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AN EQUAL OPPORTUNITY EMPLOYER

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August 21, 2015

Board of Directors  
Gary Chicago International Airport Authority  
6001 Airport Road  
Gary, IN 46404

We have reviewed the audit report prepared by Whittaker & Company, PLLC, Independent Public Accountants, for the period January 1, 2013 to December 31, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Gary Chicago International Airport Authority, as of December 31, 2013 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the Section II and III findings contained in the Schedule of Findings and Questioned Costs on pages 46 through 57 as summarized below;

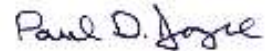
1. Section II;
  - a. 2013-01 - Internal Controls and Compliance Over Financial Transactions and Reporting
  - b. 2013-02 - Internal Controls Over Compliance Requirements That Have a Direct and Material Effect to the Airport Improvement Program
  - c. 2013-03 - Compliance Related to the Airport Improvement Program Reporting
2. Section III;
  - a. 2013-01 - Internal Controls and Compliance Over Financial Transactions and Reporting
  - b. 2013-02 - Internal Controls Over Compliance Requirements That Have a Direct and Material Effect to the Airport Improvement Program
  - c. 2013-03 - Compliance Related to the Airport Improvement Program Reporting

Section II findings are reported in the 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. Findings 2013-01 and 2013-02 are reporting material weaknesses in internal control over financial reporting and non-compliance with certain provisions of laws, regulations, contracts, and grant agreements which could have a direct and material effect on the determination of financial statement amounts. Finding 2013-03 reports noncompliance with reporting requirements of the Airport Improvement Program which are of a magnitude that could have a direct and material effect on the determination of financial statement amounts.

Section III findings are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133. Noncompliance with the requirements for allowable costs, cash management, and reporting are reported in Findings 2013-01 through 2013-3 and this results in an adverse opinion on the Airport Authority's compliance with these requirements that could have a direct and material effect on the Airport Improvement Program. Noncompliance with other requirements of activities allowed, Davis-Bacon Act, matching, and period of availability are also reported in Findings 2013-01 and 2013-02. However, this noncompliance did not rise to the level of an adverse opinion. Additionally Findings 2013-01 and 2013-02 report material weaknesses in internal control over compliance.

These findings also appeared in the audit report for the period ending December 31, 2012. Your response to these findings is included in the report immediately following the findings.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

  
Paul D. Joyce, CPA  
State Examiner

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY**  
**FINANCIAL STATEMENT AND FEDERAL SINGLE AUDIT**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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## SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Steven Landry (Interim) Bridgette R. Lane (Interim)	01-01-13 to 09-23-13 10-01-13 to 12-31-13
Finance Manager/Treasurer	Carolyn Keith	01-01-13 to 12-31-13
President of the Airport Authority Board	Nathaniel Williams Thomas M. Collins, Sr.	01-01-13 to 08-31-13 09-10-13 to 12-31-13

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## INDEPENDENT AUDITORS' 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 (the "Airport Authority"), which comprises the financial position and results of operations for the year ended December 31 2013, 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 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.

INDEPENDENT AUDITORS' REPORT  
(Continued)

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 materials misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditors 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.

***Other Matter***

As discussed in Note 8 in the notes to the financial statements, the 2013 financial statements have been reissued. Except as discussed in Note 8, our opinion dated April 22, 2014 is not modified with respect to this matter. Additional procedures, as discussed in Note 8 have been performed through July 3, 2015 (date of completion of audit procedures limited to the revision described in Note 8).

***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 of 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, 2013.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position and results of operations of the Airport Authority for the year ended December 31, 2013, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

INDEPENDENT AUDITORS' REPORT  
(Continued)

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated April 22, 2014, 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 of the Airport Authority's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purpose 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 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.

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 Investments Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedules 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 Prior Findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan and Summary Schedule of Prior Findings and Questioned Costs. We did not audit the Airport Authority's response and, accordingly, we express no opinion on it.

