

VIRGINIA PORT AUTHORITY
(A Component Unit of The Commonwealth Of
Virginia)

SINGLE AUDIT REPORT
June 30, 2012

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**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 Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon III
Chairman, Joint Legislative Audit
and Review Commission

The Board of Commissioners
Virginia Port Authority

We have audited the statement of net assets, and the related statements of revenues, expenses and changes in net assets, and cash flows of the Virginia Port Authority (the Authority) and its discretely presented component unit, Virginia International Terminal, Inc., a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 19, 2012. 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

Management of the Authority is responsible for establishing and maintaining effective 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 auditing procedures 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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 noted certain matters that we reported to the Board of the Authority in a separate letter dated October 19, 2012.

This report is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Commissioners, management, and 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. However, this report is a matter of public record and its distribution should not be limited.

A handwritten signature in black ink that reads "Clifton Larson Allen LLP". The signature is written in a cursive, flowing style.

Arlington, Virginia
October 19, 2012

**Independent Auditor's Report on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance and Schedule of Expenditures of Federal Award in
Accordance with OMB Circular A-133**

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon III
Chairman, Joint Legislative Audit
and Review Commission

The Board of Commissioners
Virginia Port Authority

Compliance

We have audited the compliance of the Virginia Port Authority (the Authority) with the types of compliance requirements described in the *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 June 30, 2012. 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; 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 June 30, 2012.

Internal Control Over Compliance

The 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 the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in *internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in *internal control over compliance* that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the statement of net assets, and the related statements of revenues, expenses and changes in net assets, and cash flows of the Virginia Port Authority (the Authority) and its discretely presented component unit, Virginia International Terminal, Inc., a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 19, 2012, which contained an unqualified opinion on those 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 OMB Circular A-133 and is not a required part of the basic 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 basic 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Commissioners, management, and 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. However, this report is a matter of public record and its distribution should not be limited.

CliftonLarsonAllen LLP

Arlington, Virginia
October 19, 2012

VIRGINIA PORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ending June 30, 2012

Federal Grantor/Program Title	CFDA Number	Expenditures
U.S. Department of Transportation		
Pass-through Virginia Department of Transportation Amercia's Marine Highway Grants	20.816	\$ 3,672,070
U.S. Department of Transportation American Recovery and Reinvestment Act of 2009 (ARRA)		
Pass-through Virginia Department of Transportation Highway Planning and Construction Cluster	20.205	<u>7,162,836</u>
U.S. Department of Transportation Total		<u>10,834,906</u>
U.S. Department of Homeland Security		
Disaster Grants - Public Assistance	97.036	436,312
Pass-through Virginia Department of Emergency Management Non Profit Security Program	97.008	334,468
Port Security Program	97.056	<u>3,381,440</u>
		<u>4,152,220</u>
U.S. Department of Homeland Security American Recovery and Reinvestment Act of 2009 (ARRA)		
Pass-through Virginia Department of Emergency Management Port Security Program	97.056	<u>148,946</u>
U.S Department of Homeland Security Total		<u>4,301,166</u>
Total Federal Expenditures		<u>\$ 15,136,072</u>

The accompanying notes are an integral part of this schedule.

VIRGINIA PORT AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the Virginia Port Authority (the Authority), a component unit of the Commonwealth of Virginia, for the year ended June 30, 2012.

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards has been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles.

NOTE 2 – RELATION TO THE BASIC FINANCIAL STATEMENTS

Amounts reported in the accompanying Schedule agree with amounts reported in the Authority's basic financial statements as follows:

Total Revenues from the Federal Government per the Statement of Revenues, Expenses, and Changes in Net Assets	\$ 4,612,432
Add:	
Federal revenues included as operating grants in the basic financial statements:	
Other revenues - grants	4,147,842
Commonwealth Rail Relocation income	<u>6,375,798</u>
Total federal expenditures reported in the Schedule	<u><u>\$ 15,136,072</u></u>

VIRGINIA PORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Significant deficiency(ies) identified that is not considered to be a material weakness.	_____	Yes	<u> X </u>	None reported
Noncompliance material to financial statements noted?	_____	Yes	<u> X </u>	No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Significant deficiency(ies) identified that is not considered to be a material weakness.	_____	Yes	<u> X </u>	None reported

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 Circular A-133?	_____	Yes	<u> X </u>	No
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Identification of Major Programs

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number(s)</u>
America's Marine Highway Grants	20.816
Highway Planning and Construction Cluster	20.205
Port Security Program	97.056
Dollar threshold used to distinguish between type A and type B programs	<u>\$ 454,082</u>
Auditee qualified as low-risk auditee?	_____ Yes <u> X </u> No

VIRGINIA PORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

II. Financial Statement Findings

None

III. Federal Award Findings and Questioned Costs

None

VIRGINIA PORT AUTHORITY
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2012

None Reported

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon III
Chairman, Joint Legislative Audit
and Review Commission

Board of Commissioners
Virginia Port Authority

We have completed our audit of the statement of net assets, and the related statement of revenues, expenses and changes in net assets, and cash flows of the Virginia Port Authority (the Authority), along with its discretely presented component unit, Virginia International Terminal, Inc., a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements, and have issued our report dated October 19, 2012. In connection with our audit engagement, we noted the following matters which we would like to bring to your attention.

Davis Bacon Compliance

According to federal requirements under the Davis Bacon Act, the Authority has a requirement to obtain and verify weekly certified payroll from contractors and subcontractors. The Authority is also required to verify that the contractors are in compliance with the prevailing wage rates before payments to those contractors.

During our review of the procedures performed to ensure compliance with the Davis Bacon Act we noted that the Authority is currently reviewing and approving the certified payrolls as required, however there is no documentation of review prior to the payment to those contractors. We recommend that upon review and approval of the payroll registers the reviewing individual sign and date the register prior to authorizing the payment.

Management Response

The Authority agrees with the finding and is currently reviewing its policies surrounding the review and documentation of Davis Bacon Compliance and will make changes where appropriate.

Procurement Suspension and Debarment Compliance

According to federal requirements, recipients of federal grants are prohibited from contracting with parties suspended or debarred from doing business with the federal government. Federal regulations require grant recipients to ensure vendors that receive more than \$25,000 in federal funds are not suspended or debarred from doing business with the federal government. A vendor may certify in writing to the grantee that it has not been suspended or debarred and the grantee may rely on that certification. The grantee also may check for suspended or debarred

parties by reviewing the Federal Excluded Parties List issued by the U.S. General Services Administration or by including a clause in its contract with the vendor.

We noted during our test of procurement, suspension and debarment compliance that management is currently performing the search for suspended and debarred vendors but there is no documentation supporting the review. We recommend that the Authority strengthen its documentation relating to the option used for each contract awarded under federal grants.

Management Response

The Authority agrees with the finding and effective immediately will include the following clause in all solicitations and contracts:

By submitting their proposals, Offerors certify that they are not currently debarred by the Commonwealth of Virginia from submitting proposals on contracts for the type of services covered by this solicitation, nor are they an agent of any person or entity that is currently so debarred.

The following matter, which was identified and reported on in prior periods, was still in existence during the course of our current audit.

Security Program (Repeat Finding)

We noted the Authority had one recommendation from prior year relating to the security program that was still in the process of being addressed. We recommend that the Authority continue to implement the best practices identified to strengthen internal controls.

Management Response

The Authority has developed and implemented an Information Security Policy and other policies are currently in progress and under review.

The Authority's written response to the comments identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Commissioners, management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Clifton Larson Allen LLP". The signature is written in a cursive, flowing style.

Arlington, Virginia
October 19, 2012