

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SUPPLEMENTAL COMPLIANCE REPORT

OF

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY

CLINTON COUNTY, INDIANA

January 1, 2013 to December 31, 2014



FILED
07/17/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Cathy Hamilton	01-01-13 to 12-31-15
President of the Airport Authority Board	Alan Dunn	01-01-13 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE FRANKFORT CLINTON COUNTY
AIRPORT AUTHORITY, CLINTON COUNTY, INDIANA

This report is supplemental to our audit report of the Frankfort Clinton County Airport Authority (Airport Authority), for the period from January 1, 2013 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the Airport Authority. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Airport Authority, which provides our opinions on the Airport Authority's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

May 18, 2015

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
FEDERAL FINDINGS

***FINDING 2014-001 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted deficiencies in the internal control system of the Airport Authority related to financial transactions and reporting. Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Airport Authority's audited financial statement and then determining how those identified risks should be managed. The Airport Authority has not identified risks to the preparation of the financial statement to prevent, or detect and correct, material misstatements. The following deficiencies are considered material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Airport Authority to reduce risks to the achievement of financial reporting objectives. The Airport Authority has not separated incompatible activities related to receipts, disbursements, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. Preparing Financial Statement: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Airport Authority's audited financial statement and then determining how those identified risks should be managed. The Airport Authority has not identified risks to the preparation of a reliable financial statement and, as a result, has failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements. The Airport Authority's Treasurer independently prepared the financial statement without an oversight, review, or approval process. The failure to establish and implement adequate controls resulted in a financial statement that contained material errors as noted below.

The Airport Authority omitted the 2012 General Obligation Bond Fund from their Annual Financial Report submitted through the Gateway system. The Annual Financial Report is used to compile the Airport Authority's financial statement. This omission resulted in the cash and investment balances and receipts and disbursements transactions to be materially understated. In addition, the Airport Authority Treasurer issued five checks totaling \$97,663.26 in December of 2013 which were not recorded in the Airport Authority's ledger until January 7, 2014. Audit adjustments were proposed, accepted by the Airport Authority, and made to the financial statement presented in this report.

3. Preparing the Schedule of Expenditures of Federal Awards: The Airport Authority did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Airport Authority should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected. The Airport Authority's Treasurer independently prepared the SEFA without an oversight, review, or approval process.
4. Monitoring of Controls: Effective internal controls over financial reporting require the Airport Authority to monitor and assess the quality of the system of internal control. The Airport Authority Board has not performed either an ongoing or separate evaluation of their system of internal control. The failure to exercise their oversight responsibility places the Airport Authority at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the Airport Authority has no process to identify or communicate corrective actions to improve controls.

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

FINDING 2014-002 - INTERNAL CONTROL OVER THE AIRPORT IMPROVEMENT PROGRAM

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number: 3-18-0026-015, 3-18-0026-016, 3-18-0026-017

Management of the Airport Authority has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and several of the compliance requirements that have a direct and material effect on the program. This includes the compliance requirements for Allowable Activities; Allowable Costs; Cash Management; Davis-Bacon Act; Matching, Level of Effort, Earmarking; Period of Availability; Procurement and Suspension and Debarment; Reporting; and Special Test and Provision - Revenue Diversion. The failure to establish an effective internal control system places the Airport Authority at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Activities Allowed, Allowable Costs, Period of Availability

The Airport Authority has not designed or implemented adequate policies and procedures to ensure that the Airport Authority expended funds for only Activities Allowed and Allowable Costs and within the period of availability. The Airport Authority commingled multiple grants within the Airport Authority fund and, was therefore, unable to verify that expenses were properly charged to each federal grant. The Airport Authority relied on a paid Grant Administrator to maintain details for each of its federal grants in order to properly charge expenditures to each grant. A monitoring or review process has not been established to ensure that expenditures are in compliance with Activities Allowed, Allowable Costs, and the Period of Availability compliance requirements.