  
Whittaker & Company, PLLC  
Gary, IN 46402

April 22, 2014



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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 the 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 (the "Airport Authority"), which comprises the financial position and results of operations for the year ended December 31, 2013, and the related notes to the financial statement, and have issued our report thereon dated April 22, 2014, 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 purposes 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 Cost, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

(Continued)

A deficiency in internal control exists when the design or operation of a control does not allow management of employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatement 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 Cost as items 2013-01 through 2013-02 to be material weaknesses.

***Other Matter***

As discussed in Note 8 in the notes to the financial statements, the 2013 financial statements have been reissued. Except as discussed in Note 8, our opinion dated April 22, 2014 is not modified with respect to this matter. Additional procedures, as discussed in Note 8 have been performed through July 3, 2015 (date of completion of audit procedures limited to the revision described in Note 8).

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in a separate written document titled *Management Letter Comments*. Our opinion on each major federal program is not modified with respect to these matters.

***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 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 we required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2013-01 through 2013-03.

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

The Airport Authority's response to the findings identified in our audit and the previous audit is described in the accompanying Corrective Action Plan and Summary Schedule of Prior Findings and Questioned Costs. 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.

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)

***The Purpose of This Report***

The purpose of the report is solely to describe the scope of our testing of internal control and compliance and the results of the testing, and not to provide an opinion on the effectiveness of the Airport Authority's internal control of 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.

*Whittaker & Company, PLLC*  
Whittaker & Company, PLLC  
Gary, IN 46402

April 22, 2014

## **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, 2013**

<b>Fund</b>	<b>Cash and Investments 01-01-13</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Cash and Investments 12- 31-13</b>
General Fund (007)	\$ 1,515,470	\$ 2,421,632	\$ 3,111,913	\$ 825,189
Cumulative Building Fund (009)	13,610,470	12,225,651	20,032,601	5,803,520
Passenger Facility Charges Fund (012)	(748,746)	2,952,539	2,925,181	(721,388)
Compact (013)	-	-	20,503	(20,503)
ADZ TIF Allocation Fund (014)	24,993,148	3,759,226	15,091,384	13,660,989
Non-Reverting Airport Development Fund (015)	467,969	37,997	-	505,966
Payroll Fund (300)	25,225	492,892	515,271	2,846
Marketing Fund (310)	219,994	149	105,606	114,537
	.			
	<u>\$ 40,083,530</u>	<u>\$ 21,890,086</u>	<u>\$ 41,802,460</u>	<u>\$ 20,171,155</u>

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

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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 Airport Authority is dedicated to setting its sights on continued growth and expansion. The accompanying financial statement presents the financial information for the Airport Authority.

**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, disbursements are recognized when paid, rather than when a liability is incurred.

**Cash and Investments** – The Airport Authority has invested monies at a local bank as well as Trust Indiana. Money held at Trust Indiana is in money market depository accounts which are considered cash and investments and is not insured.

**Receipts** – Receipts are presented in the aggregate in the financial statement. The aggregated receipts include the following sources:

*Taxes* include Property taxes, Auto Excise Tax, Commercial Vehicle Excise Tax (CVET), and Financial Institution Tax (F.I.T.) and when applicable other taxes that are set by the Airport Authority.

*Intergovernmental receipts* include receipts from governments in the form of operating and/or runway expansion grants. Examples of these types of receipts include federal grants from the Federal Aviation Administration (“FAA”), state grants from the Indiana Department of Transportation (INDOT), and local grants from the Northwest Indiana Regional Development Authority (“RDA”). Other local grants which are paid to the Airport Authority from the City of Chicago consist of the Passenger Facility Charges (“PFC”) and the Chicago-Gary Regional Airport Authority (Compact) grants.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

*Charges for the services* include receipts from copies of public record, copy machine charges, building and hanger rental fees, landing/parking fees, and fuel.

*Other receipts* include amounts received from internal service receipts, transfers authorized by statute, ordinance, resolution, court order, interest earnings and other sources.

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

*Personal services* include outflows for salaries, wages, and related employee benefits provided for all persons employed.

*Supplies* 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.

*Other services and charges* include professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

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

*Other disbursements* include internal service disbursements and transfers out that are authorized by statute, ordinance, resolutions, or court order and other uses.

