Virginia Port Authority Board of Commissioners
Finance Committee Meeting Minutes
May 9, 2014

The Virginia Port Authority ("VPA") Finance Committee ("Committee") met in Open Session at 11:00 a.m. on May 9, 2014, in the conference room of the Greater Richmond Chamber of Commerce, 600 E. Main Street, Richmond; Juliann Clemente, Acting Chair, presided.

The following were then in attendance:

VPA Board Finance Committee Members:
Juliann J. Clemente
Kim Scheeler
Manju S. Ganeriwala, State Treasurer

Other VPA Board Members:
G. Robert Aston, Jr.
Frank E. Laughon, Jr.
John G. Milliken

VPA Staff:
John F. Reinhart, CEO/Executive Director
Rodney W. Oliver, Chief Financial Officer
Wendy King, Vice President, Finance

VIT Staff:
Matthew Barnes-Smith, Vice President, Financial Planning & Analytics

Guests:
James W. Noel, III, Assistant Attorney General, Virginia Attorney General's Office
JoAnne Carter, PFM Group (VPA Financial Advisor)
Tom Brooks, PB Mares
Harvey Johnson, PB Mares
Greg Busick, CliftonLarsonAllen
Remi Omisore, CliftonLarsonAllen

The following Finance Committee members were absent:
Ting Xu, Committee Vice Chair
John N. Pullen

Ms. Clemente called the meeting to order and welcomed the new VPA Board members in attendance - Mr. Aston and Mr. Milliken. Ms. Clemente asked for a motion to go into closed session at this time.

Motion for Closed Session

At 11:02 a.m., the Finance Committee went into closed session and Mr. Scheeler read the following motion:

"I move that the Finance Committee convene a closed meeting in accordance with the Virginia Freedom of Information Act, Code §2.2-3711(A)(7), for consultation with legal counsel regarding

specific legal matters requiring legal advice by such counsel, and pursuant to §2.2-3711(A)(38) and the provisions of §62.1-132.4, to discuss proprietary information furnished to the VPA in confidence, relating to the FY2014 audit and the preliminary FY2015 Budget of Virginia International Terminals, LLC (VIT), for the year beginning July 1, 2014 and ending June 30, 2015; and regarding the VPA and VIT Organizational Strategy.

The motion was seconded by Ms. Ganeriwala.

End of Closed Session

At 12:20 p.m., the Finance Committee came out of closed session and the following resolution was read by Mr. Scheeler:

"Whereas, the Virginia Port Authority Finance Committee had convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of The Virginia Freedom of Information Act; and

Whereas, Section 2.2-3712 of the Code of Virginia requires a certification by the Committee members that such closed meeting was conducted in conformity with Virginia law;

Now, therefore be it resolved, that the Finance Committee hereby certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements by Virginia law were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion convening the closed meeting were heard, discussed or considered by the Committee."

The resolution was seconded by Ms. Ganeriwala and passed by a roll call vote of Finance Committee members and Commissioners as follows:

Ayes: 6 (Aston, Clemente, Ganeriwala, Laughon, Milliken, Scheeler)
Nays: 0
Absent During Vote: 2 (Pullen, Xu)
Absent During Meeting: 2 (Pullen, Xu)

Action: Upon motion by Ms. Clemente, seconded by Ms. Ganeriwala, the Finance Committee recommended adoption of the FY15 Budget of Virginia International Terminals, LLC (VIT), for the year beginning July 1, 2014 and ending June 30, 2015, by the full Board on May 27, 2014.

At this time, representatives from Clifton, Larson, Allen and PB Mares reviewed audit plans and timelines for the FY2014 audits of VPA and VIT. Copies of the auditors' presentations are attached hereto.

There were no public comments and the meeting adjourned.

Respectfully submitted,

Debra J. McNulty

Debra J. McNulty
Clerk to the Board

CliftonLarsonAllen

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VIRGINIA PORT AUTHORITY

Audit Plan for the Year Ended June 30, 2014

May 9, 2014

Meeting Objective

To document the audit planning process and to communicate to the Audit Committee and management the details of the preliminary audit approach and scope of services to be provided for the year ending June 30, 2014.

