

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

WESTGATE @ CRANE AUTHORITY
DAVISS COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
09/24/2013

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|------------------------|-----------------------------|----------------------|
| Executive Director | (Vacant) | 01-01-11 to 07-14-11 |
| | Charles Selby | 07-15-11 to 11-06-12 |
| | Greg Jones (Interim) | 11-13-12 to 03-31-13 |
| | Donald P. Schulte | 04-01-13 to 12-31-13 |
| Treasurer | Martin Mumaw III (deceased) | 01-01-11 to 03-20-13 |
| | Patty Raymann (Interim) | 03-21-13 to 04-21-13 |
| | Elaine Wellman | 04-22-13 to 12-31-16 |
| President of the Board | Kent Parisien | 01-01-11 to 12-31-12 |
| | John Mensch | 01-01-13 to 12-31-13 |



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WESTGATE @ CRANE AUTHORITY, DAVIESS COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the WestGate @ Crane Authority (Authority), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the Authority prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the Authority for the period of January 1, 2011 to December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the Authority for the period of January 1, 2011 to December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated August 28, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Authority's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. 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 statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, 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 statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the Authority's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.



Bruce Hartman
State Examiner

August 28, 2013



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE WESTGATE @ CRANE AUTHORITY, DAVIESS COUNTY, INDIANA

We have audited, 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, the financial statement of the WestGate @ Crane Authority (Authority), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated August 28, 2013, wherein we noted the Authority followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, 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 statement, 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.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

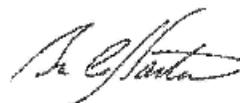
As part of obtaining reasonable assurance about whether the Authority's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1.

WestGate @ Crane Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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.



Bruce Hartman
State Examiner

August 28, 2013

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the Authority. The financial statement and notes are presented as intended by the Authority.

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WESTGATE @ CRANE AUTHORITY
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For The Years Ended December 31, 2011 And 2012

| Fund | Cash and Investments 01-01-11 | Receipts | Disbursements | Cash and Investments 12-31-11 | Receipts | Disbursements | Cash and Investments 12-31-12 |
|--------------|-------------------------------------|---------------------|---------------------|-------------------------------------|---------------------|---------------------|-------------------------------------|
| General Fund | \$ 1,587,021 | \$ 1,159,611 | \$ 2,216,386 | \$ 530,246 | \$ 8,846,350 | \$ 8,546,833 | \$ 829,763 |
| Totals | <u>\$ 1,587,021</u> | <u>\$ 1,159,611</u> | <u>\$ 2,216,386</u> | <u>\$ 530,246</u> | <u>\$ 8,846,350</u> | <u>\$ 8,546,833</u> | <u>\$ 829,763</u> |

The notes to the financial statement are an integral part of this statement.

WESTGATE @ CRANE AUTHORITY
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Authority was created through an interlocal agreement, as authorized by Indiana Code 36-1-7, between the redevelopment commissions of Daviess, Martin, and Greene Counties and approved by the Indiana Economic Development Corporation on June 13, 2006. The Authority operates under an appointed governing board and was created for the main purpose of development and managing the WestGate @ Crane Technology Park.

The accompanying financial statement presents the financial information for the Authority.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the Authority.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

WESTGATE @ CRANE AUTHORITY
NOTES TO FINANCIAL STATEMENT
(Continued)

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

Note 2. Budgets

The governing board shall establish and maintain a budget annually, to be adopted on or before September 30th of each year, and to be effective for the next calendar year.

Note 3. Incremental Taxes

The Treasurer of State shall establish an incremental tax financing fund for each certified technology park designated under Indiana Code 36-7-32. The following amounts shall be deposited during each state fiscal year in the incremental tax financing fund: (1) The aggregate amount of state gross retail and use taxes that are remitted under Indiana Code 6-2.5 by businesses operating in the certified technology park, until the amount of state gross retail and use taxes deposited equals the gross retail incremental amount for the certified technology park, and (2) The aggregate amount of the following taxes paid by employees employed in the certified technology park with respect to wages earned for work in the certified technology park, until the amount deposited equals the income tax incremental amount: (A) The adjusted gross income tax; (B) The county adjusted gross income tax; (C) The county option income tax; and (D) The county economic development income tax. In accordance with Indiana Code 36-7-32-22, not more than a total of \$5,000,000 may be deposited in a particular incremental tax financing fund for a certified technology park over the life of the certified technology park; however, the Indiana Economic Development Corporation has agreed to increase the statutory limit to \$10,000,000. As of December 31, 2012, a total of \$6,421,780 in incremental taxes has been distributed to the Authority.