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

**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.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

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. The airport reports the following funds:

- The General Fund is the primary operating fund. It accounts for all finances of the general government, except those required to be accounted for in another fund.
- The Cumulative Building Fund accounts for expansion programs: building, structures and equipment.
- The Passenger Facility Charges Fund accounts for passengers facility charges collected by the City of Chicago Airports for financing certain capital projects.
- The Compact Fund accounts for expenditures of the Airport Authority for certain approved operating expenditures.
- The Airport Development Zone (ADZ) TIF (tax increment financing) allocation Fund accounts for airport construction projects within the airport development zone as well as job training.
- The Non-Reverting Airport Development fund accounts for the marketing and development expenditures of the Authority. The account was established as a not-for-profit entity under the tax exempt code 501(c)3 with the Internal Revenue Service and is presented as a blended component unit, as the Authority Board is the same governing body as the Non-Reverting Airport Development fund, the ability to impose will is deemed present and there is a financial benefit/burden relationship between the Authority and the Non-Reverting Airport Development fund.
- The Payroll Trust Fund accounts for receipts and disbursements related to payroll withholdings.
- The Marketing Fund accounts for marketing expenditures of the Airport Authority.

**Budget** – 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 tax-payer 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 subjected to final approval by the Indiana Department of Local Government Finance.



**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**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 could delay the distributions. State statute (IC6-1.1-17-16) 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.

**Schedule of Lease and Debt** – The 2010 bonds are revenue obligations of the Airport Authority that are paid solely from pledged debt rent revenues paid by the Gary Jet Center, Inc., pursuant to the 2010 lease. The 2010 bonds do not constitute a claim or pledge on any other revenues of the Airport Authority. The bonds have will have no impact on the ability of the Airport Authority to issue property tax backed obligations of the Airport Authority as they are secured only by the debt rent. The 2010 bonds are not supported by either the general revenue of the Airport Authority or by a general obligation pledge of property tax revenues by the Airport Authority. The Airport Authority has no obligation to repay the 2010 bonds. As additional security to guaranty the repayment of the 2010 bonds, the Gary Jet Center, Inc. provided a letter of credit stating it is fully capable of paying the outstanding principal and interest on the 2010 bonds. The provision of the letter of credit by Gary Jet Center eliminates the risk to the Airport Authority in the case of a default on the 2010 bonds.

**Schedule of Capital Assets** – Assets of long-term character that are intended to continue to be held or used such as land, buildings, improvements other than buildings, machinery and equipment and construction in progress are considered capital assets and have been reported at their historical costs.

**Schedule of Payables and Receivables** – Accounts payable consist of amounts for goods and services that the Airport Authority received or used during the year, but had not been paid by the end of the year. Accounts receivables are amounts that are owed to the Airport Authority that have not been received by the end of the year.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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**NOTE 2 – DEPOSITS AND INVESTMENTS**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be recovered. Indiana Code 5-13 allows a political subdivision of the State of Indiana to deposit funds in a financial institution only if the financial institution is a depository eligible to receive funds of the political subdivision. At December 31, 2013, the balances held at Trust Indiana and Chase Bank was in the amounts of \$4,568,094 and \$15,602,961, respectively.

The balances held at Trust Indiana were not insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund. The remaining bank balances were insured by the Federal Deposit Insurance Corporation and the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

**NOTE 3 – 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 illness 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. The Airport Authority has purchased insurance to mitigate such risks.

**NOTE 4 – PENSION PLAN**

**Public Employees' Retirement Fund**

*Plan Description* – The Indiana Public Employees' Retirement Fund ("PERF") is a defined benefit pension plan. PERF is a cost-sharing 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 Systems (INPRS) Board, most requirements of the system, and gives the Airport Authority a mandate 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 member's contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. At December 31, 2013, the employer may elect to make the contributions on behalf of the member.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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**NOTE 4 – PENSION PLAN (CONTINUED)**

*Funding Policy and Annual Pension Costs* – The contribution requirements of the plan members for PERF are established by the board of Trustees of INPRS. As of January 1, 2013, the INPRS approved an employer contribution rate of 10%. The amount the Airport Authority contributed to employee’s pension was \$83,096.

