

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

GARY CHICAGO INTERNATIONAL  
AIRPORT AUTHORITY  
LAKE COUNTY, INDIANA

January 1, 2012 to December 31, 2012



**FILED**  
11/18/2013



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Independent Auditor's Report .....	3-5
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 .....	6-7
Financial Statement:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis .....	10
Notes to Financial Statement.....	11-15
Supplementary Information - Unaudited:	
Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis .....	18
Schedule of Payables and Receivables .....	19
Schedule of Leases and Debt .....	20
Schedule of Capital Assets.....	21
Audit Results and Comments:	
Amounts Over Claimed for Reimbursement.....	22-24
Public Works Project .....	24
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance.....	26-28
Schedule of Expenditures of Federal Awards .....	30
Note to Schedule of Expenditures of Federal Awards.....	31
Schedule of Findings and Questioned Costs .....	32-42
Auditee Prepared Schedule:	
Corrective Action Plan.....	43-45
Exit Conference.....	46
Official Response .....	47

### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Steven Landry (Interim)	01-01-12 to 09-23-13
	(Vacant)	09-24-13 to 09-30-13
	Bridgette R. Lane (Interim)	10-01-13 to 12-31-13
Finance Manager/Treasurer	Nikki Thorn	01-01-12 to 09-21-12
	Kathleen Kurfman (Interim)	09-22-12 to 11-18-12
	Carolyn Keith	11-19-12 to 12-31-13
President of the Airport Authority Board	Nathaniel Williams	01-01-12 to 08-31-13
	Thomas M. Collins, Sr.	09-01-13 to 12-31-13



## INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE GARY CHICAGO INTERNATIONAL  
AIRPORT AUTHORITY, LAKE COUNTY, INDIANA

### ***Report on the Financial Statement***

We have audited the accompanying financial statement of the Gary Chicago International Airport Authority (Airport Authority), which comprises the financial position and results of operations for the year ended 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 Airport 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 Airport 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 Airport 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 Airport Authority for the year ended 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 Airport Authority for the year ended 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 October 28, 2013, on our consideration of the Airport 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 Airport 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 Airport 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 Airport Authority's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, 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.

*Other Information*

The Airport Authority's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the Airport Authority's response and, accordingly, we express no opinion on it.

  
Paul D. Joyce, CPA  
State Examiner

October 28, 2013



**STATE OF INDIANA**  
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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 GARY CHICAGO INTERNATIONAL  
AIRPORT AUTHORITY, LAKE 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 Gary Chicago International Airport Authority (Airport Authority), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated October 28, 2013, wherein we noted the Airport 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 Airport 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 Airport Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Airport 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 2012-01 to be material weaknesses.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Airport 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

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)

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 2012-01.

***Gary Chicago International Airport Authority's Response to Findings***

The Airport Authority's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The Airport 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 Airport 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 Airport Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

October 28, 2013

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## FINANCIAL STATEMENT

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

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For The Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
General Fund (007)	\$ 1,254,852	\$ 2,443,355	\$ 2,182,737	\$ 1,515,470
Passenger Facility Charges Fund (012)	30,934	2,809,677	3,589,357	(748,746)
Cumulative Building Fund (009)	12,398,126	38,645,337	37,432,993	13,610,470
Non-Reverting Airport Development Fund (015)	474,077	-	6,108	467,969
ADZ TIF Allocation Fund (014)	21,308,618	16,051,671	12,367,141	24,993,148
Marketing Fund (310)	303,281	15,782	99,069	219,994
Payroll Fund (300)	10,397	421,253	406,425	25,225
Totals	<u>\$ 35,780,285</u>	<u>\$ 60,387,075</u>	<u>\$ 56,083,830</u>	<u>\$ 40,083,530</u>

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

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENT

**Note 1. Summary of Significant Accounting Policies**

*A. Reporting Entity*

The Airport Authority was established under the laws of the State of Indiana. The Airport Authority operates under an appointed governing board.

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

*B. Basis of Accounting*

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana 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 may 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 Airport 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, financial institution tax received from the state, auto excise surtax received from the state, and commercial vehicle excise tax received from the state.

Charges for services which can include, but are not limited to the following: copies of public records, copy machine charges, hanger rental fees, parking fees, and fuel.

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.

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*E. Disbursements*

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements may 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.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the Airport Authority. It includes all expenditures for the reduction of the principal and interest of the Airport Authority's general obligation indebtedness.

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.

*F. Interfund Transfers*

The Airport Authority may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

*G. Fund Accounting*

Separate funds are established, maintained, and reported by the Airport Authority. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the Airport. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the Airport Authority in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**Note 2. Budgets**

The operating budget is initially prepared and approved at the local level. The fiscal officer of the Airport submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

**Note 3. Property Taxes**

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the Airport Authority in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

**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 Airport 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 Airport 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 Airport 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.

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**Note 6. Pension Plan**

*Public Employees' Retirement Fund*

*Plan Description*

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the Airport Authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System  
1 North Capital Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

*Funding Policy and Annual Pension Cost*

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

**Note 7. Cash Balance Deficits**

The Passenger Facility Charges Fund accounts for passenger facility charges collected by the City of Chicago at the Chicago Airports for financing certain capital projects. The Airport Authority must disburse the funds for the capital projects prior to being reimbursed by the City of Chicago from the passenger facility charges; thus, the reported cash and investment balance of the Passenger Facility Charges Fund is a deficit balance.

**Note 8. Subsequent Events**

*Runway Expansion*

The Airport Authority is continuing the Runway Expansion Work at an estimated cost of \$166,000,000, which includes railroad relocation. The expected completion date has been extended to September 2014, due to unforeseen environmental issues. The Runway Expansion is necessary in order for the Airport Authority to accept international flights.

In January 2013, the Airport Authority awarded the Airfield Paving Contract to Rieth Riley Inc., in the amount of \$10,460,832.61.

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*Privatization*

The Airport Authority is seeking proposals from private investors to allow for the development of the airport and the surrounding area. The Airport Authority wants to hire a management firm to run the airport for 5 to 10 years. It also wants to give a developer an exclusive contract of 20 to 40 years to develop the airport and its surroundings.

