

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, 2018

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Part I - Financial

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

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 years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and our report thereon dated April 16, 2019 expressed an unmodified opinion on these financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 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.



Houston, Texas
April 17, 2019

Port of Houston Authority of Harris County, Texas
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2018

Federal Grantor/Pass-Through Grantor/Program Title/ Pass-Through Grantor's Award Number	Federal CFDA number	Pass-through to Subrecipient	Expenditures
Expenditures of Federal Awards:			
U.S. Department of Homeland Security			
Direct program			
Port Security Grant Program	97.056	\$ -	\$ 145,957
Pass Through: Texas Department of Public Safety			
Public Assistance Grant Program	97.036	-	3,913,364
000-UMGRI-00		-	4,059,321
Total U.S. Department of Homeland Security		-	4,059,321
U.S. Department of Transportation			
Direct Program			
TIGER Discretionary Grant Program	20.933	-	1,070,081
Total U.S. Department of Transportation		-	1,070,081
U.S. Environmental Protection Agency			
Direct Program			
EPA/DERA National Clean Diesel Program	66.039	448,821	448,821
Total U.S. Environmental Protection Agency		448,821	448,821
Total Federal Expenditures		\$ 448,821	\$ 5,578,223

Port of Houston Authority of Harris County, Texas
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2018

NOTE A - BASIS OF ACCOUNTING

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 *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

NOTE B - INDIRECT COST RATE

The Authority has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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 REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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 years ended December 31, 2018 and 2017, 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 16, 2019.

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 opinion 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. 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.

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 or significant deficiencies. 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.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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.



Houston, Texas
April 17, 2019

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE**

Port Commission
Port of Houston Authority of Harris County, Texas

Report on compliance for the 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 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2018. The Authority's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to the Authority's federal programs.

Auditor's responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the 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 program for the year ended December 31, 2018.

Other matters

The results of our audit procedures disclosed an instance of noncompliance, described in the accompanying schedule of findings and questioned costs as item 2018-001 that is required to be reported in accordance with the Uniform Guidance. Our opinion on the major federal program is not modified with respect to this matter.

The Authority's response to the noncompliance finding identified in our audit, which is described in the accompanying schedule of findings and questioned costs, was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the Authority's response.

Report on internal control over compliance

Management of the Authority is responsible for establishing 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 its major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. A significant deficiency in internal control over compliance 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 in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency in the Authority's internal control over compliance.

The Authority's response to the finding on internal control over compliance identified in our audit, which is described in the accompanying schedule of findings and questioned costs, was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the Authority's response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Houston, Texas
April 16, 2019

Part III - Schedule of Findings
and Questioned Costs

Port of Houston Authority of Harris County, Texas
SCHEDULE OF FINDINGS AND QUESTIONS COSTS

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?	None Reported
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:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.515(a)	Yes

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
97.036	Public Assistance Grant Program

Dollar threshold used to distinguish between Type A and Type B federal programs:	\$750,000
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SECTION II – FINANCIAL STATEMENT FINDINGS

The audit disclosed no findings required to be reported.

Port of Houston Authority of Harris County, Texas
SCHEDULE OF FINDINGS AND QUESTIONS COSTS

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding # 2018-001

Program Title: FEMA Public Assistance Program

CFDA #: 97.036

Contract Grant Number: 37-096

Federal Award Years: 9/13/2010 – 12/31/2018

Federal Agency: Federal Emergency Management Agency

Type of Finding: Significant Deficiency and Noncompliance

Reporting

Criteria:

§200.303 Internal controls. The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Per CFR § 206.240(f) the grantee is required to submit a quarterly report filed no later than 30 days subsequent to the end of each quarter for large projects. In these reports a grantee is required to accurately report the following:

- Amount of Expenditure to date
- Amount of Funds recipient has drawn against the project to date
- Projected project completion date
- Time extensions granted
- Problems or circumstances that might delay the project

Condition:

The Port of Houston Authority is required as a subgrantee to submit Financial Status Reports (SF-270) via the Grant Management System (GMS) to the State of Texas Department Emergency Management (“TDEM”), at minimum, on a quarterly basis. These reports must contain the following: expenditures to date, amount of funds recipient has drawn against the project, projected date of project completion, time extensions granted, and problems or circumstances that might delay the project. During our testing, we noted a lack of segregation of duties over the preparation, approval and submission of these quarterly reports to the TDEM. Additionally, reported amounts were based on estimates provided by project managers rather than actual amounts derived from the Port’s general ledger. As a result, no supporting documentation was provided for the amounts reported on the quarterly reports.

Context:

It was noted that 3 of the 24 reports sampled were prepared, approved and submitted by the same individual. Additionally, 3 of the 24 reports sampled lacked supporting documentation for the amounts reported.

Port of Houston Authority of Harris County, Texas
SCHEDULE OF FINDINGS AND QUESTIONS COSTS

Cause:

The Port of Houston Authority lacks internal policies and procedures that require a reconciliation of amounts reported on the quarterly reports to the general ledger as well as segregation of duties between the preparation and review of the quarterly reports.

Effect:

The lack of segregation of duties or independent reviews over the reports as well as reporting estimates rather than actual amounts supported by the general ledger could result in inaccurate reporting and noncompliance with specific grant conditions required by TDEM and FEMA, which could potentially lead to loss or return of funding.

Questioned Costs:

None.

Repeat Finding:

No

Recommendation:

We recommend that the Port of Houston Authority implement written policies and procedures that require a documented reconciliation of amounts reported on the Public Assistance Grant program quarterly reports to the general ledger prior to submission of the reports. In addition, we recommend the Port of Houston Authority assign another individual, other than the preparer, with requisite knowledge to review the required reports for the Port Security Grant Program prior to submission.

Views of responsible officials:

Management agrees with Grant Thornton's recommendation to written policies and procedures that require a documented reconciliation of amounts reported on the Public Assistance Grant program quarterly reports to the general ledger prior to submission of the reports. Management also agrees to assign another individual, other than the preparer, with requisite knowledge to review the required reports for the Port Security Grant Program prior to submission.