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

Cash Management, Matching, Reporting

The Airport Authority has not designed or implemented adequate policies and procedures to ensure compliance with the Cash Management, Matching, and Reporting compliance requirements of the program. The Airport Authority relied on the Grant Administrator to prepare requests for federal funding from each grant. This included calculating matching amounts for state and local funds. The funding requests were signed by the Board President, but since the grants were not accounted for separately, the requests were not properly verified to the Airport Authority's ledger. In addition, the Federal Aviation Administration directly deposited grant funds into the Airport Authority's bank account based on the requests. The Airport Authority had no controls in place to verify that payments were made to vendors within a reasonable amount of time after the deposits. A monitoring or review process has not been established to ensure that expenditures are in compliance with the Cash Management, Matching, and Reporting compliance requirements.

Davis-Bacon Act

The Airport Authority has not designed or implemented adequate policies and procedures to ensure compliance with the Davis-Bacon Act requirements of the program. The Airport Authority relied on the Grant Administrator to ensure that weekly payrolls were properly submitted. A monitoring or review process has not been established to ensure compliance with the Davis-Bacon Act compliance requirements.

Procurement and Suspension and Debarment

The Airport Authority has not designed or implemented adequate policies and procedures to ensure compliance with the Procurement and Suspension and Debarment compliance requirements of the program. The Airport Authority relied on the Grant Administrator to ensure that contractors submitted proper bid documents and that they were not suspended or debarred from participation in federal programs. A monitoring or review process has not been established to ensure compliance with the Procurement and Suspension and Debarment compliance requirements.

Special Tests and Provisions - Revenue Diversion

The Airport Authority has not designed or implemented adequate policies and procedures to ensure that revenue was used only for operating and capital activities. A monitoring or review process has not been established to ensure that revenues are in compliance with the Special Tests and Provisions compliance requirements regarding revenue diversion.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the Airport Authority.

We recommended that the Airport Authority establish controls, including segregation of duties, related to the grant agreement and compliance requirements that have a direct and material effect on the program.

FINDING 2014-003 - CASH MANAGEMENT

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number: 3-18-0026-015, 3-18-0026-016, 3-18-0026-017

The Airport Authority was required to pay vendors within a reasonable amount of time after receipt of the grant funding from the federal agency. Six of the seventeen requests for grant funding were reviewed; payments from four of these were not made within a reasonable time. There was an average of 40 days between receipt of federal funding and payments to vendors.

49 CFR 18.21(b) states: "*Basic standard. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205.*"

Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the Airport Authority.

We recommended that the Airport Authority comply with the Cash Management requirements that have a direct and material effect on the program.

**FRANKFORT/CLINTON COUNTY AIRPORT
AUTHORITY**

3009 W. St. Rd. 28
Frankfort, IN 46041

CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: Cathy Hamilton, Treasurer
Contact Phone Number: 765-659-6330

The purpose of this communication is to provide an update regarding the ongoing corrective action plan for the Frankfort/Clinton County Airport Authority's lack of segregation of duties. The Authority assesses their procedures and attempts to institute processes that would involve reviews of the duties being performed by the Treasurer, including, but not limited to preparing financial statements and the Schedule of Expenditures of Federal Awards. The Authority will also monitor the system of internal control in the future to determine the effectiveness and efficiency of the systems in place.

The Authority is a very small governmental unit and management has determined that the cost associated with the employing additional staff necessary to properly segregate the duties would outweigh the benefits of additional internal control structure. Management acknowledges and assumes the risk inherent with the current design of the Treasurer's office.

Anticipated Completion Date: August 1, 2015



(Signature)

Treasurer

(Title)

May 18, 2015

(Date)

**FRANKFORT/CLINTON COUNTY AIRPORT
AUTHORITY**

3009 W. St. Rd. 28
Frankfort, IN 46041

CORRECTIVE ACTION PLAN

FINDING 2014-002

Contact Person Responsible for Corrective Action: Cathy Hamilton, Treasurer

Contact Phone Number: 765-659-6330

The Frankfort/Clinton County Airport Authority will assess our procedures and attempt to institute processes that would involve, at least on a sample basis, reviews of the duties being performed by the Treasurer, including, but not limited to the grant agreement and the compliance requirements that have a direct and material effect to the program the Authority will also monitor the system of internal control in the future to determine the effectiveness and efficiency of the systems in place. A grant schedule will be prepared by the Treasurer and reported to the Authority at each regular meeting. A detailed revenue report will be presented to the Authority along with the bank reconciliation.