*Cancelation of Service*

Allegiant Air cancelled service on August 10, 2013, due to lack of demand for its low cost flights from Gary to Orlando.

*Change in Governing Statute*

The General Assembly amended Indiana Code 8-22-3-4.3, effective September 1, 2013. The changes include terminating the term of each member serving on the Board of the Airport Authority originally established by the City of Gary. The appointing authorities are required to appoint new members to the Board as soon as possible after August 31, 2013.

The Board member appointed by the Governor of the State of Indiana will serve as the President of the Board.

Each person appointed by an appointing authority must have knowledge and at least 5 years of professional work experience in at least 1 of the following:

1. Aviation management at an executive level
2. Regional economic development
3. Business or finance

The Board of the Airport Authority shall contract with a certified public accountant for an annual financial audit of the Airport Authority, after review of the accountant's proposal and approval of the accountant by the Indiana State Board of Accounts.

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## SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Airport 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 Report of the Airport Authority which is 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 Airport Authority. It is presented as intended by the Airport Authority.

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012

	General Fund (007)	Passenger Facility Charges Fund (012)	Cumulative Building Fund (009)	Non-Reverting Airport Development Fund (015)	ADZ TIF Allocation Fund (014)	Marketing Fund (310)	Payroll Fund (300)	Totals
Cash and investments - beginning	\$ 1,254,852	\$ 30,934	\$ 12,398,126	\$ 474,077	\$ 21,308,618	\$ 303,281	\$ 10,397	\$ 35,780,285
Receipts:								
Taxes	536,102	-	79,880	-	4,045,795	-	-	4,661,777
Intergovernmental	42,984	2,809,677	6,405	-	-	-	-	2,859,066
Charges for services	1,243,051	-	66,001	-	-	-	-	1,309,052
Other receipts	621,218	-	38,493,051	-	12,005,876	15,782	421,253	51,557,180
Total receipts	<u>2,443,355</u>	<u>2,809,677</u>	<u>38,645,337</u>	<u>-</u>	<u>16,051,671</u>	<u>15,782</u>	<u>421,253</u>	<u>60,387,075</u>
Disbursements:								
Personal services	962,746	-	-	-	-	-	-	962,746
Supplies	147,150	-	-	-	-	-	-	147,150
Other services and charges	1,057,719	1,850,177	1,399,061	201	-	99,069	-	4,406,227
Capital outlay	13,398	1,739,180	24,033,932	5,907	367,141	-	-	26,159,558
Other disbursements	1,724	-	12,000,000	-	12,000,000	-	406,425	24,408,149
Total disbursements	<u>2,182,737</u>	<u>3,589,357</u>	<u>37,432,993</u>	<u>6,108</u>	<u>12,367,141</u>	<u>99,069</u>	<u>406,425</u>	<u>56,083,830</u>
Excess (deficiency) of receipts over disbursements	<u>260,618</u>	<u>(779,680)</u>	<u>1,212,344</u>	<u>(6,108)</u>	<u>3,684,530</u>	<u>(83,287)</u>	<u>14,828</u>	<u>4,303,245</u>
Cash and investments - ending	<u>\$ 1,515,470</u>	<u>\$ (748,746)</u>	<u>\$ 13,610,470</u>	<u>\$ 467,969</u>	<u>\$ 24,993,148</u>	<u>\$ 219,994</u>	<u>\$ 25,225</u>	<u>\$ 40,083,530</u>

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF PAYABLES AND RECEIVABLES  
December 31, 2012

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	<u>\$ 16,838,523</u>	<u>\$ 6,290,792</u>

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
 SCHEDULE OF LEASES AND DEBT  
 December 31, 2012

Type	Description of Debt Purpose	Ending Principal Balance	Principal Due Within One Year
Governmental activities: Revenue bonds	Gary Jet Center Hangar Revenue Bonds	\$ 8,190,000	\$ 345,000
Totals		<u>\$ 8,190,000</u>	<u>\$ 345,000</u>

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
 SCHEDULE OF CAPITAL ASSETS  
 December 31, 2012

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	Ending Balance
Governmental activities:	
Land	\$ 12,779,521
Infrastructure	15,482,536
Buildings	24,527,653
Improvements other than buildings	14,175,025
Machinery, equipment, and vehicles	5,262,945
Construction in progress	34,654,171
Total governmental activities	106,881,851
Total capital assets	\$ 106,881,851

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
AUDIT RESULTS AND COMMENTS

**AMOUNTS OVER CLAIMED FOR REIMBURSEMENT**

The Airport Authority received four airport improvement grant awards from the U.S. Department of Transportation (USDOT), as well as grant awards from the State of Indiana Department of Transportation (INDOT), the City of Chicago, and the Northwest Indiana Regional Development Authority (RDA). The purpose of these grants was to reimburse the Airport Authority for costs associated with the Runway Extension Project, which includes relocation of the railroad.

*Duplicated Reimbursements From RDA, USDOT, and INDOT:*

The Airport Authority advertised for bids for all of the projects listed below (excluding NGC). For each bid, the Construction Manager held a pre-bid meeting. In the minutes of the pre-bid meeting, it was indicated as to how the contract would be funded, based upon instruction by the Finance Manager. Furthermore, upon award of the construction contract, a purchase order, as prepared and signed by the Finance Manager, as well as signed by the Interim Airport Director, would be approved by the Board. This purchase order would indicate from which grant award the reimbursements would be made.

The purchase orders for each of the contractors and projects listed below indicated the disbursements were to be funded by the RDA and not USDOT or INDOT. In addition, the pre-bid meeting minutes for Dyer Construction/REP003, Walsh Construction II/REP011, and Superior Construction/REP006 indicated the funding for the projects was through the RDA grant.

