

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
MIAMI COUNTY ECONOMIC DEVELOPMENT AUTHORITY
MIAMI COUNTY, INDIANA
January 1, 2012 to December 31, 2013



FILED
11/07/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	James E. Tidd	01-01-12 to 12-31-14
Treasurer	Thomas Webster	01-01-12 to 12-31-14
Chairman of the Board	James Yates	01-01-12 to 12-31-14



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TO: THE OFFICIALS OF THE MIAMI COUNTY ECONOMIC
DEVELOPMENT AUTHORITY, MIAMI COUNTY, INDIANA

This report is supplemental to our audit report of the Miami County Economic Development Authority (Authority), for the period from January 1, 2012 to December 31, 2013. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the Authority. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Authority, which provides our opinions on the Authority's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

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

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

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

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

September 10, 2014

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TREASURER
MIAMI COUNTY ECONOMIC DEVELOPMENT AUTHORITY

TREASURER
MIAMI COUNTY ECONOMIC DEVELOPMENT AUTHORITY
FEDERAL FINDINGS

FINDING 2013-001 - 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. We believe the following deficiencies constitute material weaknesses:

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 objectives. The Authority has not separated incompatible activities related to cash and investment balances. Specifically, the Authority has not established controls to review the monthly bank reconciliation once it is completed. 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. The Authority is required to report all financial information in the Annual Financial Report. This information is used to compile the financial statement. During the audit of the financial statement, we noted that the Authority did not include all of its financial transactions. The Authority received temporary loans from Miami County of \$530,393 and \$1,548,380 in 2012 and 2013, respectively, while reimbursement requests from federal and state grantor agencies were pending. These temporary loans, and the subsequent payments to Miami County, were not included on the financial statement. We also noted the Authority received local grant matches from Miami County for the various Hangar 200 federal grants and the subsequent payments to vendors were under reported by \$398,972 in 2012 and over reported by \$147,370 in 2013. As a result, the receipts and disbursements in the Hangar 200 Project-Miami Co fund were under reported by \$929,365 and \$1,401,010 in 2012 and 2013, respectively. Audit adjustments to correct the under reporting were proposed, accepted by the Authority, and made to the financial statement presented in this audit report.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Authority Board to monitor and assess the quality of the Authority's system of internal control. The Authority Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility place the Authority at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner.

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FEDERAL FINDINGS
(Continued)

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 Indiana Code 5-14-3.8-7."

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)

FINDING 2013-002 - INTERNAL CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Authority did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Authority should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

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)



CORRECTIVE ACTION PLAN

INDIANA STATE BOARD OF ACCOUNTS AUDIT 2012-2013

Contact Person Responsible for Corrective Action: James E. Tidd, Executive Director

Contact Phone Number: (765) 689-0159

FINDING 2013-001:

Description of Corrective Action Plan:

1. **Lack of Segregation of Duties:** The Miami County Economic Development Authority's (MCEDA) financial statements, accounts payables and receivables, and bank reconciliations are performed by an outside independent accounting firm and not accomplished by MCEDA Staff. The Authority believes this in itself is an effective internal control and a segregation of duties regarding the organizations financial management practices. However, the Authority does recognize that the Executive Director should review and initial the monthly bank reconciliations accomplished by the independent accounting firm as a precaution and fraud risk reduction measure. The Executive Director will review and initial all future bank reconciliations.
2. **Preparing Financial Statements:** As previously mentioned, the Miami County Economic Development Authority has contracted with an outside accounting firm for certain financial services to include the preparation of the financial reports and the SDAR report. Until this audit, the normal practice in preparing the financials and SDAR reports were to "net out" certain receipts and disbursements that offset each other within the same reporting year. For example with the Hangar 200 project mentioned in the findings, if Miami County advanced a temporary loan to the Authority to cover another funding agency's share and that funding agency reimbursed the County for the temporary loan, that "netting out" was not reported. Timing of the temporary loan and its subsequent reimbursement, caused the under reporting and over reporting identified in the report. As a result of the audit and its recommendations, the accounting firm has been directed to capture and report all

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receipts and disbursements within a reporting year on all appropriate reports in the future.