INPRS administers the plan and issue a publicly available financial report that includes financial statement and required supplementary information for the plan as a whole and 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

**NOTE 5 – CASH BALANCE DEFICITS**

The Passenger Facility Charges Fund accounts for passengers facility charges collected by the City of 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.

The Compact Fund accounts for expenditures of the Airport Authority for certain approved operating expenditures. The Airport Authority must disburse the funds for the operating expenditures prior to being reimbursed by the Compact; thus, the reported cash and investment balance of the Compact Fund is a deficit balance.

**NOTE 6 – SUBSEQUENT EVENTS**

**RUNWAY EXPANSION**

Management has evaluated events subsequent to December 31, 2013 through April 22, 2014, the date the financial statements were available to be issued. The following items were items considered material events to be disclosed as subsequent events:

The Airport Authority is continuing the Runway Expansion Work at an estimated cost of \$175,000,000, 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.

The Airport Authority approved the services of Drinker, Biddle and Reath to perform a due diligence review of the Runway Expansion project. The audit will be performed over the years of 2005 through current and will include all contracts and costs associated with the Runway Expansion project.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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**NOTE 6 – SUBSEQUENT EVENTS (CONTINUED)**

**PRIVATIZATION**

The Gary/Chicago International Airport Authority (“Airport Authority”), entered into a \$100,000,000 Public Private Partnership (“P3”) on January 27, 2014 (the “Effective Date”). The P3 involved an Airport Management Agreement (“Management Agreement”) between the Airport Authority and AFCO AVPORTS Management LLC (“Manager”) and a Development Agreement (“Development Agreement”) between the Airport and AFCO Gary LLC (“Developer”), whose managing member is Aviation Facilities Company, Inc. (“AFCO”). Although Developer is a newly formed entity, AFCO is a guarantor under the Development Agreement. Both the Management Agreement and the Development Agreement share the same goals: (1) increase and diversify the tax base; (2) increase employment opportunities, including opportunities for disadvantaged, minority, and women and veteran owned businesses (“D/M/W/VBE”); (3) increase Airport profitability; (4) the development of a sustainable airport; (5) encourage and attract investment; and (6) improve the health, safety and welfare of Gary citizens.

The Management Agreement is a 10-year contract that can be extended for up to 6 consecutive additional 5-year terms. As a means to induce Manager to increase the level of activity and to improve the financial performance of the airport, the Manager is entitled to receive: (1) \$120,000 annual management fee, paid in \$10,000 monthly installments; (2) 15% of the annual EBIDTA (which will be determined by subtracting from Operating Revenues all Operating Expenses exclusive of any income taxes, depreciation and amortization), if positive, paid upon determination of the EBIDTA for the immediately preceding contract year (the management fee is treated as an operating expense); (3) up to an additional 5% of EBIDTA for each year, according to the percentage of D/M/W/VBE hiring goals met by the Manager.

The newly hired consultants, AvPorts, will begin interviews of all airport staff during April 2014 to determine if the Authority’s current employees will become employees of AvPorts.

The Airport Authority has agreed to pay the Manager for any additional non-management services it provides upon the request of the Airport Authority and has pre-approved a \$60,000 air service development/leakage study, which will be contracted separately and treated as an operating expense for determining EBIDTA.

The Development Agreement is a 40-year contract that requires the Developer to invest \$2,500,000 in the first 12 months, a total of \$10,000,000 in the first 18 months and a total of \$25,000,000 in the first 36 months. If the Developer fails to satisfy the 18 month investment requirement, the 40 year term will be reduced to 20 years; however, the term can be extended to 40 years again, provided the Developer invests at least \$25,000,000 in the first 36 months. If the Developer fails to invest \$25,000,000 before the 5<sup>th</sup> anniversary of the Effective Date, the Airport can terminate the Development Agreement.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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**NOTE 6 – SUBSEQUENT EVENTS (CONTINUED)**

The Developer will present a master conceptual land use plan for approval by the Airport Authority within twelve months of the Effective Date and this master plan will set forth the anticipated goals for the development of the project area.