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Audit Team

- Greg Bussink – Assurance Principal
- Remi Omisore – Assurance Manager
- Aires Coleman – A133 Sr. Manager
- Jim Kreiser – IT Principal
- Taylor Powell – Assurance Senior
- Daniel Presson – Assurance Associate

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Agenda

- Scope of Work
- Timeline
- Audit Approach
  - Understanding of Environment and Controls
  - General Risk Assessment
  - Key Audit Areas
- Accounting Pronouncement/Emerging Issues
- Required Communications
- Questions

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Scope of Work

- Audit of the June 30, 2014 financial statements
- Audit of the Schedule of Expenditures of Federal Awards
- Report on internal control over financial reporting and compliance
- Management letter to communicate other matters
- Letter to governance on key components of the audit

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Proposed Timeline

- **Planning and Interim fieldwork**
  - Week of 5/5/2014
- **Final Fieldwork**
  - Week of 9/1/2014
- **Draft Reports**
  - 9/22/2014
- **Presentation of Results to Audit Committee**
  - November 2014

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Audit Approach: Understanding of Environment and Controls

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Our audit approach includes obtaining an understanding of:

- VPA's business environment
- Internal control and its component elements to assess:
  - Design and implementation of controls
  - Reliability of financial reporting
- Fraud risk factors within the Authority, which may be indicative of either fraudulent financial reporting or misappropriation of assets

Audit Approach: General Risk Assessment

- Economy
  - Increase in Economic Activity
  - IT Security Concerns and Recent Breaches
  - New Grant Activity
  - Increase in Municipal Bond Rates and Compliance
- Organizational and Governance Challenges
  - Change in leadership
  - Reorganization of management structure of VPA and VIT
  - Operational Efficiency

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Audit Approach: Key Audit Areas

Time will be spent understanding and testing each audit area, commensurate with the level of assessed risk:

- Payables/Accruals/ Payroll liabilities - cutoff and completeness, including payroll (ADP implementation)
- Revenue - recognition, cutoff, and proper classification and collectability
- Cash and investments (existence and valuation)
- Debt management, compliance and issuance costs
- Grant compliance
- Capital asset management
- Financial statement disclosures

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Accounting Pronouncements Update/ Emerging Issues

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GASB Statement No. 65, Items Previously Reported as Assets and Liabilities (Effective June 2014)

- This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.
- Impact:
  - Restatement of fiscal year 2013 financial statements for debt issuance costs of approximately $5.2 million.
  - Reclassification of Debt refunding amounts as deferred outflow of approximately $6.5 million.

GASB Statement No. 67: Financial Reporting for Pension Plans (Effective June 2014)

- The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.*
- *No impact on VPA.*
  - No audit performed for VPA Defined Benefit Plan.
  - Expected implementation for Virginia Retirement System .

Accounting Pronouncements Update/ Emerging Issues

GASB Statement No. 68: Accounting and Financial Reporting for Pensions (Effective June 2015)

- The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.
- Impact:
  - Estimated liability of $3.7 million to be added to balance sheet.

GASB Statement No. 69 Government Combinations and Disposals of Government Operations

- This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.
- No impact on VPA

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Discussion of Audit Committee Perspective re: Fraud and Other Risks

The Audit Committee plays an important role in the organization's affairs, regarding auditing, financial reporting, and corporate accountability

- The Committee's views concerning the risk of fraud
- Does the Committee have actual knowledge of, or suspicions regarding fraud affecting the organization?
- Does the Committee have an active role in oversight of the organization's assessment of the risks of fraud and the programs and controls established by the organization to mitigate those risks?
- Is the Committee aware of any risks related to the organization's source of revenue, or its products and services?
- Any other Committee concerns relative to risks facing the organization?

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Required Communications
Responsibilities Under Generally Accepted Auditing Standards

- We are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with generally accepted accounting principles.
- The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
- We are responsible for performing the audit in accordance with generally accepted auditing standards. The audit is designed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement.
- An audit includes consideration of internal control over financial reporting as a basis for designing appropriate audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting.

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Required Communications
Responsibilities Under Generally Accepted Auditing Standards

- We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Auditing standards do not require us to design procedures to identify other matters to communicate with those charged with governance.
- When applicable, we are responsible for communicating particular matters required by laws or regulations, by agreement with the entity or by additional requirements applicable to the engagement.
- Our responsibility for other information in documents containing the financial statements and auditor's report does not extend beyond the financial information identified in our report. We will not perform any procedures to corroborate other information contained in the document. However, we will read management's discussion and analysis of financial conditions and results of operations and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements.