3. **Monitoring of Controls:** The Miami County Economic Development Authority has established a Financial Subcommittee consisting of no more than five (5) Authority members (including the Treasurer) and at least two (2) community volunteers to periodically meet and review the Authority's Annual Budget and Quarterly Financials. To address the findings in this report, the Financial Subcommittee will now be tasked to review all financial reporting practices and internal control policies, on an annual basis. This annual review and any corrective actions required will be documented and signed by the Treasurer and Executive Director.

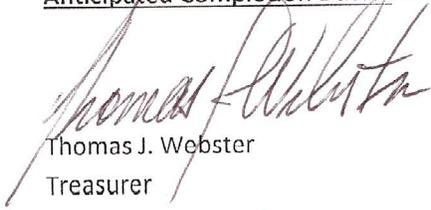
Anticipated Completion Date: December 31, 2014

Finding 2013-002:

Description of Corrective Action Plan:

To summarize the errors discovered on the Schedule of Expenditures of Federal Awards (SEFA), they including omitted words in the title of Federal agency program on three occasions, for example "Public Works and Development Facilities" for the EDA Hangar 200 Project versus the corrected "Investments for Public Works and Economic Development Facilities; a one digit error on the CFDA number for the Indiana Office of Community and Rural Affairs grant for the Hangar 200 project – 14.218 versus the corrected number of 14.228; and that the Miami County Economic Development Authority listed a grant received from the Indiana Economic Development Corporation (IEDC), a State of Indiana agency on the SEFA because it was unsure of the originating source of the funds. However, the Authority understands the need for the SEFA to be as accurate as possible. Subsequently, the Executive Director will review and insure that future SEFA reports are accurate and contain all correct titles, CFDA numbers, and dollar amounts. Should the Executive Director be unsure of the correct information, he will contact the appropriate granting agency or State Board of Accounts representative for guidance.

Anticipated Completion Date: October 1, 2014



Thomas J. Webster

Treasurer

September 10, 2014



James E. Tidd

Executive Director

September 10, 2014

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MIAMI COUNTY ECONOMIC DEVELOPMENT AUTHORITY
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCE

The financial statement presented in the financial statement and Federal Single Audit Report of Miami County Economic Development Authority (Authority) includes the fund Hangar 200 Project-Operating fund, which has an overdrawn cash balance at December 31, 2013, of \$277,430. This fund is used to account for lease payments received from Dean Baldwin Painting and the Authority's principal and interest payments on their loan from the USDA. Per Authority officials, delays in construction caused a delayed start of monthly lease payments from Dean Baldwin Painting. A deficit balance was created in the fund because only two lease payments were received during 2013 and the corresponding disbursements were for scheduled principal and interest payments on the USDA loan. A request for a delayed start in the loan repayments was denied by the USDA. The Hangar 200 Project-Operating fund is forecasted to have a deficit balance through 2016 at which time the total lease revenues will exceed loan payments made.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)



MIAMI COUNTY ECONOMIC DEVELOPMENT AUTHORITY

AUDIT RESULTS AND COMMENTS

OVERDRAWN FUND BALANCE – Hangar 200 Project – Operating

Response: At the time of the audit by the Indiana State Board of Accounts, the Miami County Economic Development Authority was aware of the negative balance in the Hangar 200 Operating Fund. This negative balance, currently in the amount of -\$277,430, was caused by the timing of interest and principal payments due on the USDA Loan for the Hangar 200 Project versus the delayed start of lease payments received from Dean Baldwin Painting as a result of construction delays. However, excess funds from other accounts were used to pay the USDA loan as scheduled.

The Authority anticipates that the Hangar 200 Operating Fund will continue to have a negative balance until the end of 2016 at which time the lease payments from Dean Baldwin Painting will exceed the annual debt service requirements of the USDA Loan.

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EXIT CONFERENCE

The contents of this report were discussed on September 10, 2014, with James E. Tidd, Director; Thomas Webster, Treasurer; and James Yates, Chairman of the Board.