

VIRGINIA PORT AUTHORITY

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2006**



AUDIT SUMMARY

Our audit of the Virginia Port Authority for the year ended June 30, 2006, found:

- the financial statements are presented fairly, in all material respects;
- an internal control matter that we consider to be a reportable condition; however, we do not consider this to be a material weakness; and
- no instances of noncompliance or other matters that are required to be reported.

The Virginia Port Authority (Authority) is issuing its own Comprehensive Annual Financial Report, which it anticipates releasing on or about October 31, 2006. We have audited the financial statements of the Authority as of and for the year ended June 30, 2006. We issued our report, dated October 24, 2006, on the financial statements and it is included in the Authority's Comprehensive Annual Financial Report.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS	1-2
INTERNAL CONTROL FINDING AND RECOMMENDATION	3
VIRGINIA PORT AUTHORITY RESPONSE LETTER	4-5
AGENCY OFFICIALS	6



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

October 24, 2006

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
And Review Commission

Board of Commissioners
Virginia Port Authority

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited the financial statements of the **Virginia Port Authority** (Authority), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 24, 2006. Our report on the financial statements is included in the Comprehensive Annual Financial Report issued by the Authority. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition, entitled "Update Information Technology Policies and Procedures," is described in the section titled Internal Control Finding and Recommendation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk, that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

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.

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Commissioners, and management, 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 is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on October 18, 2006.

AUDITOR OF PUBLIC ACCOUNTS

WHC:jab
jab:74

INTERNAL CONTROL FINDING AND RECOMMENDATION

Update Information Technology Policies and Procedures

In December of 2005, the Virginia Port Authority (Authority) hired an independent consultant to assess, evaluate, and develop recommendations for their information technology (IT) network and organization. Because of the study recommendations, the Authority entered into a contract to outsource their IT operations to the Virginia International Terminals (VIT), a component unit of the Authority. The contract outlines broad categories of requirements assigned to VIT, including such items as network design and maintenance, help desk support, and user training.

While we believe this arrangement can be successful, it is critical that the Authority maintain their IT responsibility by providing clear direction regarding needed security controls over their IT operations, which VIT must implement as part of operations. However, we found that the Authority's change management procedures and disaster recovery procedures, among others, are outdated and do not reflect significant changes from the past year. If the Authority does not provide current information needed to secure operations, there is a risk that VIT will implement controls that do not adequately protect the IT operations of the Authority.

We recognize the Authority's extensive efforts taken over the past year to analyze and improve their IT operations. We strongly encourage management to continue this progress by ensuring IT policies and procedures are current, approved, and comply with industry standards. Management should also ensure timely notification of IT operational policies and procedures to VIT. Failure to update and communicate such procedures to VIT increases the risk of unauthorized changes, disruption of critical business functions, and loss or exposure of sensitive data.



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**Virginia Port Authority
600 World Trade Center
Norfolk, Virginia 23510-1679
Telephone (757) 683-8000
Fax (757) 683-8500**

J. Robert Bray
Executive Director

October 18, 2006

Walter J. Kucharski
Auditor of Public Accounts
Commonwealth of Virginia
P.O. Box 1295
Richmond, VA 23218

Re: Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Dear Mr. Kucharski:

During the normal course of the Auditor of Public Accounts audit of the financial statements of the Virginia Port Authority as of and for the year ended June 30, 2006 you noted a certain matter involving the internal control over financial reporting and its operation that you considered to be a reportable condition. The reportable condition was described as follows:

Update Information Technology Policies and Procedures

In December 2005, the Virginia Port Authority (Authority) hired an independent consultant to assess, evaluate, and develop recommendations for their information technology (IT) network and organization. Because of the study recommendations, the Authority entered into a contract to outsource their IT operations to the Virginia International Terminals (VIT), a component unit of the Authority. The contract outlines broad categories of requirements assigned to VIT, including such items as network design and maintenance, help desk support, and user training.

While we believe this arrangement can be successful, it is critical that the Authority maintain their IT responsibility by providing clear direction regarding needed security controls over their IT operations, which VIT must implement as part of operations. However, we found that the Authority's change management procedures and disaster recovery procedures, among others, are outdated and do not reflect significant changes from the past year. If the Authority does not provide current information needed to secure operations, there is a risk that VIT will implement controls that do not adequately protect the IT operations of the Authority.

We recognize the Authority's extensive efforts taken over the past year to analyze and improve their IT operations. We strongly encourage management to continue this progress by ensuring IT policies and procedures are current, approved, and comply with industry standards. Management should also ensure timely notification of IT operational policies and procedures to VIT. Failure to update and communicate such

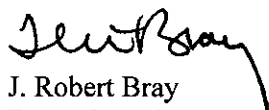
procedures to VIT increases the risk of unauthorized changes, disruption of critical business functions, and loss or exposure of sensitive data.

Authority Response:

The Authority agrees with the Auditor's comment regarding the need to update various IT policies and procedures, and communicate those new policies to VIT and VPA employees.

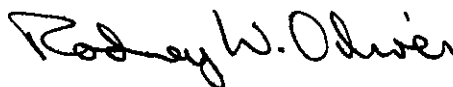
On January 30, 2006 an independent consultant provided a report to the Authority recommending the outsourcing of IT operations to VIT. Effective February 7, 2006, VIT was contracted to provide IT support for Authority IT infrastructure. Authority and VIT staff had numerous meetings to discuss the status of the existing Authority IT infrastructure and the best way for VIT to support that infrastructure. During those meetings it was determined that Authority IT infrastructure would be best maintained and managed if the hardware, software, and network components were relocated to the Portsmouth Operations Center at PMT (where VIT IT infrastructure is housed) and that VIT would solicit assistance from an existing IT contractor to review the Authority's IT infrastructure, recommend changes or improvements, and to schedule a logical staged approach to moving the hardware and software components. At the conclusion of the review, Authority and VIT staff met with the contractor to go over the recommendations and set a course for conversion. That meeting was held on April 6, 2006. The physical move of the Authority IT infrastructure from the World Trade Center, and the upgrades of hardware and software components associated with the move, was staged from April 2006 through July 2006. Also in April 2006, during the course of the systems migration and upgrades, Authority and VIT staff determined that an update of the various policy manuals dealing with IT and IT security was not appropriate until after the hardware and software migration was completed. Due to the financial year end close and the recently completed bond sale, the Authority did not make progress on the update of the policies and procedures in August or September, but we intend to begin to do so within a matter of weeks. The Authority estimates the manuals and policies will be updated and communicated to staff by the end of January 2007.

Sincerely,



J. Robert Bray
Executive Director

Sincerely,



Rodney W. Oliver
Director of Finance and
Treasurer to the Board

Cc: David Von Moll
Comptroller
Department of Accounts
Commonwealth of Virginia
P.O. Box 1971
Richmond, VA 23218-1971

VIRGINIA PORT AUTHORITY

Norfolk, Virginia

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