The Airport Authority retained Faegre Baker Daniels as its legal counsel during the P3 process and received consulting services from three companies: A.C. Advisory, Inc., Hawthorne Strategy Group, LLC, and JClark Consulting Group, LLC. The legal costs incurred by the Airport Authority total approximately \$1,156,042, and are not contingent upon funding by the private partner. The consulting services fees, which total \$817,500, were contingent upon reaching an agreement with the private partner to fund the consulting costs and this has not occurred to date. Pursuant to the various consulting agreements, the Airport Authority agreed to pay no more than \$60,000, collectively, for consultant expenses and all such expenses have been paid.

**DEBT**

The Airport Authority hired the consulting firm of Sycamore Advisors to provide financial advisory services for the issuance of debt. The total debt to be issued had not been determined as April of 2014.

**NOTE 7 – OTHER MATTERS**

The nature of the litigation between the Gary Jet Center, Inc. vs. Gary Chicago International Airport Authority stems from a dispute between the Gary Jet Center and the Gary Airport relating to actions taken by the Board to secure the services of a seasoned fixed based operator at the Gary Airport. The Gary Jet Center has requested injunctive relief as it relates to the allowing of the second FBO to operate at the Gary Airport. The parties are currently briefing that issue for the Court's decision. At the time of the close of the audit, it is impossible to provide an accurate evaluation of the likelihood of success/failure as it relates to this matter. The possibility that the Court could enjoin B. Coleman/Eastlake from operating at the Gary Airport is a potential larger issue. Although unlikely, such Court Order could result in a default contract claim by B. Coleman/Eastlake against the Gary Airport.

This matter is under the jurisdiction of the United States District Court in the Northern District of Indiana, Hammond Division. The filing information provided herein is intended to allow an interested person to more easily track the case, but no changes have occurred in the status of the case. The Airport Authority's insurance carrier has provided coverage for this claim and has provided legal representation for the Airport Authority and each of the former Board members, who have all been named, individually. Gary Airport's deductible for legal representation is \$5,000.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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**NOTE 7 – OTHER MATTERS (CONTINUED)**

The nature of the matter of Steven Daniels vs. Gary Chicago International Airport Authority concerns an employment claim filed against the Gary Airport. The former employee claims that certain rights afforded to him under the Gary Airport Employee Manual, as well as the Family Medical Leave Act were violated. The parties are currently involved in Discovery and other pre-trial activities. The Gary Airport has contacted its insurance carrier and insurance coverage has been provided.

The Gary Airport's deductible for legal representation is \$10,000 and such amount has been paid. This matter is under the jurisdiction of the Lake Superior Court, in East Chicago, Indiana. The parties have agreed to enter into settlement discussions. No other changes have occurred in the status of the case.

**NOTE 8 – REISSUANCE OF FINANCIAL STATEMENTS**

The financial statement report for the year ended December 31, 2013 has been reissued. The reissuance was a result of a quality control review that was performed by a governmental agency. Updates made corrected deficiencies noted by the agency and provide additional language and signatures to the identified deficiencies.

## **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 Auditors' 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, 2013**

