and account balances to evaluate and assess appropriate accounting treatment and maintain open communication with the external auditors in order to ensure the financial statements are fairly presented in accordance with GAAP.

Finding #: 2010-02

Lack of Segregation of Duties

Type of Finding – Significant Deficiency

Condition and Context:

Presently, the Billing Manager has the ability to maintain and update the customer master file. In addition, it was noted that the duties of senior financial reporting personnel, which include the Corporate Controller, Assistant Corporate Controller, and Financial Accounting Manager, include the ability to make journal entries.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Recommendation:

To the extent possible, duties should be segregated to serve as a check and balance and optimize internal controls.

Views of Responsible Officials and Planned Corrective Action:

A new JD Edwards (JDE) role was created for the Billing Manager that excludes the ability to maintain and update the customer master file. The Finance Controller role in JDE, which includes the Corporate Controller, Assistant Corporate Controller, and Financial Accounting Manager, was modified to remove the Journal Entry ability so the role no longer has the ability to create journal entries in the system.

This item was completed on May 31, 2011.

Finding #: 2010-03

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 interest and penalties for property taxes were recorded on a cash basis rather than an accrual basis. It was also noted that revenue and deferred revenue for pipeline leases was not being properly recorded when earned as well as not properly categorizing the deferred revenue associated with the pipeline lease activity between short term and long term. Revenue was recorded based on when the communication came from the Channel Development Department. In addition, it was noted that construction in process invoices were not accrued in the proper period.

Recommendation:

We recommend that interest and penalties be maintained using the accrual basis of accounting. We further recommend the Port ensure revenue is properly recognized based on the earnings process. This can be facilitated by establishing a process by which the Channel Development Department communicates to the Revenue Department the approval and execution of new leases in a timely manner. We recommend the Port ensure deferred revenue is categorized between short term and long term. We also recommend the Port ensure expenses are recorded when incurred.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Views of Responsible Officials and Planned Corrective Action:

The Financial Accounting Department will review interest and penalties collected and calculated by Harris County Financial Services to determine the receivable and related reserve for interest and penalties on delinquent property taxes. Interest and penalties are not a guaranteed receipt of funds and would necessitate establishing a reserve equal to the amount that would be recorded as a receivable. This would have a net zero impact on the financial statements. In addition, the amounts of penalties and interest collected are considered immaterial.

The Revenue Department will work with the Channel Development Department to establish a formal process to ensure pipeline lease revenue is recognized in the proper period.

The Financial Accounting Department will ensure that deferred revenue is categorized correctly between short-term and long-term and expand the year-end accrual process to include CIP invoices to ensure CIP invoices are recorded in the proper period.

Target Completion Date for these items: December 31, 2011

Finding #: 2010-04

Lack of Formalized Policies and Procedures

Type of Finding – Significant Deficiency

Condition and Context:

It was noted that over the past few years, the Authority has experienced a high turnover in its upper management positions. As a result, well-defined accounting policies and procedures have not been established and many review and reconciliation policies and procedures have not been consistently or continuously maintained. A well-structured accounting policies and procedures manual can be very helpful in ensuring that proper procedures and related internal controls are in place and consistently followed.

Recommendation:

We recommend that a formal accounting policies and procedures manual be developed, documented, and distributed to all employees. At a minimum, the Authority should develop, enhance or finalize policies and procedures for the following:

- Capital Assets
 - Capitalization criteria
 - Establishment of time frame when a capital project that is substantially complete is transferred to in-service
 - Maintenance of support for capital asset categories Land and Channel Site Land and Improvements.
- Property Tax Allowance
- Journal Entry

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Views of Responsible Officials and Planned Corrective Action:

The Financial Accounting Department will develop formalized accounting policies and procedures starting with Capital Assets, Property Tax Allowance and Journal Entry. These will be distributed to all Accounting Department Employees and published to the internal sharepoint site.

Target Completion Date: December 31, 2011.

Finding #: 2010-05

Critical System Access

Type of Finding – Significant Deficiency

Condition and Context:

The Director of Information Technology (IT) had inappropriate administrator-level access to the critical in-scope system (Active Directory) at the time of testing, which creates a segregation of duties issue for an individual in a management role given that access provisioning is not a responsibility of the individual.