The Authority is a very small governmental unit and management has determined that the cost associated with the employing additional staff necessary to properly segregate the duties would outweigh the benefits of additional internal control structure. Management acknowledges and assumes the risk inherent with the current design of the Treasurer's office.

Anticipated Completion Date: August 1, 2015



(Signature)

Treasurer

(Title)

May 18, 2015

(Date)

**FRANKFORT/CLINTON COUNTY AIRPORT
AUTHORITY**

3009 W. St. Rd. 28
Frankfort, IN 46041

CORRECTIVE ACTION PLAN

FINDING 2014-003

Contact Person Responsible for Corrective Action: Cathy Hamilton, Treasurer
Contact Phone Number: 765-659-6330

The purpose of this communication is to provide an update regarding the ongoing corrective action plan for the Frankfort/Clinton County Airport Authority's lack of segregation of duties. The Authority assesses their procedures and attempts to institute processes that would involve reviews of the duties being performed by the Treasurer, including, but not limited to grant receipt and vendor payments. The Authority will also monitor the system of internal control in the future to determine the effectiveness and efficiency of the systems in place. The Treasurer will request the bank send an email notice when an EFT is received.

The Authority is a very small governmental unit and management has determined that the cost associated with the employing additional staff necessary to properly segregate the duties would outweigh the benefits of additional internal control structure. Management acknowledges and assumes the risk inherent with the current design of the Treasurer's office.

Anticipated Completion Date: August 1, 2015



(Signature)

Treasurer

(Title)

May 18, 2015

(Date)

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
AUDIT RESULTS AND COMMENTS

LOAN REPAYMENT

As of December 31, 2012, the Airport Authority was indebted to the City of Frankfort in the amount of \$80,426 for loan and vendor payments paid by the City on behalf of the Airport Authority. On August 7, 2012, the Airport Authority Board and the Frankfort City Council agreed to a repayment schedule for these payments with yearly payments ranging from \$20,000 to \$20,426 with the final payment due in 2016. Two \$20,000 payments, due to the City in 2013 and 2014, have not been made by the Airport Authority.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

CHECKS RECORDED IN SUBSEQUENT PERIOD

The Treasurer wrote five checks totaling \$97,663 in December of 2013. One check for \$10,839 cleared in December 2013; the other four cleared in January 2014. None of the checks were recorded in the Airport Authority's financial ledger until January 7, 2014.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

CONDITION OF RECORDS - OVERPAYMENTS

The Airport Authority overpaid their Engineer on four occasions during the audit period. The overpayments, together with one underpayment, net to \$56,925. Upon receipt of the overpayments, the Engineer quickly responded with a letter explaining the overpayment and issued the Airport Authority a full refund. All refunds were properly recorded and deposited by the Airport Authority.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

**FRANKFORT/CLINTON COUNTY AIRPORT
AUTHORITY**

3009 W. St. Rd. 28
Frankfort, IN 46041

RESPONSE TO AUDIT RESULTS AND COMMENTS

Loan Repayment Comment

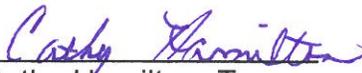
The 2013 and 2014 loan payments to the City of Frankfort were held as there are ongoing discussions between the City of Frankfort and the Frankfort/Clinton County Airport Authority on deeding land in lieu of payment of loan. Refer to minutes of the February 5, 2013 minutes of the Authority.

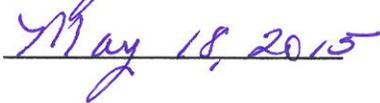
Checks Posted in Subsequent Period

The Authority will hold an end of year meeting to approve December claims.

Overpayments

The Treasurer will keep a grant schedule to avoid overpayment.


Cathy Hamilton, Treasurer



FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on May 18, 2015, with Cathy Hamilton, Treasurer; Alan Dunn, President of the Airport Authority Board; and Joseph K. Catron, Airport Authority Board member.