

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

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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, 2011

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	\$ 1,390,309
Pass Through: Texas Department of Public Safety			
Public Assistance Grant Program	97.036	000-UMGRI-00	5,841
Total U.S. Department of Homeland Security			1,396,150
U.S. Department of Defense			
Direct Program			
Project Cooperation Agreement	12.XXX	N/A	1,821,954
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	1,324,151
Total U.S. Environmental Protection Agency			2,653,592
Total			\$ 5,871,696

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



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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, 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



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**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



Grant Thornton

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

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

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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

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, 2011

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

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

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? Yes

Type of auditor’s report issued on compliance for major programs: Unqualified

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>
66.039, 66.039-ARRA 97.056	National Clean Diesel Funding Assistance Program 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

SECTION II – FINANCIAL STATEMENT FINDINGS

The results of our audit procedures disclosed no findings to be reported for the year ended December 31, 2011.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding #: 2011-1

Program Title: National Clean Diesel Funding Assistance Program

CFDA Number: 66.039

Federal Award Number: 2A-96695001 and 2A-96695101

Federal Award Year: 2011

Federal Agency: U.S. Environmental Protection Agency

Type of Finding: Significant Deficiency and Noncompliance

Matching

Criteria or Specific Requirement:

Matching or cost sharing includes requirements to provide contributions (usually non-Federal) of a specified amount or percentage to match Federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions). The requirements for matching are contained in the A-102 Common Rule (§____.24), OMB Circular A-110 (2 CFR section 215.23).

Condition:

As of the end of the budget period, the Port of Houston Authority (PHA) did not meet the matching requirements as outlined in the respective grant agreements.

Questioned Costs:

None reported.

Context:

Matching requirements were required to be met per the grant agreements for grants 2A-96695001 and 2A-96695101 at the conclusion of the grants. Both grants budget periods were concluded in FY2011; however, the matching requirements were not met for either grant. Grant 2A-96695001 required a match of 69.25% and Grant 2A-96695101 required a match of 72.69%. The Port was under their match requirement by 5.78% and 1.70% for grant 2A-96695001 and 2A-96695101 respectively. However, EPA has agreed to modify the grant agreements before closeout and final accounting so that the matching requirements are based on actual dollars expended or matched by the Port.

Effect:

The Port's lack of tracking of the match percentage requirements could result in a loss of funding from the granting agency.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Cause:

The Department's method of tracking the matching requirement does not contain a mechanism to track the overall grant matching percentage requirement.

Recommendation:

We recommend PHA establish a tracking mechanism to ensure that matching requirements are met for each grant. This tracking mechanism should be designed such that risk of noncompliance with the match requirement is identified early in the process to allow for the PHA to make modifications as deemed necessary prior to conclusion of the grant.

Views of responsible officials and planned corrective actions:

PHA agrees that a tracking mechanism needs to be developed in order to monitor the overall grant matching percentage requirements.

PHA has communicated the changes in the grant projects such that a revision to the overall cost matching requirements is necessary. The EPA has agreed relative to these grants to change the budget and cost share percentages in the grant award documents so that PHA will meet the matching requirements.

A mechanism is in place to track EPA funding and PHA matching costs though this will be modified to highlight the resulting matching percentage for the federal and local share amounts. If it appears there may be difficulty in meeting the match requirements, PHA will work with the EPA to issue an amendment that will have updated budget and matching requirements.

SECTION V – SUMMARY OF PRIOR AUDIT FINDINGS

Finding: 2010-01

Departure from GAAP

Type of Finding: Material Weakness

Condition:

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.

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

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

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.

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.

Status

Corrected

Account Reconciliations continue and there have been no known instances of extraordinary expenses or capital items during FY11. The Controller's group is engaged with the external auditors to understand any new or proposed GASB pronouncements that could affect PHA's accounting & financial reporting.

Finding: 2010-02

Lack of Segregation of Duties

Type of Finding – Significant Deficiency

Condition:

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.

Recommendation:

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

Status:

Corrected

A new JD Edwards (JDE) role was created for the Billing Manager that excludes the ability to maintain and update the customer master file. In addition, 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.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding #: 2010-03

Misapplication of GAAP

Type of Finding – Significant Deficiency

Condition:

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.