Several of the same vendor invoices submitted for reimbursement to the RDA were also submitted to the USDOT and INDOT for reimbursement. In accordance with the grant agreements with USDOT and INDOT, only a percentage of each invoice would be reimbursed as the Airport Authority was required to provide a specified percentage as a local match. The following indicates the total of the invoices submitted for reimbursement, and the reimbursements received from each of the respective agencies. The "Local" amount is the amount that the Airport Authority was required to provide as the local match.

Contractor/Project Invoice Number	Invoice Amount	RDA Reimbursement	Airport Improvement Grants			
			Federal	State	Local	Totals
<b>Dyer Construction/REP003:</b>						
Invoice 1121-01	\$ 476,744.83	\$ 476,744.83	\$ 452,907.59	\$ 5,959.31	\$ 17,877.93	\$ 476,744.83
Invoice 1121-02	328,836.29	328,836.30	312,394.49	4,110.45	12,331.35	328,836.29
Invoice 1121-03	720,705.11	720,705.11	592,417.93	12,335.00	37,004.99	641,757.92
Invoice 1121-04	238,247.42	238,247.42	289,422.52	6,943.02	20,829.07	317,194.61
Invoice 1121-05	113,606.40	113,606.40	102,245.76	2,840.16	8,520.48	113,606.40
<b>Walsh Construction II/REP011:</b>						
Application 1	224,919.84	224,919.84	213,673.85	2,811.50	8,434.49	224,919.84
Application 2	184,720.80	184,720.80	175,389.76	2,307.76	7,023.28	184,720.80
Application 3	280,140.23	280,140.23	266,133.22	3,501.75	10,505.26	280,140.23
Application 4	414,614.56	414,614.56	393,883.83	5,182.68	15,548.05	414,614.56
Application 5	965,121.61	965,121.61	896,796.88	17,080.71	51,244.02	965,121.61
Application 6	595,349.89	595,349.89	535,814.90	14,883.75	44,651.24	595,349.89
Application 7	99,358.76	99,358.76	89,422.88	2,483.97	7,451.91	99,358.76
<b>Reith Riley Construction/REP002:</b>						
Estimate No. 1	926,239.73	926,239.73	879,927.74	11,578.00	34,733.99	926,239.73
Estimate No. 2	1,566,442.31	1,566,442.30	1,488,120.19	19,580.53	58,741.58	1,566,442.30
Estimate No. 3	721,447.06	721,447.06	685,374.71	9,018.09	27,054.26	721,447.06
Estimate No. 4	266,776.38	266,776.38	253,437.56	3,334.70	10,004.11	266,776.38

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
AUDIT RESULTS AND COMMENTS  
(Continued)**

Contractor/Project Invoice Number	Invoice Amount	RDA Reimbursement	Airport Improvement Grants			Totals
			Federal	State	Local	
Superior Construction/REP006:						
Invoice 1	706,662.40	706,662.40	671,329.28	8,833.28	26,499.84	706,662.40
Invoice 2	50,769.17	50,769.17	48,230.72	634.61	1,903.84	50,769.17
Invoice 3	146,794.35	146,794.35	139,454.63	1,834.93	5,504.79	146,794.35
Invoice 4	841,329.94	841,329.94	799,263.44	10,516.62	31,549.87	841,329.94
NGC :						
Invoice 1667	48,732.85	48,732.85	43,859.57	1,218.32	3,654.96	48,732.85
<b>Totals</b>	<b>\$ 9,917,559.93</b>	<b>\$ 9,917,559.93</b>	<b>\$ 9,329,501.45</b>	<b>\$ 146,989.15</b>	<b>\$ 441,069.33</b>	<b>\$ 9,917,559.92</b>

*Duplicated Reimbursements from RDA and City of Chicago:*

Invoices submitted by DLZ, Incorporated (an Engineering, Surveying, and Architectural Firm) for payment by the Airport Authority for Runway Extension services were submitted to the RDA for reimbursement. These same invoices were also submitted to the City of Chicago for reimbursement. Reimbursements were received from both the RDA and the City of Chicago in the amounts indicated as follows:

DLZ Invoice Number	Invoice Amount	RDA Reimbursement	City of Chicago			Excess Reimbursement
			Amount Requested	Amount Denied	Amount Reimbursed	
Invoice 403999	\$ 56,070.00	\$ 56,070.00	\$ 56,070.00	\$ -	\$ 56,070.00	\$ 56,070.00
Invoice 403912	101,372.50	101,372.50	101,372.50	(1,527.50)	99,845.00	99,845.00
Invoice 404026	82,266.75	82,266.75	82,266.75	(360.00)	81,906.75	81,906.75
Invoice 404042	126,322.50	126,322.50	126,322.50	-	126,322.50	126,322.50
Invoice 404079	100,600.00	100,600.00	100,600.00	-	100,600.00	100,600.00
Invoice 404106	123,294.50	123,294.50	123,294.50	-	123,294.50	123,294.50
Invoice 404138	145,779.25	145,779.25	145,779.25	-	145,779.25	145,779.25
Invoice 404164	122,815.75	122,815.75	122,815.75	-	122,815.75	122,815.75
Invoice 403868	20,060.00	20,060.00	20,060.00	-	20,060.00	20,060.00
Invoice 403880	27,020.00	27,020.00	27,020.00	(400.00)	26,620.00	26,620.00
<b>Totals</b>	<b>\$ 905,601.25</b>	<b>\$ 905,601.25</b>	<b>\$ 905,601.25</b>	<b>\$ (2,287.50)</b>	<b>\$ 903,313.75</b>	<b>\$ 903,313.75</b>

Engineering services were not bid; however, purchase orders for each of the invoices above indicated the funding source as the RDA.

The Airport Authority commingled the grant funds from the USDOT, the INDOT, and the RDA into a single fund. By commingling the funds, it would be difficult to readily identify which invoices had been reimbursed or submitted for reimbursement under each grant award.

Also, although the Airport Authority indicated, in bid documents and on purchase orders, which agencies would be responsible for reimbursement, no one verified that the invoices used for claims for reimbursement agreed to those documents.