Recommendation:

We recommend the Director of IT's access be removed and backup administrator responsibilities be delegated to another member of the IT department who does not perform conflicting duties. Management should also enforce the use of monitored alerts as most applications have the capability to identify transactions executed/initiated by the system administrators. These alerts should not be able to be removed or configured by any of the delegated administrators.

Views of Responsible Officials and Planned Corrective Action:

The account for the Director of IT was disabled as of April 30, 2011. To address transactions executed/initiated by system administrators, Tripwire Security Suite was installed July 15, 2011 and contains audit trails for Domain Administrator accounts.

Finding #: 2010-06

Internal Access through Passwords

Type of Finding – Significant Deficiency

Condition and Context:

It was noted that password controls (Minimum Length, User Lockout, Inactivity, Changed Periodically, and Complexity) are not enforced at the operating system (UNIX) or user profile level for NAVIS Express.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Recommendation:

We recommend that Port management issue a security policy that addresses password security standards for all critical systems specifically addressing the aforementioned controls noted within the finding. Management should also require shared accounts, if required, to be monitored by delegated administrators not having direct reports performing the financial transaction.

Views of Responsible Officials and Planned Corrective Action:

Such password standards exist on PHA's Windows servers but not on the UNIX servers at this time. IT will issue new policy applying password standards to the UNIX servers and Navis Express system. IT will issue a new security policy for the UNIX servers by December 31, 2011.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding #: 2010-07

CFDA Title: National Clean Diesel Funding Assistance Program-ARRA

CFDA Number: 66.039

Federal Award Number: 2A-96695101

Federal Award Year: 2010

Federal Agency: U.S. Environmental Protection Agency

Type of Finding: Material Weakness and Material Noncompliance

Special Tests and Provisions for Awards with ARRA Funding – Subrecipient Monitoring

Criteria or Specific Requirement:

Title 2 CFR Subpart C Sec. 176.210 indicates, "Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program."

Condition:

The Port of Houston Authority did not follow the provisions of identifying to subrecipients the CFDA number and the recovery amount at the time of disbursement for Recovery Act funds.

Questioned Costs:

None noted.

Context:

Of the five disbursements to subrecipients tested, the Port did not provide the CFDA number and the recovery amount to the subrecipients upon disbursement of American Recovery and Reinvestment Act (ARRA) funds for any of the disbursements.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Effect:

The Port's lack of compliance to inform the subrecipients of the CFDA number and the recovery amount each time there is a disbursement of ARRA funds causes the Port to be in noncompliance with specific grant conditions required by the federal agency, which could potentially lead to loss or return of funding.

Cause:

The department charged with managing this program appears to be unaware of the specific subrecipient monitoring requirements as outlined for ARRA awards.

Recommendation:

We recommend that the Port establish appropriate procedures to inform the subrecipients of the CFDA number and the recovery amount each time there is a disbursement of funds to ensure that audit requirements are met. This can be accomplished by either including a notation on the check or a transmittal letter with the check.

Views of Responsible Officials and Planned Corrective Action:

The Port did comply with disclosing award identifying information to subrecipient at the time of subaward. The Port will include the pertinent information in the award letter and at the time of disbursement of funds. Steps have been implemented to include the Federal award number, CFDA number and amount of Recovery Act Funds on a newly created transmittal letter to accompany the payment.

Kenneth Gathright, Compliance Coordinator (Environmental) has completed this corrective action as of July 1, 2011.

Finding #: 2010-08

CFDA Title: National Clean Diesel Funding Assistance Program
National Clean Diesel Funding Assistance Program - ARRA
Federal Award Number: 2A-96695101, DE00F11101
Federal Agency: U.S. Environmental Protection Agency

CFDA Number: 66.039
Federal Award Year: 2010

Type of Finding: Material Weakness and Material Noncompliance

Subrecipient Monitoring

Criteria or Specific Requirement:

Requirements for subrecipient monitoring are contained in 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)). Subrecipient monitoring requirements established in the aforementioned include the responsibility for the pass-through entity to monitor the subrecipient's use of federal awards through site visits, limited scope audits or other means. OMB Circular A-133 requires pass through entity's to establish requirements, as needed, to ensure for profit subrecipients accountability for the use of funds.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Condition:

The Port does not have a process for monitoring its sub recipients to ensure compliance with the federal requirements.

