

DETROIT/WAYNE COUNTY
PORT AUTHORITY

SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS AND
RELATED AUDIT REPORTS

For the Year Ended
September 30, 2009

George Johnson
& Company

DETROIT/WAYNE COUNTY PORT AUTHORITY

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George Johnson & Company

1200 Buhl Building • 535 Griswold Street • Detroit, Michigan 48226-3689
(313) 965-2655 • Fax (313) 965-4614

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

February 1, 2010

To the Board of Directors
Detroit/Wayne County Port Authority
Detroit, Michigan

We have audited the financial statements of the governmental activities and each major fund of the Detroit/Wayne County Port Authority (the "Authority") as of, and for the year ended, September 30, 2009, which collectively comprise the Authority's basic financial statements, and we have issued our report thereon dated February 1, 2010. 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 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 Authority'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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 09-1, 09-2, 09-3, and 09-4 to be significant deficiencies in internal control over financial reporting.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS (CONTINUED)

Internal Control over Financial Reporting (continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

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 that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

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 Authority's management in a separate letter dated February 1, 2010.

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response, and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Finance Committee, the Board of Directors, others within the Authority, 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.


CERTIFIED PUBLIC ACCOUNTANTS

George Johnson & Company

1200 Buhl Building • 535 Griswold Street • Detroit, Michigan 48226-3689
(313) 965-2655 • Fax (313) 965-4614

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

February 1, 2010

To the Board of Directors
Detroit/Wayne County Port Authority
Detroit, Michigan

Compliance

We have audited the compliance of the Detroit/Wayne County Port Authority (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The Authority's major federal programs are identified in the summary of audit 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 are applicable to each of its major federal programs for the year ended September 30, 2009.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

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, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Schedules of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and each major fund of the Authority as of, and for the years ended, September 30, 2009 and 2008, and we have issued our report thereon dated February 1, 2010.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

Schedules of Expenditures of Federal Awards (continued)

Our audits were performed for the purpose of forming our opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedules of expenditures of federal awards are presented for purposes of additional analysis, as required by OMB Circular A-133, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Finance Committee, the Board of Directors, others within the Authority, 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.


CERTIFIED PUBLIC ACCOUNTANTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2009

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Detroit/Wayne County Port Authority (the "Authority").
2. Four significant deficiencies relating to the audit of the financial statements are reported in the independent auditors' report on internal control over financial reporting and on compliance and other matters. None of these conditions are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the Authority were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the independent auditors' report on compliance with requirements applicable to each major program, on internal control over compliance, and on the schedules of expenditures of federal awards.
5. The auditors' report on compliance for the major federal award programs for the Authority expresses an unqualified opinion on all major federal programs.
6. There were no audit findings relative to the major federal award programs for the Authority.
7. The programs tested as major programs for year ended September 30, 2009 are as follows:

| <u>Program Name</u> | <u>CFDA Number</u> |
|-----------------------------------|---------------------------|
| Port Security Grant | 97.056 |
| Highway Planning and Construction | 20.205 |

8. The threshold for distinguishing between Type A and Type B programs was \$300,000.
9. The Authority was determined to be a low-risk auditee.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the Year Ended September 30, 2009

FINANCIAL STATEMENT AUDIT FINDINGS

Significant Deficiencies

- 09-1. *Condition:* Invoices from contractors related to the Michigan Department of Transportation (“MDOT”) Highway Planning and Development grant were often received late. Invoices were not received in a timely manner to accrue for the activity in the proper period.

Criteria: Program expenditures should be recorded in the accounting records in the period in which goods or services are received.

Effect: When invoices are not received in a timely manner, the Authority may not accurately report revenue and expenditures in the proper period.

Recommendation: The Authority’s management should work with the contractors and program manager so that invoices are issued and received on a timely basis. This will allow the Authority to record grant revenue and expenditures in the proper period.

Management’s Response: Contractor invoices are very detailed due to regulatory and procedure requirements under the grant awards. The time required for contractors to collect and process the required data, along with their subcontractors, is inherently time consuming and lengthy. The Authority has contracted a program manager and outside accounting firm to perform the administration and review requirements, including necessary verification and approval regarding the federal highway grant. Some grant activities are the direct responsibility of the Authority.