The current Finance Manager discovered that the same invoices from contractors were submitted to multiple agencies for reimbursement as she was preparing the annual financial statement. Upon discovery, the Airport Authority contacted the RDA. The RDA instructed the Airport Authority to return the funds they reimbursed. The grant agreement with the RDA states the following:

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
AUDIT RESULTS AND COMMENTS  
(Continued)

"Grantees failure to expend RDA monies in accordance with this Agreement shall be considered a material breach of this Agreement. . . . Additionally, the RDA may seek reimbursement from Grantee for any funds expended in violation of this agreement."

The Airport Authority returned \$10,379,804.08 to the RDA on August 9, 2013. This consists of the Federal (\$9,329,501.45), State (\$146,989.15), and City of Chicago (\$903,313.75) reimbursements (less \$0.35), but excludes the local match and the amounts denied by the City of Chicago. The amount returned also excludes any interest that was earned on that money. The RDA has also imposed additional requirements upon the Airport Authority in order to receive future grant funds.

Subsequent to notification to the RDA and determining corrective action, the Airport Authority also contacted the local Federal Aviation Administration office (who administer the Airport Improvement Grants), and the City of Chicago.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines for Special Districts, Chapter 10)

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 for Special Districts, Chapter 10)

Persons, companies or governmental units that have overpaid amounts to a governmental unit are entitled to a repayment or refund by check or warrant. (Accounting and Uniform Compliance Guidelines for Special Districts, Chapter 10)

***PUBLIC WORKS PROJECT***

The Airport Authority contracted with Dyer Construction for a Clearing and Grubbing Project (REP0012). The total cost of this project was originally \$1,798,431.99. Change orders increasing the scope of this project totaled \$614,541.93 or 34 percent of the original project.

Indiana Code 36-1-12-18(d) states:

"The total of all change orders issued that increase the scope of the project may not exceed twenty percent (20%) of the amount of the original contract. A change order issued as a result of circumstances that could not have been reasonably foreseen does not increase the scope of the project."

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
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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 GARY CHICAGO INTERNATIONAL  
AIRPORT AUTHORITY, LAKE COUNTY, INDIANA

***Report on Compliance for Each Major Federal Program***

We have audited the Gary Chicago International Airport Authority's (Airport 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 year ended December 31, 2012. The Airport 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 of the Airport 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 Airport 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 Airport Authority's compliance.

***Basis for Adverse Opinion on Airport Improvement Program***

As described in items 2012-03 through 2012-05 in the accompanying Schedule of Findings and Questioned Costs, the Airport Authority did not comply with requirements regarding allowable costs, cash management, and reporting that are applicable to its Airport Improvement Program. Compliance with such requirements is necessary, in our opinion, for the Airport 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)

***Adverse Opinion on Airport Improvement Program***

In our opinion, because of the significance of the noncompliance described in the *Basis for Adverse Opinion* paragraph, the Airport Authority did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on the Airport Improvement Program.

***Other Matters***

The Airport Authority's response to the noncompliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The Airport 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 Airport 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 Airport Authority's internal control over compliance with the type of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the 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 Airport Authority's internal control over compliance.

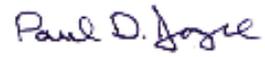
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses 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 2012-02 to be material weaknesses.

The Airport Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The Airport 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.

  
Paul D. Joyce, CPA  
State Examiner

October 28, 2013

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Year Ended December 31, 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
<u>DEPARTMENT OF TRANSPORTATION</u>				
Airport Improvement Program	Direct grant			
Runway Expansion		20.106	3-18-0028-28	\$ 2,893,019
Runway Expansion		20.106	3-18-0028-25	4,813,104
Runway Expansion		20.106	3-18-0028-26	5,150,000
Drainage Project		20.106	3-18-0028-27	<u>214,974</u>
Total - Department of Transportation				<u>13,071,097</u>
Total federal awards expended				<u>\$ 13,071,097</u>

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

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
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 Gary Chicago International Airport 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.

GARY CHICAGO INTERNATIONAL AIRPORT 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:	Adverse
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:

CFDA Number	Name of Federal Program or Cluster
20.106	Airport Improvement Program

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 2012-01 - INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING**

We noted deficiencies in the internal control system of the Gary Chicago International Airport Authority (Airport Authority) related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses. Without a proper system of internal controls over financial transactions and reporting in place that operates effectively, material misstatements could occur which would remain undetected.

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Financial Statement and Schedule of Expenditures of Federal Assistance*

Effective controls have not been established to allow for review and verification of the Financial Statement and Schedule of Expenditures of Federal Assistance (SEFA). The control deficiencies related to the Schedule of Expenditures of Federal Assistance allowed for errors in the reporting of the expenditures of the federal assistance.

Financial statements were prepared monthly by the Finance Manager. Reconcilements of bank and investment balances were prepared monthly by a finance clerk, and reviewed by the Finance Manager. The monthly financial statements prepared by the Finance Manager were included in the Board packets given to Board members, but the bank reconcilements were not included in the packets to allow Board members the ability to confirm that the reported cash and investment balances agreed to the reconciled cash and investment balances. Additionally, the review of minutes does not indicate that the financial statements were acted upon by the Board.

The annual financial statement and SEFA was prepared by the Finance Manager. Neither the financial statement nor the SEFA were reviewed by another member of management or the governing board prior to submission to the State via the Gateway system.

Due to the limited number of staff members, the Finance Manager participates in other finance functions such as receipting and depositing collections, issuing and signing checks for vendor disbursements, and signing payroll checks. Since the Finance Manager is involved in these other functions related to financial reporting, the Airport Board should not be relying solely upon her to review the financial statements and bank reconcilements.

Furthermore, the Airport Authority overreported expenditures for three of the four grant awards. The expenditures for the 3-18-0028-25 and 3-18-0028-26 were individually overstated by \$67,763, and the expenditures for the 3-18-0028-27 award were overstated by \$2,829. In each case, the Airport Authority included amounts reimbursed by the State as federal reimbursements.

The Airport Authority also did not correctly identify the "Other Identifying Numbers" or "grant awards" in the preparation of the SEFA.

