

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CENTRAL INDIANA REGIONAL TRANSPORTATION AUTHORITY

MARION COUNTY, INDIANA

January 1, 2012 to December 31, 2013



FILED
05/29/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Ehren T. Bingaman	01-01-12 to 08-16-13
	Billie B. Kirchoff (Interim)	08-17-13 to 11-14-13
	Jeffrey J. Jackson	11-15-13 to 04-09-14
	Billie B. Kirchoff (Interim)	04-10-14 to 08-31-14
	Andrew L. Gast-Bray	09-01-14 to 12-31-14
Controller/Finance Manager	Dora J. Fields	01-01-12 to 12-31-15
President of the Board	Christine C. Altman	01-01-12 to 01-13-15
	Cassie Stockamp	01-14-15 to 12-31-15



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TO: THE OFFICIALS OF THE CENTRAL INDIANA REGIONAL TRANSPORTATION
AUTHORITY, MARION COUNTY, INDIANA

This report is supplemental to our audit report of the Central Indiana Regional Transportation 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 Results and Comments as described below.

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

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

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

January 26, 2015

CENTRAL INDIANA REGIONAL TRANSPORTATION 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. The following items were identified in our audit as material weaknesses.

Report Preparation: The Authority has not established effective controls to allow for the proper reporting of the Authority's receipts, disbursements, and cash and investment balances. The financial statement was compiled from information entered by the Authority into the Annual Financial Report.

The financial statement presented for audit included the following errors:

- The reported cash balances in the Annual Financial Report were the bank's balances not the book balances. This resulted in the reported January 1, 2012 cash balance being overstated by \$17,335 and the reported January 1, 2013 cash balance being overstated by \$8,713.
- The reported 2012 receipts were understated by \$38,149; the reported 2012 disbursements were understated by \$29,527; the reported 2013 receipts were understated by \$18,165; and the reported 2013 disbursements were understated by \$38,423 due to inclusion of some accrual activity in the regulatory basis report.

The provided financial accounting system documentation included the following errors:

- The federal grant receipts and disbursements were commingled in the Operating fund instead of in a separate fund.
- The book balance per the bank reconciliation did not agree with the cash amount per the Trial Balance.
- Voided checks are not properly reflected in the records. When a transaction is voided, it is essentially deleted off the system without a record of the transaction and subsequent voiding.

The Authority approved and made the necessary adjustments to correct these errors in the financial statement presented in this report.

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)

CENTRAL INDIANA REGIONAL TRANSPORTATION AUTHORITY
FEDERAL FINDINGS
(Continued)

OMB Circular A133, Subpart C, section .300 states in part:

"The auditee shall:

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. . . ."

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 presented by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

FINDING 2013-002 - 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. The following items were identified in our audit as material weaknesses:

Lack of Segregation of Duties: The Authority has not separated incompatible activities related to cash and investments, receipts, and payroll disbursements. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

- The Finance Manager both collects and deposits money, post receipts to the accounting records, prepares and submits the payroll information to the third-party vendor, and reconciles the bank account. There is no oversight by another individual for these activities.
- The Finance Manager has the ability to authorize electronic payments without any oversight.
- The Executive Director's timesheets are not reviewed by another individual.
- The calculations of the third-party payroll company are not reviewed by any of the Authority's employees. This resulted in one employee being underpaid \$258 for 2013.
- The Finance Manager does not issue receipts for collections; therefore, the posting of the collection is the only record of the transaction.

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)

CENTRAL INDIANA REGIONAL TRANSPORTATION AUTHORITY
FEDERAL FINDINGS
(Continued)

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

FINDING 2013-003 - 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.

During the audit of the SEFA, we noted the following errors:

- Federal Transit - Capital Investment Grants (CFDA Number 20.500) - FY2011 Section 5309 Veterans Transportation and Community Living and Public Transportation Research (CFDA Number 20.514) - FY2011 VTCLA II Implement/Outreach (One-call One-click programs) were incorrectly reported as Department of Labor grants.
- Federal Transit - Formula Grants (CFDA Number 20.507) - FY12 CMAQ Reverse Commute Demonstration (Plainfield Connector) and Job Access And Reverse Commute Program (CFDA Number 20.516) - Carmel/Fishers Reverse Commute (County Connect) programs were incorrectly reported as unknown federal agency.
- Federal Transit Cluster expenditures were overstated by \$29,628 for 2012 and understated by \$65,707 for 2013 due to inclusion of accrual payable activity on the cash basis report.
- Transit Services Program Cluster expenditures were understated by \$284,205 for 2012 and understated by \$2,357 for 2013 due to inclusion of accrual payable activity on the cash basis report.
- Program names were incorrectly reported for all but the Federal Transit - Formula Grants (CFDA Number 20.507) - Commuter Connect program.
- Project numbers were incorrectly reported for all the programs.