Questioned Costs:

None noted.

Context:

The Port passed funds to 5 subrecipients. Based on testing of all sub recipients, it was noted there was no documentation to support that monitoring by the Port had occurred.

Effect:

The Port's lack of documentation of the monitoring process causes the Port to be in noncompliance of specific required grant conditions, which could potentially lead to loss or return of funding.

Cause:

The department does not have a formal process in place to monitor and document the monitoring procedures performed.

Recommendation:

We recommend that the Port create a process whereby the monitoring of the sub recipients is performed and documented. This could be accomplished with an establishment of a timeline for monitoring to occur as well as creation of a checklist that includes all key elements required to be monitored.

Views of Responsible Officials and Planned Corrective Action:

The Port has an established process in place for monitoring subrecipients and did disclose supporting evidence in the form of site visits (photos) and email documentation. The Port will develop a formal timeline for monitoring events to occur in order to further confirm that subrecipient controls are in place. The Port will also create a checklist to ensure consistency and completeness of key monitoring elements.

Kenneth Gathright, Compliance Coordinator (Environmental), is responsible for this corrective action; the estimated completion date is August 31, 2011.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding #: 2010-09

CFDA Title: National Clean Diesel Funding Assistance Program
National Clean Diesel Funding Assistance Program – ARRA
CFDA Number: 66.039
Federal Award Year: 2010
Federal Award Number: 2A-96695001, 2A-96695101, DE00F11101
Federal Agency: U.S. Environmental Protection Agency

Type of Finding: Significant Deficiency

Reporting

Criteria or Specific Requirement:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition:

The MWBE quarterly report and Quarterly performance reports are not reviewed by anyone other than the preparer.

Questioned Costs:

None noted.

Context:

Of the 5 performance reports, (3 quarterly reports and 2 MWBE reports) judgmentally selected for testing, there was no documented evidence that a review was performed on any of the reports before submission. Further through discussions with program management, it was confirmed that a supervisory review of the reports is not performed.

Effect:

The Port's lack of review could cause errors to be reported to the granting agency thus potentially causing a loss of funding.

Cause:

The department charged with managing this program does not have adequate staff knowledgeable of the grant activities to allow for a separate review.

Recommendation:

We recommend the Port assign another individual with requisite knowledge to review the required reports for the National Clean Diesel Program prior to submission or identify a separate individual to prepare the reports and allow the program manager to perform the review.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Views of Responsible Officials and Planned Corrective Action:

While there were no errors discovered in the reporting, only a lack of secondary review, PHA agrees that a secondary review would provide enhanced reporting accuracy and timeliness. The Port will assign the Environmental Affairs Manager to review the Program Manager's National Clean Diesel Program reports prior to submission. The reviewer will be trained on the completion of these reports to a degree that they can check for general reasonableness.

Kenneth Gathright, Compliance Coordinator (Environmental), is responsible for this corrective action; the estimated completion date is August 31, 2011.

Finding #: 2010-10

CFDA Title: Port Security Grant Program - ARRA

CFDA Number: 97.056

Federal Award Number: 2009-PU-R1-0216

Federal Award Year: 2009, 2010

Federal Agency: U.S. Department of Homeland Security

Type of Finding: Significant Deficiency

Special Tests and Provisions for Awards with ARRA Funding – Separate Accountability for ARRA Funding

Criteria or Specific Requirement:

Title 2 CFR Subpart C Sec. 176.210 indicates, "To maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) (Recovery Act or ARRA) as required by Congress and in accordance with 2 CFR 215.21 "Uniform Administrative Requirements for Grants and Agreements" and OMB Circular A-102 Common Rules provisions, recipients agree to maintain records that identify adequately the source and application of Recovery Act funds.

Condition:

The Port of Houston Authority did not follow the provisions of identifying adequately the source and application of ARRA funding.

Questioned Costs:

None noted.

Context:

Per review of the general ledger, the funding for the Port Security Grant program was included in numerous accounts that also have non-ARRA related grant expenditures in the accounts.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Effect:

The Port's lack of compliance to adequately identify ARRA funding causes the Port to be in noncompliance with specific grant conditions required by the federal agencies, which could potentially lead to loss or return of funding.