WESTGATE @ CRANE AUTHORITY
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the Authority to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The Authority may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the Authority to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Authority's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Reports of the Authority which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the Authority. It is presented as intended by the Authority.

WESTGATE @ CRANE AUTHORITY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

| | General Fund | Totals |
|--|-----------------|--------------|
| Cash and investments - beginning | \$ 1,587,021 | \$ 1,587,021 |
| Receipts: | | |
| Taxes | 627,554 | 627,554 |
| Intergovernmental | 526,845 | 526,845 |
| Other receipts | 5,212 | 5,212 |
| Total receipts | 1,159,611 | 1,159,611 |
| Disbursements: | | |
| Personal Services | 44,827 | 44,827 |
| Other services and charges | 160,596 | 160,596 |
| Capital outlay | 1,751,816 | 1,751,816 |
| Other disbursements | 259,147 | 259,147 |
| Total disbursements | 2,216,386 | 2,216,386 |
| Deficiency of receipts over disbursements | (1,056,775) | (1,056,775) |
| Cash and investments - ending | \$ 530,246 | \$ 530,246 |

WESTGATE @ CRANE AUTHORITY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

| | General Fund | Totals |
|--|-----------------|------------|
| Cash and investments - beginning | \$ 530,246 | \$ 530,246 |
| Receipts: | | |
| Taxes | 2,674,445 | 2,674,445 |
| Intergovernmental | 5,991,516 | 5,991,516 |
| Other receipts | 180,389 | 180,389 |
| Total receipts | 8,846,350 | 8,846,350 |
| Disbursements: | | |
| Personal services | 60,945 | 60,945 |
| Supplies | 1,658 | 1,658 |
| Other services and charges | 4,863 | 4,863 |
| Other disbursements | 8,479,367 | 8,479,367 |
| Total disbursements | 8,546,833 | 8,546,833 |
| Excess of receipts over disbursements | 299,517 | 299,517 |
| Cash and investments - ending | \$ 829,763 | \$ 829,763 |

WESTGATE @ CRANE AUTHORITY
AUDIT RESULTS AND COMMENTS

ANNUAL REPORT

The Annual Report for 2011 contained a number of errors and did not properly reflect the financial activity of the Authority. In addition, classification errors of receipts were noted in both 2011 and 2012. Audit adjustments were proposed, accepted by the Authority, and made to the Financial Statement presented in this report. These adjustments resulted in a presentation of the Financial Statement that is materially correct.

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."

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Authority related to financial transactions and reporting.

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Authority to reduce risks to the achievement of financial reporting and objectives. The Authority has not separated incompatible activities related to receipts, disbursements and cash balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Authority's audited financial statement and then determining how those identified risks should be managed. The 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 material misstatements, including notes to the financial statement.

WESTGATE @ CRANE AUTHORITY
AUDIT RESULTS AND COMMENTS
(Continued)

3. Preparing Schedule of Expenditures of Federal Awards (SEFA): Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Authority's audited SEFA and then determining how those identified risks should be managed. The Authority has not identified risks to the preparation of a reliable SEFA and as a result has failed to design effective controls over the preparation of its SEFA to prevent or detect material misstatements, including notes to the SEFA.
4. Monitoring of Controls: Effective internal control over financial reporting requires the Authority's Board to monitor and assess the quality of the Authority's system of internal control. The Authority's Board has not performed either an ongoing or separate evaluation of their system of internal controls. The Authority's Board should exercise their oversight responsibility to reduce the risk that controls may not be designed or operating effectively. Additionally, the Authority's Board has no process to identify or communicate corrective actions to improve controls.

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)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE WESTGATE @ CRANE AUTHORITY, DAVIESS COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the WestGate @ Crane Authority's (Authority) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the period of January 1, 2011 to December 31, 2012. The Authority's major federal program is 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 program 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 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Basis for Qualified Opinion on Economic Development Cluster

As described in item 2012-3 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with requirements regarding reporting that is applicable to its Economic Development Cluster. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with requirements applicable to that program.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Qualified Opinion on Economic Development Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraph, 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 Economic Development Cluster for the period of January 1, 2011 to December 31, 2012.

Other Matters

The Authority's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with 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 type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2 to be material weaknesses.

The Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

August 28, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the Authority. The schedule and note are presented as intended by the Authority.

