

# **VIRGINIA PORT AUTHORITY**

## **SINGLE AUDIT AND COMPLIANCE REPORTS**

**YEAR ENDED JUNE 30, 2019**



---

ASSURANCE, TAX & ADVISORY SERVICES

# VIRGINIA PORT AUTHORITY

## TABLE OF CONTENTS

<hr/> <b>COMPLIANCE SECTION</b> <hr/>	
	Page
Schedule of Expenditures of Federal Awards	1
Notes to Schedule of Expenditures of Federal Awards	2
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 <i>GOVERNMENT AUDITING STANDARDS</i>	3 – 4
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAMS; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE	5 – 7
Schedule of Findings and Questioned Costs	8
<hr/>	

# VIRGINIA PORT AUTHORITY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY:				
Pass-through Payments:				
Virginia Department of Emergency Management:				
Port Security Grant Program	97.056	Not Provided	\$ -	\$ 1,766,446
Homeland Security Grant Program	97.067	Not Provided	-	<u>117,549</u>
<b>Total U.S. Department of Homeland Security</b>				<u>1,883,995</u>
U.S. DEPARTMENT OF TRANSPORTATION:				
Direct Payments:				
Highway Research and Development Program	20.200		-	<u>186,277</u>
America's Marine Highway Grant	20.816		-	<u>456,000</u>
Highway Planning and Construction Cluster:				
Direct Payment:				
Federal Highway Administration	20.205		-	32,178
Pass-through Payment:				
Virginia Department of Transportation:				
Highway Planning and Construction Cluster	20.205	Not Provided	-	<u>3,053,898</u>
<b>Total Highway Planning and Construction Cluster</b>				<u>3,086,076</u>
<b>Total U.S. Department of Transportation</b>				<u>3,728,353</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Direct Payment:				
National Clean Diesel Emissions Reduction Program	66.039		-	<u>1,626,700</u>
<b>Total U.S. Environmental Protection Agency</b>				<u>1,626,700</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 7,239,048</u>

# **VIRGINIA PORT AUTHORITY**

## **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2019**

---

### **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, 2019. 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.

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 Ralph S. Northam  
Governor of Virginia

The Honorable Thomas K. Norment, Jr.  
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, 2019, 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 25, 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 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 25, 2019



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

The Honorable Ralph S. Northam  
Governor of Virginia

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

The Board of Commissioners  
Virginia Port Authority

**Report on Compliance for the Major Federal Programs**

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 programs for the year ended June 30, 2019. 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.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**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 programs. However, our audit does not provide a legal determination of the Authority's compliance.

## **Opinion on the Major Federal Programs**

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 programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2019.

## **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 programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs 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, 2019, and have issued our report thereon dated October 25, 2019, 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 25, 2019

# VIRGINIA PORT AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2019

---

### 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 deficiencies 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 programs:

CFDA Number	Name of Federal Program
-------------	-------------------------

---

U.S. Environmental Protection Agency:  
66.039

National Clean Diesel Emissions Reduction Program

U.S. Department of Homeland Security:  
97.056

Port Security Grant Program

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.



October 25, 2019

The Honorable Ralph S. Northam  
Governor of Virginia

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

The Board of Commissioners  
Virginia Port Authority

In connection with our audit of the financial statements of the Virginia Port Authority (the Authority) for the year ended June 30, 2019, we have the following comments and suggestions for your consideration.

***Preparation of the Schedule of Expenditures of Federal Awards***

Per the Code of Federal Regulations 2 CFR 200.510, *Financial Statements*, “The auditee must prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements which must include the total Federal awards expended as determined in accordance with CFR 200.502 – Basis for determining Federal awards expended...the schedule must provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA number is not available.” The Schedule of Expenditures of Federal Awards (SEFA) as originally presented for audit did not accurately present all CFDA numbers. Additionally, beginning of period cutoff for certain grant expenditures reported under the Port Security Grant Program was incorrect.

The SEFA originally included \$456,000 of America’s Marine Highway Grant funds under an incorrect CFDA number. Additionally, \$43,000 of Port Security Grant Program funds were related to a prior period, but were not identified timely for inclusion on the prior year SEFA.

There was a lack of supervisory review of CFDA numbers to ensure they were accurately presented. Additionally, invoices were not provided timely to Accounting in order to ensure proper cutoff and recording of current year expenditures in the SEFA.

The potential exists for federal expenditures to not be properly reflected within the SEFA. As a result of failing to record these items correctly, the Authority could fail to report the proper amounts of federal expenditures associated with specific grants.

We recommend the Authority implement procedures to reconcile and review the SEFA to ensure all amounts are properly recorded and presented on the SEFA.

### ***New GASB Pronouncements***

At June 30, 2019, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the Authority. The statements which might impact the Authority are as follows:

#### **Statement No. 84, *Fiduciary Activities***

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship.

The requirements of Statement No. 84 are effective for financial statements for fiscal years beginning after December 15, 2018.

#### **Statement No. 87, *Leases***

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

The requirements of Statement No. 87 are effective for financial statements for fiscal years beginning after December 15, 2019.

**Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period***

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

The requirements of Statement No. 89 are effective for reporting periods beginning after December 15, 2019.

**Statement No. 91, *Conduit Debt Obligations***

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations should also disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of Statement No. 91 are effective for reporting periods beginning after December 15, 2020.

\* \* \* \* \*

This report is intended solely for the information and use of management, the Authority, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

If you have any questions concerning any of these items or if we can be of further assistance, please contact us. We thank you for the opportunity to conduct your audit for the year ended June 30, 2019 and express our appreciation to everyone for their cooperation during this engagement.

*PBMares, LLP*

PBMares, LLP