

VIRGINIA PORT AUTHORITY

SINGLE AUDIT AND COMPLIANCE REPORTS

YEAR ENDED JUNE 30, 2017



ASSURANCE, TAX & ADVISORY SERVICES

VIRGINIA PORT AUTHORITY

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VIRGINIA PORT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY:				
Pass-through Payments:				
Virginia Department of Emergency Management:				
Disaster Grants Public Assistance (Presidentially Declared Disasters)	97.036	Not Provided	\$ -	\$ 356,489
Port Security Grant Program	97.056	Not Provided	-	<u>230,190</u>
Total U.S. Department of Homeland Security				<u>586,679</u>
U.S. DEPARTMENT OF TRANSPORTATION:				
Direct Payment:				
National Infrastructure Investments - TIGER Discretionary Grant	20.933	N/A	-	10,144,151
Pass-through Payments:				
Virginia Department of Transportation:				
America's Marine Highway Grant	20.816	Not Provided	-	43,981
Highway Planning and Construction Cluster	20.205	Not Provided	-	<u>858,882</u>
Total U.S. Department of Transportation				<u>11,047,014</u>
Total Expenditures of Federal Awards				<u>\$ 11,633,693</u>

VIRGINIA PORT AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Virginia Port Authority (the Authority) under programs of the federal government for the year ended June 30, 2017. 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, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

Federal Financial Assistance – The Single Audit Act Amendments of 1996 (Public Law 104-156) and Uniform Guidance define federal financial assistance as grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations or other assistance. Federal financial assistance does not include direct federal cash assistance to individuals.

Pass-through Payments – Assistance received in a pass-through relationship from entities other than the Federal government is classified as pass-through payments on the Schedule.

Direct Payments – Assistance received directly from the Federal government is classified as direct payments on the Schedule.

Major Programs – The Single Audit Act Amendments of 1996 and Uniform Guidance establish the criteria to be used in defining major programs. The major program for the Authority was determined using a risk-based approach in accordance with Uniform Guidance.

Catalog of Federal Domestic Assistance – The Catalog of Federal Domestic Assistance (CFDA) is a government-wide compendium of individual federal programs. Each program included in the catalog is assigned a five-digit program identification number (CFDA Number), which is reflected in the Schedule.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Pass-through identifying numbers are presented where available.

Note 3. Indirect Cost Rate

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



**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Terry McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

The Board of Commissioners
Virginia Port Authority

We have audited, 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 *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of the Virginia Port Authority (Authority), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 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 October 23, 2017.

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 determine the 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 the Authority's 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 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 internal control we considered 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 required to be reported under *Government Auditing Standards*.

Purpose of this Report

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 communication is not suitable for any other purpose.

PBMares, LLP

Harrisonburg, Virginia
October 23, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR THE MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

The Honorable Terry McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

The Board of Commissioners
Virginia Port Authority

Report on Compliance for the Major Federal Program

We have audited the Virginia Port Authority's (the Authority) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2017. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 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 identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2017.

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 requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Authority as of and for the year ended June 30, 2017, and have issued our report thereon dated October 23, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

PBMares, LLP

Harrisonburg, Virginia
October 23, 2017

VIRGINIA PORT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2017

Section I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified?

_____ Yes √ No

Significant deficiency identified?

_____ Yes √ None Reported

Noncompliance material to financial statements noted?

_____ Yes √ No

Federal Awards

Internal control over major program:

Material weaknesses identified?

_____ Yes √ No

Significant deficiencies identified?

_____ Yes √ None Reported

Type of auditor's report issued on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported
in accordance with section 2 CFR 200.516(a)?

_____ Yes √ No

Identification of major program:

CFDA Number	Name of Federal Program
U.S. Department of Transportation: 20.933	National Infrastructure Investments – TIGER Discretionary Grant

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?

_____ Yes √ No

Section II. FINANCIAL STATEMENT FINDINGS

No matters were reported.

Section III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported.

VIRGINIA PORT AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2017

Identifying Number: 2016-01

Finding:

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

2016-01: Significant Deficiency Related to Properly Recording Federal Expenditures; Department of Transportation; Pass-through Payments CFDA #20.816; Department of Homeland Security; Pass-through Payments CFDA #97.067

Criteria and Condition: Federal expenditures should be recorded as services are rendered or goods are received. Corresponding federal revenues should be recorded in the same period as these expenditures or at such time that all reimbursement requirements have been met.

Context: During the course of our audit of the Schedule of Expenditures of Federal Awards (SEFA), it was noted the Authority included amounts related to prior year expenditure activity totaling \$802,248. These expenditures, as well as the revenue, should have been recorded in the prior fiscal year.

Cause: Due to staff limitations and turnover in the position of grant accountant, the Authority failed to include expenditures related to federal grant activity on the prior year Schedule of Expenditures of Federal Awards.

Effect: As a result of the omission of the expenditures from the prior year SEFA, the Authority had to report expenditures related to prior year activity.

Questioned Costs: Undeterminable.

Recommendation: We recommended the Authority carefully review all activity related to federal grant expenditures to ensure all activity is recorded in the appropriate period.

Views of Responsible Officials: Management concurs with the findings.

Corrective Action Taken:

The exception noted in this finding relates to a fiscal year 2015 cutoff issue whereby an expenditure incurred and recorded in the Company's ledger prior to June 30, 2015 was not included in the fiscal year 2015 SEFA. At the time, the Authority had experienced significant turnover, particularly in the position(s) responsible for the preparation and review of the fiscal year 2015 SEFA, which led to the audit finding described in 2016-01.

Our corrective action plan, as part of a continuing effort in place since November 2015, has included recruitment and assignment of appropriate personnel in conjunction with the realignment of roles and responsibilities to ensure the segregation of federal and state grant revenues, as well as conduct reviews of grant activity to produce a complete and accurate SEFA.

During fiscal year 2016 (December 2015), a Manager of Plant and Grant Funds with prior grant administration experience was hired and tasked with ensuring (1) the segregation of federal and state grant revenues in the Authority's general ledger, and (2) preparing an "interim SEFA" ahead of the end of the year in order to facilitate review. During the preparation of the fiscal year 2016 SEFA, certain expenditures related to fiscal year 2015 were noted and, in concurrence with the auditors, was included in the fiscal year 2016 SEFA with related footnote disclosure. While the effort to optimize the process of identifying and reporting expenditures will continue, management believes that, based on the work performed during the latter half of fiscal year 2016, the finding 2016-01 has been addressed.