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WESTGATE @ CRANE AUTHORITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Years Ended December 31, 2011 and 2012

| Federal Grantor Agency Cluster Title/Program Title/Project Title | Pass-Through Entity or Direct Grant | Federal CFDA Number | Pass-Through Entity (or Other) Identifying Number | Total Federal Awards Expended 12-31-11 | Total Federal Awards Expended 12-31-12 |
|---|-------------------------------------|---------------------------|--|---|---|
| <u>Department of Commerce</u> | | | | | |
| Economic Development Cluster | | | | | |
| Economic Adjustment Assistance | Direct grant | | | | |
| West Gate Facility | | 11.307 | 06-79-05539 | \$ 330,796 | \$ 5,187,565 |
| Total - Economic Development Cluster | | | | <u>330,796</u> | <u>5,187,565</u> |
| Total - Department of Commerce | | | | <u>330,796</u> | <u>5,187,565</u> |
| Total federal awards expended | | | | <u>\$ 330,796</u> | <u>\$ 5,187,565</u> |

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

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NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the WestGate @ Crane Authority (Authority) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of authorities shall be conducted biennially. Such audits shall include both years within the biennial period.

WESTGATE @ CRANE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

| | |
|--|--|
| Type of auditor's report issued: | Adverse as to GAAP; Unmodified as to Regulatory Basis |
| Internal control over financial reporting: | |
| Material weaknesses identified? | yes |
| Significant deficiencies identified? | none reported |
| Noncompliance material to financial statement noted? | yes |

Federal Awards:

| | |
|--|---------------|
| Internal control over major program: | |
| Material weaknesses identified? | yes |
| Significant deficiencies identified? | none reported |
| Type of auditor's report issued on compliance for major program: | Qualified |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | yes |

Identification of Major Program:

Name of Federal Program or Cluster

Economic Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2012-1 - INTERNAL CONTROL OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Authority related to financial transactions and reporting. We believe the following deficiencies constitute a material weakness:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Authority to reduce risks to the achievement of financial reporting and objectives. The Authority has not separated incompatible activities related to receipts, disbursements and cash balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

WESTGATE @ CRANE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Authority's audited financial statement and then determining how those identified risks should be managed. The 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 material misstatements, including notes to the financial statement.
3. Preparing Schedule of Expenditures of Federal Awards (SEFA): Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Authority's audited SEFA and then determining how those identified risks should be managed. The Authority has not identified risks to the preparation of a reliable SEFA and as a result has failed to design effective controls over the preparation of its SEFA to prevent or detect material misstatements, including notes to the SEFA.
4. Monitoring of Controls: Effective internal control over financial reporting requires the Authority's Board to monitor and assess the quality of the Authority's system of internal control. The Authority's Board has not performed either an ongoing or separate evaluation of their system of internal controls. The Authority's Board should exercise their oversight responsibility to reduce the risk that controls may not be designed or operating effectively. Additionally, the Authority's Board has no process to identify or communicate corrective actions to improve controls.

During the audit of the SEFA, we noted the following errors: state grants were included on the SEFA in the amount of \$945,191. Audit adjustments were proposed, accepted by the Authority, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310 (b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-2 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO ECONOMIC ADJUSTMENT ASSISTANCE

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Number: 06-79-05539

Management of the Authority has not established an effective internal control system, which would include segregation of duties, related to reporting compliance requirements that have a direct and material effect to the program. The failure to establish an effective internal control system places the 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 grant.

Reporting: The Authority has contracted with a third party to perform the accounting function and administer the grant. The submitted reports were not reviewed or monitored by those in management or governance. The lack of oversight controls does not allow for the prevention, detection and correction of noncompliance with the compliance requirement.

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 type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. In

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Authority.

We recommended that the Authority's management establish controls, including segregation of duties, related to the reporting compliance requirements that have a direct and material effect to the program.

FINDING 2012-3 - REPORTING

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Number: 06-79-05539

As part of the grant agreement between the Authority and Economic Development Administration, the Authority is required to submit reimbursement requests, quarterly progress reports and semiannual financial reports. The Authority has not established controls or procedures for the accurate preparation of the required reports.

1. Outlay Report and Request for Reimbursement for Construction Programs (SF-271): We tested four reimbursement requests. Two were submitted with errors that were corrected by EDA, and which subsequently lowered the amount of reimbursement the Authority received.
2. Federal Financial Reports (SF-425): We tested four of the semiannual financial reports submitted during the audit. Two of the reports tested contained errors. On both reports, the basis of accounting was indicated as accrual when the report was prepared on the cash basis. For the reporting period ending March 31, 2012, the amounts reported were cumulative through April 10, 2012. For the reporting period ending September 30, 2012, the amounts reported were for the six month reporting period instead of being cumulative through the end of the reporting period as required.

15.CFR.24.20(b)(1) states: "Financial reporting: Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant."

Inaccurate reporting could result in the loss of federal funding.

We recommended that the Authority design and implement internal control procedures to ensure accurate reporting.