Cause:

Staff appear to be unaware of the requirements as outlined for ARRA awards.

Recommendation:

We recommend that the Port establish appropriate procedures to separately identify ARRA funding to ensure that audit requirements are met. This can be accomplished by creating a sub account for ARRA funding received.

Views of Responsible Officials and Planned Corrective Action:

The Port did separate ARRA funds on the SEFA report, as well as on the supporting schedules, and maintains identification in offline systems. The Port will create individual sub accounts in the General Ledger system for each of the Recovery Act programs to more adequately identify funding source and application of funds.

Melody Chang, Financial Accounting Manager, is responsible for this corrective action; the estimated completion date is December 31, 2011.

Finding #: 2010-11

CFDA Title: Port Security Grant Program - ARRA

CFDA Number: 97.056

Federal Award Number: 2009-PU-R1-0216

Federal Award Year: 2009, 2010

Federal Agency: U.S. Department of Homeland Security

Type of Finding: Material Weakness and Material Noncompliance

Reporting

Criteria or Specific Requirement:

Section 1512 of the Recovery Act requires reporting on the use of Recovery Act funding by recipients to include detailed information about the total amount of funds received and of that the amount spent on projects and activities.

Condition:

The Port of Houston Authority did not appropriately report the amount of funds expended for this program in its Section 1512 quarterly reports.

Questioned Costs:

None noted.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Context:

For the 4th Quarter 2010 Section 1512 report submitted, the amount spent on projects and activities was not reported.

Effect:

The Port's error in accurately reporting ARRA funding causes the Port to be in noncompliance with specific grant conditions required by the federal agency, which could potentially lead to loss or return of funding.

Cause:

Staff appear to be unfamiliar with the input requirements for the Section 1512 reports.

Recommendation:

We recommend that the Port become more familiar with the input requirements for the Section 1512 reports and establish the appropriate procedures to ensure ARRA reporting requirements are being met. This can be accomplished by establishing a review process of the reports prior to submission to ensure all elements of reporting are appropriately completed.

Views of Responsible Officials and Planned Corrective Actions:

An entry was made into the federal database to record the 4th quarter, 2010 expenditures but due to the complexities of the database the entry was not 'saved' properly, resulting in the federal expenditures spent for the quarter not being reported. Management agrees with the recommendation to familiarize staff with the entry tool and to ensure a review of the submittal is performed to ensure its completeness in the federal database.

Alex Skinner-Klee, Port Security Grant Manager, is responsible for this corrective action; the estimated completion date is December 31, 2011.

SECTION IV – STATE AWARD FINDINGS AND QUESTIONED COSTS

Finding #: 2010-12

Program Title: Texas Emissions Reduction Program

State Award Number: TC9103-02

State Award Year: 2010

State Agency: Texas Commission on Environmental Quality (TCEQ)

Pass-through Entity: Houston-Galveston Area Council

Type of Finding: Significant Deficiency and Noncompliance

Equipment Management

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Criteria or Specific Requirement:

The Port of Houston Authority (the Port or PHA) is required to maintain property records that include a description of the property, a serial number or other identification number, the source of property, usage and mileage, who holds title, the acquisition date, and the cost of the property, the percentage of cost of the property paid by TCEQ participation or the Port, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (Section 5.7.1 of the TCEQ grant agreement and Section 5.3 of the HGAC grant agreement)

Condition:

The property records within the JDE Fixed Asset module do not include a percentage of the TCEQ or Port participation in the cost of the property.

Questioned Costs:

None noted.

Context:

Of the 15 items of equipment tested, the portion of the cost of the grant equipment that was paid by the Port or TCEQ, as applicable was not clearly documented and identifiable in the property records maintained by PHA.

Effect:

The Port's lack of compliance with the requirement could potentially lead to loss or return of funding.

Cause:

PHA's property records (JDE Fixed Asset module) are not capable of including information to identify the portion of the cost of the equipment that was paid by the grant/program.

Recommendation:

We recommend that the Port document the TCEQ-paid portion of cost of the equipment in an excel spreadsheet.

Views of Responsible Officials and Planned Corrective Actions:

The Port will set up separate category codes in JDE system (Fixed Asset Module) to identify the percentage of TCEQ paid cost of the equipment.