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Questions and Discussion

We welcome any questions pertaining to the audit, matters of communication letters, or other matters related to the engagement.

We appreciate the opportunity to serve as the auditors for the Virginia Port Authority and welcome any feedback relative to our performance.

Thank you!

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PBMares SM

Virginia International Terminals, LLC and Subsidiary

Meeting with Virginia Port Authority Finance Committee

Presented by
Thomas R. Brooks, CPA
Harvey L. Johnson, CPA, CGMA

Meeting Agenda

PBMares

- Discuss audit plan
- Discuss areas of concern
- Review prior year internal control recommendations
- Review audit timeline

Audit Plan

PBMares

- Revenue, accounts receivable and allowance for doubtful accounts (revenue recognition)
- Reserve for inventory maintenance parts
  - Accrued liabilities
  - Accrued workers compensation
  - Accrued health insurance
  - Accrued pension liabilities
  - Other accruals
- See also Management Letter Comments

Internal Control Testing

- In accordance with auditing standards; we will perform walk-throughs of key areas to gain an understanding of the processes in order to design our control testing procedures
- Walk-through areas:
  - Cash receipts and disbursements
  - Payroll
  - Revenue recognition
  - Inventory
  - Fixed Assets
  - Financial Reporting
  - IT environment

Internal Control Testing

- Throughout our audit we will test controls over key areas:
  - Financial Reporting Journal Entries
  - Cash Receipts
  - Cash Disbursements
  - Payroll (ILA & Staff)
  - Revenue

Accounting and Audit Developments

- New General Accounting Standards (GASB) requirements will change the way in which the Company accounts for its pension plan.

2013 Management Letter Comments

- Credit Card Policy Implementation
  - We recommended that a policy is established to specifically address authorized users, conditions for use, prohibited purchases, disciplinary actions for abuse, and approval procedures.
- Allowance for Doubtful Accounts
  - We recommended that management reassess the reasonableness of the estimate for the Allowance for Doubtful Accounts. The allowance should be consistent with the policy adopted in 2013 and historical bad debt write-offs. Our analysis indicated that the allowance should be reduced to align historical experience and probability of collection.

2013 Management Letter Comments (Continued)

- Payroll Segregation of Duties
  - Payroll personnel have the ability to adjust timecards and submit to the payroll processing company without the requirement of additional review. We recommended that an additional review of timecards by a separate employee be implemented.
- Fuel Inventory
  - Given the high amount of turnover, we recommended that fuel be reported at a predetermined level (i.e. max capacity) throughout the year and adjusted annually for changes in the cost of fuel as opposed to the actual quantity on hand, which is difficult to accurately track without disrupting operations.

2013 Management Letter Comments (Concluded)

- Internal Control over Subsidiaries
  - Virginia Intermodal Management, LLC and Hampton Roads Chassis Pool, LLC lack proper segregation of duties in financial reporting and the Companies' key employees lack the qualifications, training, and support necessary to fulfill their duties. We recommended that an effective control environment over the financial reporting of these companies be designed and implemented.

Update on 2012 Management Letter Comments

- Rail Incentive
  - We recommended that a formal review process be developed and implemented that would ensure credits are being calculated and applied appropriately.
  - 2013 Update: Management had not implemented a review of the rail incentive calculation.
- Personnel Files
  - A complete file, including the required VA4 or W4 forms, should be prepared for all new employees and maintained for all existing employees.
  - 2013 Update: Documentation is now maintained electronically. No incomplete files were noted during our testing.

Update on 2012 Management Letter Comments (Concluded)

- Payroll
  - We recommended that the accuracy of payroll deductions and withholdings be rechecked by an employee other than the one entering them into the system.
  - 2013 Update: An additional review is being conducted by a separate payroll clerk. There were no miscalculations noted during our testing.

Audit Timeline

PBMares

Planning – May 12 through 23

Inventory Observation – July 2

Fieldwork – July 28 through August 15

Deliverables –

- Proposed by Management:
  - August 25th: Draft Financials
  - August 29th: Final