Corrective Action Plans

FINDING 2012-1 - INTERNAL CONTROL OVER FINANCIAL TRANSACTIONS AND REPORTING

Federal Agency: US Department of Commerce Economic Development Administration

Federal Program: Economic Adjustment

CFDA Number: 11.307

Grant Award Number: 06-79-05539

Auditee Contact Person: Don Schulte

Donald P Schulte 9/4/13

Title of Contact Person: Executive Director

Phone Number: 812-384-3527

Expected Completion Date: September 10, 2013

Corrective Action: The WestGate@Crane Authority (WGA) will work in conjunction with the financial administration and management agency Southern Indiana Development Commission (SIDC) in order to implement more internal controls over the financial transactions. The WGA receives monthly financial reports from SIDC which are presented to the Board members and the Board is allowed to ask additional questions regarding financing, forecasting and budgeting. Currently there is no record of what is being reported on a monthly basis. The financial reports will be reviewed and signed off by the Executive Director, Board President and Board Treasurer to ensure completeness and that the bank statements are reconciled. This documentation will be included with the minutes of each meeting.

In regards to the Preparing Schedule of Expenditures of Federal Awards (SEFA) the WGA will make sure that the SEFA report is reviewed and approved by the Executive Director. Part of the review process will ensure that other non-federal grants are not listed on the SEFA.

As well the Authority will adopt *Policies and Procedures to be used in the Administration of Federal Grant Programs*, which will govern how the Authority manages internal controls in relationship to federal grant programs.

Corrective Action Plans

FINDING 2012-2 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO ECONOMIC ADJUSTMENT ASSISTANCE

Federal Agency: US Department of Commerce Economic
Development Administration

Federal Program: Economic Adjustment

CFDA Number: 11.307

Grant Award Number: 06-79-05539

Auditee Contact Person: Don Schulte *Donald P. Schulte 9/4/13*

Title of Contact Person: Executive Director

Phone Number: 812-384-3527

Expected Completion Date: September 10, 2013

Corrective Action: The WestGate@Crane Authority (WGA) will work in conjunction with the financial administration and management agency Southern Indiana Development Commission (SIDC) in order to implement more internal controls over the financial transactions. The WGA receives monthly financial reports from SIDC which are presented to the Board members and the Board is allowed to ask additional questions regarding financing, forecasting and Budgeting. Currently there is no record of what is being reported on a monthly basis. The financial reports will be reviewed and signed off by the Executive Director, Board President and Board Treasurer to ensure completeness and that the bank statements are reconciled. This documentation will be included with the minutes of each meeting.

As well the Authority will adopt *Policies and Procedures to be used in the Administration of Federal Grant Programs*, which will govern how the Authority manages internal controls in relationship to federal grant programs.

Corrective Action Plans

Finding Number 2012-3 - REPORTING

Federal Agency: US Department of Commerce Economic
Development Administration

Federal Program: Economic Adjustment

CFDA Number: 11.307

Grant Award Number: 06-79-05539

Auditee Contact Person: Don Schulte

Donald P Schulte 9/17/13

Title of Contact Person: Executive Director

Phone Number: 812-384-3527

Expected Completion Date: September 10, 2013

Corrective Action: The WestGate@Crane Authority (WGA) will work in conjunction with the grant administration professionals Southern Indiana Development Commission (SIDC) in order to assure more accurate reporting on financial draws. In regards to the Outlay Report and Request for Reimbursement for Construction Programs (SF-271) being wrong EDA requests that all expenses and background documentation be turned in on the project and then EDA will work with Administrator and Lead agency to determine eligibility of items on the request for federal reimbursement. EDA does not work with the Administrator before the request is made to determine eligibility of expenses.

In regards to Federal Financial Reports (SF-425): The reports will be prepared on the cash basis rather than an accrual basis. That being said, the WGA will implement more internal controls over the financial reports to EDA. The WGA receives monthly financial reports from SIDC which are presented to the Board members and the Board is allowed to ask additional questions regarding financing, forecasting and budgeting. Currently there is no record of what is being reported on a monthly basis. The financial reports will be reviewed and signed off by the Executive Director, Board President and Board Treasurer to ensure completeness and that to the best of the knowledge of the Administrator and WGA that all documentation is complete and correct. Meetings held in this regard will be documented and included in the minutes of each meeting.

As well the Authority will adopt *Policies and Procedures to be used in the Administration of Federal Grant Programs*, which will govern how the Authority manages internal controls in relationship to federal grant programs.

WESTGATE @ CRANE AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on August 28, 2013, with Donald P. Schulte, Executive Director; Elaine Wellman, Treasurer; John Mensch, President of the Board; Michelle Carrico, SIDC Program Manager; and Janice Taylor, SIDC Representative. The officials concurred with our audit findings.