The errors noted in the preparation and reporting of the federal expenditures were corrected in the SEFA presented within this report as agreed to by the Finance Manager.

*Receipts*

Due to the limited number of staff members, the Airport Authority has been unable to effectively segregate duties related to their receipting process. The Finance Manager participates in receipting collections, taking the collections to the bank for deposit, and recording the receipts in the records. Controls currently lack evidence that duties have been segregated between the receipt issuance function and preparation of the deposit ticket.

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.

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

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:

- (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."

We recommended that the Airport Authority establish and implement effective controls over financial transactions and reporting, including segregation of duties.

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section III – Federal Award Findings and Questioned Costs**

**FINDING 2012-02 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE AIRPORT IMPROVEMENT PROGRAM**

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number: 3-18-0028-25, 3-18-0028-26, 3-18-0028-27, 3-18-0028-28

Pass-Through Entity: Direct

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 all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Activities Allowed, Allowable Costs, Cash Management, Davis-Bacon Act, Matching, Period of Availability, and Reporting. The failure to establish an effective internal control system places the Airport Authority at risk of noncompliance with the grant agreements 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.

Management has not established separate funds to account for the activities of each grant award. By establishing separate funds to account for each grant award, officials can efficiently and effectively monitor compliance requirements related to activities allowed, allowable costs, cash management, matching, period of availability, and reporting.

The Airport Authority received reimbursements for construction related activities from the Airport Improvement Program Grant, the State of Indiana, the City of Chicago, and the Northwest Indiana Regional Development Authority (RDA). The receipts and disbursements associated with each of these grants, except for the City of Chicago, were recorded in the Airport Cumulative Building Fund.

*Activities Allowed, Allowable Costs, Matching, Period of Availability*

Blanket purchase orders were prepared by the Finance Manager and submitted to the Board for approval when a construction contract was approved. The purchase orders were noted as signed by the Interim Airport Director through the use of a signature stamp. The blanket purchase order indicated the total dollar amount of the approved construction contract as well as the grant award from which the associated construction invoices would be paid. A control had not been established to ensure that the vendor invoices were paid from the grant awards indicated on the blanket purchase order.

Establishing controls to ensure vendor invoices are paid from grant awards indicated on the approved purchase orders would assist management to ensure only allowable costs applicable to a specific grant award will be subsequently claimed for reimbursement.

*Activities Allowed, Allowable Costs, Cash Management, Matching, Period of Availability, and Reporting*

Airport management relied upon a paid consultant to prepare claims for reimbursements of federal funds and assist the Finance Manager in ensuring compliance with activities allowed, allowable costs, cash management, matching, and period of availability. Invoices were provided to the consultant by the Finance Manager. The Finance Manager relied upon the consultant's expertise with the Airport Improvement Grants

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

to provide guidance, as evidenced by notes and emails. The Finance Manager, who initiates the claims for reimbursement by providing the invoices to the paid consultant, indicated that she reviewed the claims for reimbursement prior to submission for reimbursement; however, there was a lack of evidence that such reviews were being performed.

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.

*Davis-Bacon Act*

Airport Management relies upon paid consultants to ensure compliance with the Davis-Bacon Act (payment of prevailing wages).

1. The contractors submitted payment applications to the Project Engineers. Before the Project Engineers approved the payment, the Project Engineers must receive the certified weekly payrolls from the Contractor. The Project Engineers stated that they ensured the wages paid equal or exceed the applicable prevailing wage rates. However, no indication was made on the copies of the certified payrolls or other forms of documentation maintained as evidence that such reviews were conducted.
2. A system of controls to ensure all certified payrolls were received did not exist.
3. The management of the Airport Authority did not receive any correspondence from the paid consultants to ensure compliance with the Davis-Bacon Act.

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, 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."

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 Airport Authority.

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

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**FINDING 2012-03 - COMPLIANCE RELATED TO THE AIRPORT  
IMPROVEMENT PROGRAM ALLOWABLE COSTS**

Federal Agency: Department of Transportation  
Federal Program: Airport Improvement Program  
CFDA Number: 20.106  
Federal Award Number: 3-18-0028-25, 3-18-0028-26, 3-18-0028-27, 3-18-0028-28  
Pass-Through Entity: Direct

The Airport Authority received four airport improvement grant awards from the U.S. Department of Transportation (USDOT), as well as grant awards from the State of Indiana the City of Chicago, and the Northwest Indiana Regional Development Authority (RDA). The purpose of these grants was to reimburse the Airport Authority for costs associated with the Runway Extension Project, which includes relocation of the railroad.

Several of the same vendor invoices submitted for reimbursement to the RDA were also submitted to the USDOT and Indiana Department of Transportation (INDOT) for reimbursement. In accordance with the grant agreements with USDOT and INDOT, only a percentage of each invoice would be reimbursed as the Airport Authority was required to provide a specified percentage as a local match. The following indicates the total of the invoices submitted for reimbursement, and the amounts reimbursed from each of the respective agencies. The "Local" amount is the amount that the Airport Authority was required to provide as the local match.