The Authority will notify all current and future contractors and program manager of the requirement to process and record invoices timely.

- 09-2. *Condition:* MDOT directly reimbursed construction contractors for some of the expenditures related to the construction cost of the waterfront building that will be deeded to the Authority.

Criteria: As the Authority was awarded a grant from MDOT for the purchase of land and construction of the waterfront building, the Authority should record these payments made on its behalf as revenue and capital assets in its government-wide financial statements.

Effect: The lack of recording the amount of the payments for the construction of the building will result in a material understatement of the building’s basis in the Authority’s financial statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the Year Ended September 30, 2009

FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

Significant Deficiencies (continued)

- 09-2. *Recommendation:* The Authority's management should work with each contractor to obtain the costs paid directly by MDOT so that all payments are recorded in the Authority's accounting records.

Management's Response: All non-cash payments were recorded as of September 30, 2009. All future non-cash payments will be recorded on a timely basis when paid. The program manager will be notified that all non-cash payments are required to be recorded timely.

- 09-3. *Condition:* The Authority has a corporate credit card account issued to two employees. The credit card account is used primarily for meals, entertainment, club membership fees, travel expenses, gas, and other expenses. During our review of the credit card statements for individual employees, we noted several instances of potential non-business expenses made with the Authority's corporate credit cards.

Criteria: Corporate credit cards should only be used for business purposes, not for personal use, and charges should not be excessive.

Effect: The lack of controls over monitoring credit card use has led to non-business expenses that should not have been incurred by the Authority.

Recommendation: We recommend that a written credit card policy be established requiring credit cards to be used only for travel and conferences (excluding meals). Meals related to out-of-town conferences should be reimbursed on a per-diem basis in accordance with Internal Revenue Service ("IRS") regulations. In addition, reimbursement of gas expenses should cease. Mileage should only be reimbursed for the excess of the normal distance between the employee's residence and place of business.

Management's Response: The corporate credit card account was suspended in August 2009. A written credit card policy will be included in the travel and expense reimbursement policy. The practice of reimbursement of gas expenses was established over 15 years ago to substitute for mileage reimbursement and reporting.

The corporate credit card account has been suspended in August 2009, and notification has been made to the issuing bank to close the account. The practice of reimbursement of gas expenses has ceased and mileage will only be reimbursed in accordance with IRS regulations. Also, out-of-town meals will be reimbursed on a per-diem basis in accordance with IRS regulations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the Year Ended September 30, 2009

FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

Significant Deficiencies (continued)

09-4. *Condition:* During the year ended September 30, 2009, a contract that was authorized only by one individual was breached. Services under the contract were provided satisfactorily. A lawsuit was filed relating to the breach; the lawsuit was subsequently settled.

Criteria: Contracts should be approved by the Board of Directors, or a designated committee of the Board of Directors, before they are signed.

Effect: The contract compensation was not paid, resulting in a lawsuit. The settlement required the Authority to pay \$65,000 to the vendor, which was less than the contracted amount.

Recommendation: We recommend that all contracts be brought before the Board of Directors, or a designated committee of the Board of Directors, for review and approval prior to signing the contracts. Since the Chief Financial Officer (“CFO”) attends meetings of the Board of Directors, this will permit the CFO to provide additional information, such as budget constraints, prior to contract approval.

Management’s Response: The Authority engaged a marketing company specializing in port security to provide services for a port security conference for stakeholders of the Port on behalf of the Authority. The event was supported by the Board prior to the event. The contracted services were in the amount of \$75,000, and the conference was held and services performed. The marketing company was notified up front that the Authority did not have funds to pay for the event and would require outside sponsorship. A major stakeholder in the Port of Detroit had committed to paying the full amount of the conference months in advance of the conference date but, subsequently after the conference, the stakeholder failed to make the payment, resulting in the lawsuit against the Authority.

All contracts in excess of established dollar limits will be brought before the Board of Directors, or a designated committee of the Board, for review and approval prior to signing the contracts.