	007	009	012	013	014	015	300	310	
	General	Cumulative	Passenger	Compact	ADZ TIF	Non-Reverting	Payroll	Marketing	Totals
	Fund	Building Fund	Facility		Allocation	Airport	Fund	Fund	
			Charges Fund		Fund	Development			
						Fund			
<b>Cash and Investments - January 1, 2013</b>	1,515,470	13,610,470	(748,746)	-	24,993,148	467,969	25,225	219,994	<b>40,083,529</b>
<b>Receipts:</b>									-
Taxes	650,635	95,515	-	-	3,737,877	-	-	-	<b>4,484,027</b>
Intergovernmental	492,965	11,985,389	2,952,539	-	-	-	-	-	<b>15,430,893</b>
Charges for Services	1,147,184	66,831	-	-	-	-	-	-	<b>1,214,015</b>
Other Receipts	130,847	77,916	-	-	21,349	37,997	492,892	149	<b>761,151</b>
<b>Total Receipts</b>	<b>2,421,632</b>	<b>12,225,651</b>	<b>2,952,539</b>	<b>-</b>	<b>3,759,226</b>	<b>37,997</b>	<b>492,892</b>	<b>149</b>	<b>21,890,086</b>
<b>Disbursements:</b>									
Personal Services	1,035,801	-	-	-	-	-	-	-	<b>1,035,801</b>
Supplies	154,122	-	-	6,601	-	-	-	64	<b>160,787</b>
Other Services and Charges	1,836,540	1,173,036	1,055,729	7,208	2,544,205	-	-	105,542	<b>6,722,260</b>
Capital Outlay	81,100	18,859,565	1,830,989	6,695	12,543,431	-	-	-	<b>33,321,780</b>
Other Disbursements	4,350	-	38,462	-	3,749	-	515,271	-	<b>561,832</b>
<b>Total Disbursements</b>	<b>3,111,913</b>	<b>20,032,601</b>	<b>2,925,181</b>	<b>20,503</b>	<b>15,091,384</b>	<b>-</b>	<b>515,271</b>	<b>105,606</b>	<b>41,802,460</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>(690,281)</b>	<b>(7,806,950)</b>	<b>-</b>	<b>27,358</b>	<b>(20,503)</b>	<b>(11,332,159)</b>	<b>37,997</b>	<b>(22,379)</b>	<b>(105,457)</b>
<b>Cash and Investments - December 31, 2013</b>	<b>825,189</b>	<b>5,803,520</b>	<b>-</b>	<b>(721,388)</b>	<b>(20,503)</b>	<b>13,660,989</b>	<b>505,966</b>	<b>2,846</b>	<b>114,537</b>
									<b>20,171,155</b>



**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF PAYABLES AND RECEIVABLES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental Activities	<u>\$ 3,932,261</u>	<u>\$ 4,298,563</u>

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF LEASE AND DEBT  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Type</u>	<u>Purpose</u>	<u>Ending Principal Balance</u>	<u>Principal Due within One Year</u>
<i>Governmental activities</i> Revenue Bonds (Note 1)	Gary Jet Center Hangar Revenue Bonds	\$ 7,865,000	\$ 355,000
	Totals	<u>\$ 7,865,000</u>	<u>\$ 355,000</u>

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<b>Governmental Activities</b>	<b>Ending Balance</b>
Land	\$ 14,631,569
Infrastructure	15,482,536
Buildings	24,659,614
Improvements other than buildings	14,214,691
Machinery, equipment and vehicles	5,729,608
Construction in progress	65,485,713
<b>Total governmental activities</b>	<b>140,203,731</b>
 <b>Total Capital Assets</b>	 <b>\$ 140,203,731</b>

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SUMMARY SCHEDULE OF PRIOR YEAR  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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*Financial Statement Findings*

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

Initial Audit Finding Period: January 1, 2012 through December 31, 2012

We noted deficiencies in the internal control system of the Gary Chicago International 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.

***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 over reported 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.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SUMMARY SCHEDULE OF PRIOR YEAR  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

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.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SUMMARY SCHEDULE OF PRIOR YEAR  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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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.

**Status: Beginning November 1, 2013, the bank reconciliations were prepared by the Accounting Specialist and approved/reviewed by the Finance Manager. The financial statements were reviewed/approved by the Airport Interim Director prior to submitting them to the Board. Beginning January 2014, the board will review the financial statements and discuss them at all board meetings. Beginning with the October 2013 deposits, the Office Manager prepared the receipts and the Finance Manager prepared the deposit ticket and made the deposit.**

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SUMMARY SCHEDULE OF PRIOR YEAR  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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*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: 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

Initial Audit Finding Period: January 1, 2012 through December 31, 2012

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.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SUMMARY SCHEDULE OF PRIOR YEAR  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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*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.

By 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 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. Hash marks and/or adding machine tapes indicating verification to invoices and re-computations of report totals and matching amounts were not evident.

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.



**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SUMMARY SCHEDULE OF PRIOR YEAR  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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*Davis-Bacon Act*

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

- a. 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.
- b. A system of controls to ensure all certified payrolls were received does not exist.
- c. 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.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SUMMARY SCHEDULE OF PRIOR YEAR  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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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.