Contractor/Project Invoice Number	Invoice Amount	RDA Reimbursement	Airport Improvement Grants				Federal Excess Reimbursement
			Federal	State	Local	Totals	
<b>Dyer Construction/REP003:</b>							
Invoice 1121-01	\$ 476,744.83	\$ 476,744.83	\$ 452,907.59	\$ 5,959.31	\$ 17,877.93	\$ 476,744.83	\$ 452,907.59
Invoice 1121-02	328,836.29	328,836.30	312,394.49	4,110.45	12,331.35	328,836.29	312,394.49
Invoice 1121-03	720,705.11	720,705.11	592,417.93	12,335.00	37,004.99	641,757.92	592,417.93
Invoice 1121-04	238,247.42	238,247.42	289,422.52	6,943.02	20,829.07	317,194.61	289,422.52
Invoice 1121-05	113,606.40	113,606.40	102,245.76	2,840.16	8,520.48	113,606.40	102,245.76
<b>Walsh Construction II/REP011:</b>							
Application 1	224,919.84	224,919.84	213,673.85	2,811.50	8,434.49	224,919.84	213,673.85
Application 2	184,720.80	184,720.80	175,389.76	2,307.76	7,023.28	184,720.80	175,389.76
Application 3	280,140.23	280,140.23	266,133.22	3,501.75	10,505.26	280,140.23	266,133.22
Application 4	414,614.56	414,614.56	393,883.83	5,182.68	15,548.05	414,614.56	393,883.83
Application 5	965,121.61	965,121.61	896,796.88	17,080.71	51,244.02	965,121.61	896,796.88
Application 6	595,349.89	595,349.89	535,814.90	14,883.75	44,651.24	595,349.89	535,814.90
Application 7	99,358.76	99,358.76	89,422.88	2,483.97	7,451.91	99,358.76	89,422.88
<b>Reith Riley Construction/REP002:</b>							
Estimate No. 1	926,239.73	926,239.73	879,927.74	11,578.00	34,733.99	926,239.73	879,927.74
Estimate No. 2	1,566,442.31	1,566,442.30	1,488,120.19	19,580.53	58,741.58	1,566,442.30	1,488,120.19
Estimate No. 3	721,447.06	721,447.06	685,374.71	9,018.09	27,054.26	721,447.06	685,374.71
Estimate No. 4	266,776.38	266,776.38	253,437.56	3,334.70	10,004.11	266,776.38	253,437.56
<b>Superior Construction/REP006:</b>							
Invoice 1	706,662.40	706,662.40	671,329.28	8,833.28	26,499.84	706,662.40	671,329.28
Invoice 2	50,769.17	50,769.17	48,230.72	634.61	1,903.84	50,769.17	48,230.72
Invoice 3	146,794.35	146,794.35	139,454.63	1,834.93	5,504.79	146,794.35	139,454.63
Invoice 4	841,329.94	841,329.94	799,263.44	10,516.62	31,549.87	841,329.94	799,263.44
<b>NGC:</b>							
Invoice 1667	48,732.85	48,732.85	43,859.57	1,218.32	3,654.96	48,732.85	43,859.57
<b>Totals</b>	<b>\$ 9,917,559.93</b>	<b>\$ 9,917,559.93</b>	<b>\$ 9,329,501.45</b>	<b>\$ 146,989.15</b>	<b>\$ 441,069.33</b>	<b>\$ 9,917,559.92</b>	<b>\$ 9,329,501.45</b>

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The Airport Authority advertised for bids for all of the above projects (excluding NGC). For each bid, the Construction Manager held a pre-bid meeting. In the minutes of the pre-bid meeting, it was indicated as to how the contract would be funded, based upon instruction by the Finance Manager. Furthermore, upon award of the construction contract, a purchase order, as prepared and signed by the Finance Manager, as well as signed by the Interim Airport Director, would be approved by the Board. This purchase order would indicate from which grant award the reimbursements would be made.

The purchase orders for each of the contractors and projects listed above indicated the disbursements were to be funded by the RDA and not USDOT or INDOT. Furthermore, pre-bid minutes for Dyer Construction/REP003, Walsh Construction II/REP011, and Superior Construction/REP006 indicated the funding for the project was through an RDA grant.

Each of the contractor's invoices claimed for reimbursement through both the Airport Improvement Program grants and the RDA grant were first claimed against the RDA grant. The RDA claims for reimbursement for the above invoices were prepared monthly for periods ending September 30, 2011 through August 31, 2012. The RDA claims for reimbursement prepared for the months ending September 30, 2011 through July 31, 2012, were not submitted to the RDA until August 8, 2012, and were subsequently reimbursed on December 28, 2012. These same invoices were also submitted on claims for reimbursement to the USDOT (Federal Aviation Administration) on either October 8, 2012 or October 15, 2012, and were subsequently reimbursed on October 17, 2012 or November 29, 2012.

The former Finance Manager prepared and submitted the claims for reimbursement to the RDA. A paid consultant prepared the claims for reimbursement for the Airport Improvement Program grants, based upon invoices received from the Finance Manager. Due to the timing of the submission of claims for reimbursement submitted for the Airport Improvement Program grants, it is unclear as to who (the former Finance Manager or the Interim Airport Director) provided the same invoices already used for the RDA claims for reimbursement, as the former Finance Manager resigned on September 21, 2012.

The reimbursements from the Airport Improvement Program grants for the invoices that were claimed for reimbursement through the RDA grant in the amount of \$9,329,501.45 are considered questioned costs. The invoices were initially submitted for reimbursement to the RDA. Pre-bid meeting materials and purchase orders indicated the projects would be funded by the RDA. The duplication of reimbursement requests for funds would not be considered consistent with policies, regulations, and procedures that apply uniformly to both Federal awards, and other activities of the Airport Authority. Also, it is unclear as to how invoices claimed for reimbursement from a local grant could be considered also allocable to the federal award.

The current Finance Manager discovered that the same invoices from contractors were submitted to multiple agencies for reimbursement as she was preparing the annual financial statement. Upon discovery, the Airport Authority contacted the RDA. The RDA instructed the Airport Authority to return their funds. The funds were returned to the RDA on August 9, 2013. The RDA is also imposing additional requirements upon the Airport Authority in order to receive future grant funds. Subsequent to notification to the RDA and determining corrective action, the Airport Authority also contacted the local Federal Aviation Administration office (who administers the Airport Improvement Program grants) and the City of Chicago.

Circular No. A-87, Attachment A states in part:

"C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular.
- c. Be authorized or not prohibited under State or local laws or regulations.
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.
- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
- i. Be the net of all applicable credits.
- j. Be adequately documented."

49 CFR § 18.20 states in part:

"(b) The financial management systems of other grantees and subgrantees must meet the following standards: . . .

- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

By allowing the same invoices to be claimed for reimbursement from multiple agencies, the Airport Authority places itself at risk of not receiving subsequent grant awards, as well as having to repay amounts claimed in error.

We recommended that the Airport Authority submit claims for reimbursement to agencies which are consistent with pre-bid documents and purchase orders which have been initiated and approved by management.