MAJOR FEDERAL AWARD PROGRAM AUDIT FINDINGS AND QUESTIONED COSTS

None

DETROIT/WAYNE COUNTY PORT AUTHORITY

SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

For the Years Ended September 30, 2009 and 2008

| <u>Program Title</u> | <u>CFDA Number</u> | <u>Grant Number</u> | <u>Grant Period</u> | <u>Federal Expenditures</u> | |
|---|------------------------|---------------------|---------------------|-----------------------------|---|
| | | | | <u>2009</u> | <u>2008 (Restated) (Note C)</u> |
| <u>Major Programs</u> | | | | | |
| U.S. Department of Homeland Security: | | | | | |
| Direct: | | | | | |
| Port Security Grant | 97.056 | 2006-GB-T6-0017 | 10/1/06-3/31/09 | \$ 574,620 | \$ 619,441 |
| Port Security Grant | 97.056 | 2008-GB-T6-K011 | 10/1/08-3/31/11 | 122,917 | -0- |
| | | | | <u>697,537</u> | <u>619,441</u> |
| U.S. Department of Transportation: | | | | | |
| Passed through Michigan | | | | | |
| Department of Transportation: | | | | | |
| Highway Planning and Construction (Note B) | 20.205 | 2004-0279 | 10/1/08-9/30/09 | 5,573,514 | -0- |
| Total Major Programs | | | | <u>6,271,051</u> | <u>619,441</u> |
| <u>Other Federal Awards</u> | | | | | |
| U.S. Environmental Protection Agency: | | | | | |
| Direct: | | | | | |
| Brownfield Assessment | 66.818 | BF-96550501 | 9/1/06-9/30/09 | 241,345 | 195,138 |
| U.S. Department of Transportation: | | | | | |
| Passed through Michigan | | | | | |
| Department of Transportation: | | | | | |
| Highway Planning and Construction (Note B) | 20.205 | 2004-0279 | 10/1/07-9/30/08 | -0- | 704,359 |
| U.S. Department of Commerce: | | | | | |
| Direct: | | | | | |
| Economic Adjustment Assistance Grant | 11.307 | 06-69-05246 | 10/1/07-3/31/09 | 22,802 | 25,634 |
| Total Other Federal Awards | | | | <u>264,147</u> | <u>925,131</u> |
| Total Federal Expenditures | | | | <u>\$ 6,535,198</u> | <u>\$ 1,544,572</u> |

See notes to schedules of expenditures of federal awards.

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

For the Years Ended September 30, 2009 and 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedules of expenditures of federal awards present the activity of federal award programs of the Detroit/Wayne County Port Authority (the "Authority"). Federal awards received directly from federal agencies, as well as federal awards passed through other agencies, are included on the schedules.

Basis of Accounting

The accompanying schedules of expenditures of federal awards are presented using the accrual basis of accounting.

NOTE B - NONCASH CONTRIBUTIONS

Under the Highway Planning and Construction grant from the Michigan Department of Transportation ("MDOT"), a public dock and terminal facility is being constructed on specific properties. Certain expenditures for the construction of a building that will be owned by the Authority upon its completion, including expenditures for land development and improvements, have been paid directly to construction contractors by MDOT. Federal expenditures reported on the accompanying schedules of expenditures of federal awards include noncash expenditures of \$5,239,957 and \$173,722 for the years ended September 30, 2009 and 2008, respectively, that were paid directly by MDOT.

NOTE C - PRIOR PERIOD RESTATEMENT

The Authority's management identified the following during the year ended September 30, 2009:

- Certain invoices received after September 30, 2008 that related to services received prior to September 30, 2008 under the Highway Planning and Construction grant were not included in the schedule of expenditures of federal awards for the year ended September 30, 2008.
- Expenditures paid directly to construction contractors by MDOT (see Note B) during the year ended September 30, 2008 were not included in the schedule of expenditures of federal awards for the year ended September 30, 2008.

As a result, federal expenditures reported under the Highway Planning and Construction grant in the schedule of expenditures of federal awards for the year ended September 30, 2008 were understated by \$380,380. The schedule of expenditures of federal awards for the year ended September 30, 2008 has been restated to correct this error.