Audit adjustments were proposed, accepted by the Authority, and made to the SEFA presented in this report.

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)

CENTRAL INDIANA REGIONAL TRANSPORTATION AUTHORITY
FEDERAL FINDINGS
(Continued)

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 the 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."

FINDING 2013-004 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO FEDERAL TRANSIT CLUSTER AND TRANSIT SERVICES PROGRAM CLUSTER

Federal Agency: Department of Transportation

Federal Program: Federal Transit - Capital Investment Grants, Federal Transit - Formula Grants,
Job Access And Reverse Commute Program, New Freedom Program

CFDA Number: 20.500, 20.507, 20.516, 20.521

Federal Award Number and Year (or Other Identifying Number): IN-04-0043-01, IN-95-X038-00,
IN-95-X044-00, IN-95-X605,
12JARC000, IN-37-X029,
IN-37-X036, IN-37-X015

Pass-Through Entity: Indianapolis Public Transportation Corporation,
Indiana Department of Transportation

CENTRAL INDIANA REGIONAL TRANSPORTATION AUTHORITY
FEDERAL FINDINGS
(Continued)

Management of the Authority has not established an effective internal control system, which would include segregation of duties, related to the grant agreements and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Costs Principles, Cash Management, Matching, Period of Availability of Federal Funds, Procurement and Suspension and Debarment, and Reporting. The Finance Manager handles all grant responsibilities without any oversight, review, or approval of prepared grant documentation.

The failure to establish an effective internal control system places the Authority at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

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

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

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

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

We recommended that the Authority's management establish controls, including segregation of duties, related to the grant agreements and compliance requirements listed above.



Central Indiana Regional Transportation Authority
CONNECTING PEOPLE AND PLACES

January 23, 2015

**CORRECTIVE ACTION PLAN-RESPONSE TO FINDINGS
JANUARY 1, 2012 TO DECEMBER 31, 2013**

FINDING 2013 -001 -002 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

The Finance Manager collects money, deposits money, posts receipts, prepares and submits the payroll information to the third party vendor, and reconciles the bank account. There is no oversight by another individual for these activities. The Finance Manager has the ability to authorize electronic payments without any oversight. The Executive Director's time sheets are not reviewed by another individual. The calculations of the third party payroll company are not reviewed by any of the Authority's employees. The Finance Manager does not issue receipts for collections therefore the posting of the collection is the only record of the transaction. The federal grant receipts and disbursements were commingled in the Operating fund instead of in a separate fund. The reported cash balances in the Annual Report were the bank's balances not the reconciled book balances. The book balance per the bank reconciliation did not agree with the cash amount per the Trial Balance. Voided checks are not properly reflected in the records. When a transaction is voided, it is essentially deleted off the system without a record of the transaction and subsequent voiding.

Response: Separation of duties has been implemented in 2015. CIRTA has had a small staff and several changeovers of Executive Directors which was part of the issue. A member of CIRTA staff will collect money. The Commuter Connect Manager or the Mobility Manager (other than the Finance Manager) will deposit money. The Finance Manager will continue to post receipts. The Finance Manager will prepare the payroll information and upon review and signature by the Board President, will then submit the payroll. The Finance Manager will reconcile the bank account and print reports for the Finance Committee (established in January 14, 2015) to review and sign. Bank account reconciliations have been done on a consistent monthly basis and reviewed by the Executive Director; they just lacked signature. Beginning in 2015, a member of the Finance Committee must authorize electronic transaction through signature or written authorization before the Finance Manager can authorize an electronic payment. Electronic payments were being approved by the Executive Board and then the board changed it to them being able to be approved at the claims docket level. We now will have all electronic payments approved by a member of the Finance Committee. Beginning in 2015, the Executive Director's time sheets will be reviewed by the Board President and signed. The Executive Director's time sheets had been reviewed by Finance Manager but Finance Manager was not authorized to sign. Beginning in 2015, calculations of the third-party payroll company will be reviewed by the Board President and signed. Calculations were reviewed by Finance Manager when entered into the accounting system. Receipt books have been ordered and received at the end of 2014. Receipts were issued to the customer but not in the proper format. Separate funds were created in the accounting software for the federal grant receipts in 2015. However, the way the fund was set-up originally, Finance Manager would show the separation of funding through "Source" and "Program" codes. Reporting on a cash basis rather than accrual basis has been implemented in 2015. FTA grants account on an accrual basis for quarterly reporting, so this is why the accounting was set-up on an accrual basis. Finance Manager is working with accounting software consultant to create report for voided checks in 2015. The report could be created but not in the format the auditor preferred.