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

***FINDING 2012-04 - COMPLIANCE RELATED TO AIRPORT  
IMPROVEMENT PROGRAM CASH MANAGEMENT***

Federal Agency: Department of Transportation  
Federal Program: Airport Improvement Program  
CFDA Number: 20.106  
Federal Award Number: 3-18-0028-26, 3-18-0028-28  
Pass-Through Entity: Direct

The Airport Authority was required to pay vendors prior to claiming amounts for reimbursement.

1. 3-18-0028-26 grant program: The Airport Authority requested reimbursement for construction work performed by Dyer Construction for clearing, grubbing, and grading during phase I in the amount of \$221,758.15 as of April 20, 2012. The Airport Authority received reimbursement of \$210,670.24 from the Airport Improvement Program on April 25, 2012. The payment to the Dyer Construction for the work performed was not issued by the Airport Authority until May 14, 2012.
2. 3-18-0028-28 grant program: The Airport Authority requested reimbursement for two vendor payment requests in the aggregate of \$569,936.83 for a construction reimbursable agreement with the Federal Aviation Administration and other architectural/engineering fees. The reimbursement of \$512,943.15 was received by the Airport Authority on October 17, 2012. The vendor payments issued by the Airport Authority were dated five to seven days after the receipt of the federal funds.

It is not clear as to why the vendors were not paid prior to requesting the reimbursements.

Airports who do not comply with grant requirements are at risk of losing future grant funding.

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."

31 CFR § 205.12(b)(5) states: "Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes."

We recommended that officials review compliance requirements related to grant management requirements to ensure compliance.

***FINDING 2012-05 - COMPLIANCE RELATED TO AIRPORT IMPROVEMENT PROGRAM REPORTING***

Federal Agency: Department of Transportation  
Federal Program: Airport Improvement Program  
CFDA Number: 20.106  
Federal Award Number: 3-18-0028-25, 3-18-0028-26, 3-18-0028-27, 3-18-0028-28  
Pass-Through Entity: Direct

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Under the Airport Improvement Program (AIP), the Airport Authority is required to prepare and file the following reports with the Federal Aviation Administration:

Outlay Report and Request for Reimbursement (SF 271)

Federal Financial Report (SF-425)

Operating and Financial Summary (FAA Form 5100-127)

Financial Government Payment Report (FAA 5100-126)

The Airport Authority prepared the Outlay Report and Request for Reimbursement using the outdated FAA Form 5100-60, which has been replaced by the SF 271 Outlay Report and Request for Reimbursement.

The Federal Financial Reports (SF-425) are required to be filed quarterly for the AIP grants. The Quarterly SF-425 is due within 30 days after the close of the quarter. Additionally, a final SF-425 is due after a grant is completed.

The quarterly reports for March 31, June 30, and September 30, were not filed until October 29, 2012; therefore, only the September 30, 2012 report was filed timely. The report for December 31, 2012, had not been filed as of August 20, 2013.

The Federal Financial Report (SF-425) requires the grantee to report cumulative receipts and disbursements as of the end of each quarter by grant award. The quarterly reports filed by the Airport Authority reflected only the receipts and disbursements for the quarter being reported. Cumulative amounts since the grant inception were not reported as required. Furthermore, the Airport Authority only reported amounts that were claimed and received as reimbursements. Amounts disbursed by the Airport Authority but not yet claimed for reimbursement were excluded from the reports. These reporting errors resulted in the Airport Authority materially misrepresenting the financial transactions of the grant award activities for the quarters in which reports were filed.

A Final SF-425 is due within 90 days of the project or period end. Only one Final SF-425 report was filed during 2012. The report filed on May 3, 2013, was on the 3-18-0028-28 grant award. Final reports for the 3-18-0028-26 and 3-18-0028-27 grant awards have not been filed.

The Airport Authority did not complete or file the Operating and Financial Summary (FAA Form 5100-27) or the Financial Government Payment Report (FAA Form 5100-126).

The Airport Authority failed to present an accurate and complete reporting of the grant activities by not completing and filing the required federal financial reports. This failure has a direct and material effect on the Airport Authority's ability to comply with reporting requirements.

49 CFR § 18.20 Standards for financial management systems states in part:

"(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *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."

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Lack of submission of complete and accurate required financial reports could inhibit the Airport Authority's ability to receive further federal financial assistance.

We recommended that the Airport Authority prepare accurate and complete reports in accordance with the federal guidelines.



October 28, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
CORRECTIVE ACTION PLAN

**Finding 2012-01 Internal Controls and Compliance Over Financial Transactions and Reporting**

**Financial Statement and Schedule of Expenditures of Federal Assistance (SEFA):**

The bank reconciliations will be prepared by the Accounting Specialist and approved/reviewed by the Finance Manager. The financial statements will be reviewed/approved by the Airport Director prior to submitting to the Board

All reports that are filed with outside agencies will be forwarded to the board for approval as well.

The extensive involvement of the Finance Manager in all financial transactions has existed since July, 2013. Since that time, the department which is normally staffed by two individuals has been staffed by one. Until a replacement is found, the following temporary controls have been implemented. The Office Manager writes the receipts and the Finance Manager makes the deposits. (In the absence of one of these individuals, the Deputy Director will fill in.) All vendor disbursements are reviewed by the Interim Director (This has always been a control that has been in place and will continue.) Payroll transactions will be signed off by the Interim Director. Once a replacement has been hired, the Accounting Specialist will prepare the payroll and the payroll transactions will be reviewed and approved by the Finance Manager. In addition, the Accounting Specialist will prepare the bank reconciliations, which will be reviewed and approved by the Finance Manager. All vendor disbursements will be processed by the Accounting Specialist and reviewed by the Finance Manager, as well as the Airport Director.

The SEFA will be reviewed for completeness prior to submission and only Federal transactions will be included.

Receipts:

Beginning with the October deposits, the Office Manager prepares the receipts and the Finance Manager prepares the deposit ticket and makes the deposit. When either of these individuals is not available the Deputy Director will fill in.