Status:

In Progress

The Port will begin recording on an accrual basis the interest and penalties associated with delinquent property taxes in fiscal year 2012. Additionally, processes have been put in place to ensure appropriate revenue recognition of pipeline leases as well as proper financial statement categorization of the same. Lastly, the year-end processes include requirements to ensure accrual of construction in process invoices.

Finding #: 2010-04

Lack of Formalized Policies and Procedures

Type of Finding – Significant Deficiency

Condition:

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.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

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

Status:

In Progress

Drafts of Journal Entry, Property Tax Allowance and Capitalization criteria were completed at 12/31/2011. Substantially complete processes continue to be worked. A policy addressing the maintenance of support for Land and Channel Land will be drafted in 2012 based on progress with addressing those sub-ledgers and valuations.

Finding #: 2010-05

Critical System Access

Type of Finding – Significant Deficiency

Condition:

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.

Status:

Corrected

The IT Director has an Administrator account that has been disabled.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Finding #: 2010-06

Internal Access through Passwords

Type of Finding – Significant Deficiency

Condition:

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.

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.

Status:

Corrected

“Password Control” and “Password Policy” policies and procedures have been implemented. 2011 IT Audit noted additional refinement needed to the Password Control policy and procedure.

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

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.

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.

Status:

Corrected

All communications regarding disbursements to subrecipients now include the pertinent, required information.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

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

Condition:

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

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.

Status:

Corrected

The document/checklist was created in fiscal year 2011. During fiscal 2012, the Port will utilize the checklist for documenting the monitoring of subrecipients.

Finding #: 2010-09

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

CFDA Number: 66.039
Federal Award Year: 2010

Type of Finding: Significant Deficiency

Reporting

Condition:

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

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Status:
Corrected

The Environmental Affairs Manager has been trained for a secondary review of the required reports.

Finding #: 2010-10

CFDA Title: Port Security Grant Program - ARRA
Federal Award Number: 2009-PU-R1-0216
Federal Agency: U.S. Department of Homeland Security

CFDA Number: 97.056
Federal Award Year: 2009, 2010

Type of Finding: Significant Deficiency

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

Condition:

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

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.

Status:
Corrected

New sub accounts have been set up as of 10/24/11.

Finding #: 2010-11

CFDA Title: Port Security Grant Program - ARRA
Federal Award Number: 2009-PU-R1-0216
Federal Agency: U.S. Department of Homeland Security

CFDA Number: 97.056
Federal Award Year: 2009, 2010

Type of Finding: Material Weakness and Material Noncompliance

Reporting

Condition:

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

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

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.

Status:

Corrected

Staff responsible for Section 1512 reports, have reviewed system instructions and verified completeness of PHA submittals.

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

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.

Recommendation:

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

Status:

Corrected

It was determined that leveraging category codes in JDE was not a workable solution; a database was established to record the TCEQ-paid portion for equipment purchased under these Grants. Such spreadsheet will tie to the JDE General Ledger for audit purposes.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

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:

Corrected

- (1) The Authority has established a formalized process for all network resource access requests consisting of an access form that must be signed by the department manager and submitted to IT. These forms are kept on record in IT.
- (2) As part of comprehensive security updates, minimum password length and complexity standards have been set and have been implemented. Password expiration has been set at 90 days.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Status:

Corrected

- (1) The Authority has established a formalized process for all network resource access requests consisting of an access form that must be signed by the department manager and submitted to IT. These forms are kept on record in IT.
- (2) As part of comprehensive security updates, minimum password length and complexity standards have been set and have been implemented. Password expiration has been set at 90 days.
- (3) & (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 was completed during fiscal year 2011.
- (4) Any user that has remote access to the Authority's network must be authenticated against the same security requirements. No un-credentialed user can remotely access the network.
- (5) & (6) JDE project documentation, testing scripts and training agendas are located online on the vendors AMX's site and is utilized by Authority personnel with credentials.
- (7) & (8) Security software has been installed that provides the Authority the ability to more efficiently audit users, roles, and access. Quarterly audits of JDE access lists are performed to ensure no unauthorized user has access. In addition the IT form for termination includes a check-off for JDE access.
- (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.

Port of Houston Authority of Harris County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Status:

Corrected

The PCA is reported on the Schedule of Expenditures of Federal Awards with no findings in the 2010 or 2011 audit. 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. 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.

The Authority created a Grant coordinator position which was filled in the first quarter of 2012 developing a roadmap and timeline for producing Grant compliance policies and procedures.