Tonya Lenoir, Senior Accountant, is responsible for this corrective action; the estimated completion date is October 31, 2011.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

SECTION V – SUMMARY OF PRIOR AUDIT FINDINGS

Finding #: 2009-01

Information Technology (IT) Control Environment

Type of Finding: Significant Deficiency

Condition:

Deficiencies in the IT control environment were summarized as follows:

- (1) Lack of documented policies and procedures around information security and change management.
- (2) Inadequate password parameters.
- (3) Users and other generic accounts with excessive and inappropriate privileges.
- (4) Lack of monitoring and inadequate controls over remote access to the POH network.
- (5) Lack of sufficient evidence of testing of JD Edwards prior to go-live.
- (6) Lack of sufficient evidence of testing of changes to the systems.
- (7) Terminated employees and consultants who no longer provide services with access to the systems.
- (8) Lack of evidence of approval of user access to the systems.
- (9) Inappropriate access to the data center.
- (10) Lack of controls around adequate segregation of duties.

Recommendation:

Management should develop formal policies and procedures that address all of the areas of IT such as user administration, system configuration, change management, data center security, backup and restoration, segregation of duties, etc. Once developed, personnel responsible for carrying out these responsibilities should be provided with sufficient guidance and training to execute the policies and procedures. Management should also develop processes to monitor the compliance with policies and procedures.

Status:

In progress

Corrective action is in progress and includes the following elements:

- (1) The Authority has completed process documentation for managing JD Edwards (JDE) security and the User access change processes. Additional documentation of remaining processes will be completed during fiscal 2011.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

- (3), (4) & (10) Generic user names and roles within the JDE System and accounts where users could make and approve their own changes have been eliminated. Documentation of processes to address special-use account access, terminated User access and monitoring of access by external users is in process and will be completed by December 31, 2011.
- (2) Password standards have been implemented in the Microsoft Server environments but are not yet in place within the Unix environment (specifically, the Navis Express system; this system is currently being upgraded and password standards will be addressed at that time).
- (5) & (6) Change Management processes, including documentation of testing, have been implemented but will be further strengthened through additional employee training scheduled to be completed by December 31, 2011.
- (9) The door lock on the data center was changed to a TWIC + fingerprint reader with tighter access controls, limited to IT personnel.

Finding #: 2009-02

CFDA # 12.XXX – Project Cooperation Agreement

Federal Agency: U.S. Department of Defense

Pass Through Entity – N/A

Reporting

Type of Finding: Material Weakness in Internal Control over Compliance and Material Noncompliance

Condition:

The Project Cooperation Agreement Between the Department of the Army and Port of Houston Authority of Harris County (the Authority) for the Modification of the Houston Ship Channel and the Entrance Channel Portion of the Galveston Harbor and Channels, Texas, Projects of the Houston-Galveston Navigation Channels, Texas (PCA) was not identified and reported as a federal award on the Schedule of Expenditures of Federal Awards; as a result, the Port was not in compliance with the provisions of the Single Audit Act and OMB Circular A-133 requiring the PCA to be subjected to audit. Although no CFDA number is defined in the agreement, the document specifically states that the Authority is responsible for complying with the Single Audit Act and OMB Circular A-133.

Recommendation:

Establish formal procedures to assess the provisions of grants, contracts and cooperative agreements for compliance requirements to be adhered to by the Authority. Assign responsibility for compliance to specific individuals or departments. Consider making monitoring of compliance one responsibility of the newly created grant accounting function within the Authority.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Status:

In Progress

The Authority notes the following actions are in place or have taken place:

- The PCA is reported on the Schedule of Expenditures of Federal Awards.
- Responsibility for compliance is assigned to the specific department wherein the request for Grant funding originates and within which the program is managed. Compliance requirements associated with the PCA are the responsibility of the Channel Development department who engages with the US Army Corps of Engineers (USACE) for ongoing project coordination.
- The Authority created a Grant coordinator function in March of 2010; however, the incumbent subsequently left the Authority. The Director of Financial Planning is acting in this role currently.
- Representatives of the Authority and the USACE communicate monthly, if not more frequently, to discuss project status and ensure alignment on funding issues.

There have been no revisions to the amended 1998 PCA in terms of reporting responsibilities and compliance though both the Authority and the USACE agree to pursue this in subsequent years.