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FINDING 2013 - 003 - INTERNAL CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal Transit Capital Investment Grants (CFDA Number 20.500) – FY2011 Section 5309 Veterans Transportation and Community Living and Public Transportation Research Grant (CFDA Number 20.514) – FY2011 VTCLI II Implement/Outreach (One-call One-click programs) were incorrectly reported as Department of Labor grants. Federal Transit Formula Grants (CFDA Number 20.507) - FY12 CMAQ Reverse Commute Demonstration (Plainfield Connector) and Job Access And Reverse Commute (CFDA Number 20.516) - Carmel/Fishers Reverse Commute (County Connect) programs were incorrectly reported as unknown federal agency. Federal Transit Cluster expenditures were overstated due to inclusion of accrual payable activity on the cash basis report. Transit Services Program cluster expenditures were understated due to inclusion of accrual payable activity on the cash basis report. Program names were incorrectly reported for all but the Federal Transit Formula Grants (CFDA Number 20.507) - Commuter Connect program. Project numbers were incorrectly reported for all the programs.

Response: Correct CFDA Numbers, Federal agencies, and Federal Transit Formula Grant names will be verified through the CFDA catalog and entered correctly by a member of management in 2015. Staff was unaware of CFDA numbers until time of audit. Reporting on a cash basis rather than accrual basis has been implemented in 2015. FTA grants account on an accrual basis for quarterly reporting, so this is why the accounting was set-up on an accrual basis. Project numbers will be verified through the FTA TEAM website and entered correctly by the Commuter Connect Manager, Mobility Manager or Finance Manager in 2015. The projects were kept separate from each other and titled by project name rather than number. The Finance Committee will provide review and signature of the SEFA in 2015.

FINDING 2013-004 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO FEDERAL TRANSIT CLUSTER AND TRANSIT SERVICES PROGRAM CLUSTER

Management of the Authority has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Allowable Activities/Allowable Costs, Cash Management, Matching, Period of Availability, Procurement/Suspension/Debarment, and Reporting. The Finance Manager handles all grant responsibilities without any oversight of the prepared grant documentation. This was identified in our audit as a material weakness.

Response: The CIRTA Board has established in 2015 a Finance Committee to provide additional oversight and internal controls. The Finance Committee is comprised of the CIRTA Treasurer and two additional board members. The Finance Committee will be overseeing and signing monthly checking account reconciliations, reviewing and signing financial reports for Match compliance, and providing oversight and compliance with Procurement/Suspension/Debarment. The CIRTA Board Secretary will be reviewing and signing off on the FTA financial and progress reports. The Finance Manager will review Activities/Allowable costs and anything questionable will be brought to the Finance Committee for review. CIRTA has had a small staff and several changeovers of Executive Directors which was part of the issue.

Respectfully,



Dora J. Fields
Finance Manager

CENTRAL INDIANA REGIONAL TRANSPORTATION AUTHORITY
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

The Authority's Annual Financial Report for 2013 contained errors in the supplemental schedules as follows:

- The Schedule of Payables and Receivables presented amounts that were materially overstated (payable amount was overstated by \$1,973,514, receivable amount was overstated by \$1,993,940).
- The Schedule of Leases and Debt included one lease payment that was overstated by \$1,343 and presented three of the four lease dates incorrectly.

The Authority approved and made the necessary adjustments to correct these errors which resulted in supplemental schedules that are fairly presented.

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

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

COMPENSATION AND BENEFITS

The following deficiencies were observed regarding compensation and benefits:

- Compensation and benefits were established for all employees via an employment offer letter instead of via salary ordinance or resolution. The compensation and benefits paid to these employees totaled \$427,621 in 2012 and \$425,708 in 2013.

Additionally, further testing revealed:

- Timesheets used were not the prescribed form nor was it approved by the Indiana State Board of Accounts.

CENTRAL INDIANA REGIONAL TRANSPORTATION AUTHORITY
AUDIT RESULTS AND COMMENTS
(Continued)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 14)

Indiana Code 36-9-3-28 states in part: "The state board of accounts shall . . . (2) prescribe or approve all accounting forms and records used by the authority."

CONDITION OF RECORDS

Financial records presented for audit indicated a claims docket that does not include fiscal officer certification language, Board approval language, or signature lines.

Indiana Code 36-9-3-28 states in part: "The state board of accounts shall . . . (2) prescribe or approve all accounting forms and records used by the authority."

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

OFFICIAL BONDS

The Controller/Finance Manager did not obtain an individual Surety Bond.

The Treasurer's official bonds were payable to the Central Indiana Regional Transportation Authority instead of to the State of Indiana.

Indiana Code 36-9-3-12(b) states in part: "The controller shall give bond in the sum and with the conditions prescribed by the board, and with surety to the approval of the board. . . ."

Indiana Code 5-4-1-10 states in part: "All official bonds shall be payable to the state of Indiana . . ."

CENTRAL INDIANA REGIONAL TRANSPORTATION AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on January 26, 2015, with Dora J. Fields, Controller/Finance Manager; Cassie Stockamp, President of the Board; Patricia Castaneda, Mobility Manager; and Lori Kaplan, Commuter Connect Manager.