Annually when the schedule of expenditures for Federal awards is prepared a member of the management team (i.e. Airport Director or Deputy Director) will review the report for completeness and accuracy.

**Finding 2012-02 Internal Controls Over Compliance Requirements That Have A Direct and Material Effect to the Airport Improvement Program**

Federal Agency: U.S. Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number: 3-18-0028-25, 3-18-0028-26, 3-18-0028-27 & 3-18-0028-28

Pass-Through Entity: Direct

Separate funds for each of the Federal Grants will be established.

**Activities Allowed, Allowable Costs, Matching, Period of Availability:**

Projects have been realigned with the various funding sources to ensure that receipts and disbursements are uniquely allocated to each grant.

**Activities Allowed, Allowable Cost, Matching, Period of Availability, and Reporting:**

The Finance Manager currently submits the invoices to the consultant to process for reimbursement. The reimbursement report is prepared by the consultant and forwarded to the Finance Manager for final review and signoff. The Finance Manager reviews the report. After the review has been completed, an e-mail notification is sent to the consultant that the report can be submitted. Beginning with the next reimbursement submission, which will occur in late October or early November, 2013, the Finance Manager will initial the file copy of the documents indicating the reviews that were performed.

**Davis-Bacon Act**

A checklist will be established for the project manager to indicate his/her review of the prevailing wages, as well as other key document reviews. The project manager will be directed to initial his/her review of prevailing wage documents and to provide a checklist that tracks that the prevailing wage documents have been received. Monthly the Finance Manager will follow up with the project manager to ensure that the wage documents were reviewed and signed off by the project team. (These procedures will be implemented in November, 2013)

**Finding 2012-03 Compliance Related To the Airport Improvement Program**

**Allowable Costs**

Federal Agency: U.S. Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number: 3-18-0028-25, 3-18-0028-26; 2-18-0028-27; 3-18-0028-28

Pass-Through Entity: Direct

The process for submitting invoices to the various grantors was revised in December, 2012. The revised listing established for each grant is being followed. A single source of funding has been identified for each project. The RDA contract is currently being reviewed and modified for contracts that will only be funded by RDA. A certification statement prepared by RDA is being used as added insurance that the invoices submitted are only those approved under the grant and no other funding is being used. (The certification process has been in effect since the submission of the April, 2013 reimbursement request.) This certification requires the Board President, Airport Director and the Program/Construction Manager signoff.

**Finding 2012-04 Compliance Related to Airport Improvement Program Cash Management**

Federal Agency: U.S. Department of Transportation  
Federal Program: Airport Improvement Program  
CFDA Number: 20.106  
Federal Award Number: 3-18-0028-26, 3-18-0028-28  
Pass-Through Entity: Direct

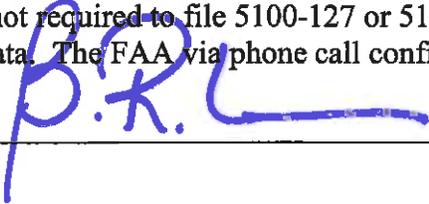
This issue was corrected in November, 2012. Paid invoices are remitted for reimbursement. The pay applications are received and reviewed for completeness of work, materials, appropriate unit cost, and mathematical accuracy. Checks are also made to ensure that the pay application does not exceed approved contract levels. The pay requests are then forwarded to the board for approval. Once they have been approved for payment, they are then forwarded to the appropriate grantor for reimbursement.

**Finding 2012-05 Compliance Related to Airport Improvement Program Reporting**

Federal Agency: U.S. Department of Transportation  
Federal Program: Airport Improvement Program  
CFDA Number: 20.106  
Federal Award Number 3-18-0028-25, 3-18-0028-26, 3-18-0028-27, 3-18-0028-28  
Pass-Through Entity: Direct

Form 5100-60: We spoke to the FAA and the submission of Form 5100-60 was still acceptable to them. The Airport, however, will start using Form 271 instead.

All SF-425 reports have been filed. The Airport is not required to file Form 5100-127 and Form 5100-126 until 2014. The FAA's Advisory Circular dated June 23, 2011 states in part that the filing of these reports is applicable to 'airports with 2,500 or more enplanements in the preceding calendar year. In 2012, enplanements were 11,441, the Airport is not required to file 5100-127 or 5100-126 until 2014 using Fiscal 2013 financial data. The FAA via phone call confirmed our interpretation of this guideline.

Signed:  \_\_\_\_\_, Interim Airport Director

GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
EXIT CONFERENCE

The contents of this report were discussed on October 28, 2013, with Bridgette R. Lane, Director; Carolyn Keith, Finance Manager/Treasurer; and Thomas M. Collins, Sr., President of the Airport Authority Board. The Official Response has been made a part of this report and may be found on page 47.



October 28, 2013

## AUDIT RESULTS AND COMMENTS

### Amounts Overclaimed For Reimbursement

Duplicated Reimbursements from RDA, USDOT and INDOT:  
Duplicated Reimbursements from RDA and City of Chicago:

The process for submitting invoices to the various grantors was revised in December, 2012. The revised listing established for each grant is being followed. A single source of funding has been identified for each project. The RDA contract is currently being reviewed and modified for contracts that will only be funded by RDA. A certification statement prepared by RDA is being used as added insurance that the invoices submitted are only those approved under the grant and no other funding is being used. (The certification process has been in effect since the submission of the April, 2013 reimbursement request.) This certification requires the Board President, Airport Director and the Program/Construction Manager's signoff.

### Public Works Project

IC 36-1-12-18 also states that a change order issued as a result of circumstances that could not have been reasonably foreseen does not increase the scope of the project. Upon review of the Change Orders processed in 2012, all three related to unforeseen circumstances. CM #1 in the amount of \$17,856.72 related to pipe line removal. CM#2 in the amount of \$247,605.86 related to demucking and CM #3 in the amount of \$352,643.75 related to unsuitable soil and contaminated oil. We will be careful to ensure that such specifics are identified in board minutes.

Signed: \_\_\_\_\_

  
Interim Airport Director