**Status:** Projects have been realigned with the various funding sources to ensure that receipts and disbursements are uniquely allocated to each grant. The Finance Manager began in November 2013 to initial the file copy of the documents indicating the reviews that were performed. Also, in November 2013, a checklist was established for the project manager to indicate his/her review of the prevailing wages as well as other key document reviews.

***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, 3-18-0028-27, 3-18-0028-28

Pass-Through Entity: Direct

Initial Audit Finding Period: January 1, 2012 through December 31, 2012

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 received from each of the respective agencies. The "local" is the amount that the Airport Authority was required to provide as the local match.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SUMMARY SCHEDULE OF PRIOR YEAR  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

Contractor/Project Invoice Number	Invoice Amount	RDA Reimbursement	Airport Improvement Grant				Federal Excess Reimbursement
			Federal	State	Local	Total	
<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>	<u><b>\$9,917,559.93</b></u>	<u><b>\$9,917,559.93</b></u>	<u><b>\$ 9,329,501.45</b></u>	<u><b>\$ 146,989.15</b></u>	<u><b>\$ 441,069.33</b></u>	<u><b>\$ 9,917,559.92</b></u>	<u><b>\$ 9,329,501.45</b></u>

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/REP0011, and Superior Construction/REP006 indicated the funding for the project was through an RDA grant.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SUMMARY SCHEDULE OF PRIOR YEAR  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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Each of the contractor's invoices claimed for reimbursement through both the Airport Improvement 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 U.S. Department of Transportation (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 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 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 administer the Airport Improvement Grants), and the City of Chicago.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SUMMARY SCHEDULE OF PRIOR YEAR  
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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:

- 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 subgrant 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 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  
SUMMARY SCHEDULE OF PRIOR YEAR  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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**Status:** In December 2013, the process for submitting invoices was revised. The RDA contract is currently being reviewed and modified for contracts that will only be funded by the RDA. A certification statement prepared by the RDA is being used as an added assurance that the invoices submitted are only those approved under the grant and no other funding is being used.

***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

Initial Audit Finding Period: January 1, 2012 through December 31, 2012

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 for two vendor payment requests in the aggregate of \$569,936.83 for 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) 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.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SUMMARY SCHEDULE OF PRIOR YEAR  
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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.

**Status: This issued 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. Once they have been approved for payment, they are 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  
Initial Audit Finding Period: January 1, 2012 through December 31, 2012

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 5100-6-, 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.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SUMMARY SCHEDULE OF PRIOR YEAR  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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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 2, 2013, was on the 2-18-0028-28 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 Standard 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.”

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.



**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SUMMARY SCHEDULE OF PRIOR YEAR  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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**Status: Beginning in October 2013, the Airport Authority began using Form 271.**

**The Airport Authority prepared and submitted Form SF-425 data for quarterly transactions and cumulative quarterly transactions, since inception, on October 25, 2013.**

**The Airport Authority is required to file 5100-127 and 5100-126 by April 30, 2014 using 2013 financial data. The report was not filed until July 2014.**

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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 (the "Airport Authority") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the Airport Authority's major federal programs for the year ended December 31, 2013. The Airport Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Airport Authority's major federal programs 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133  
(Continued)

We believe that our audit provides a reasonable basis for our opinion on compliance for each 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 2013-01 through 2013-03 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 the requirements applicable to that program.

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

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the Airport Authority did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Airport Improvement Program for the year ended December 31, 2013.

***Other Matters***

As discussed in Note 8 in the notes to the financial statements, the 2013 financial statements have been reissued. Except as discussed in Note 8, our opinion dated April 22, 2014 is not modified with respect to this matter. Additional procedures, as discussed in Note 8 have been performed through July 3, 2015 (date of completion of audit procedures limited to the revision described in Note 8).

The Airport Authority's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan at pages 58 and 59. 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 the 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 types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

(Continued)

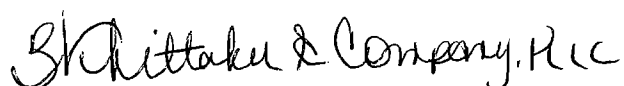
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses 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 items 2013-01 and 2013-02 to be material weaknesses. The Airport Authority's response to the internal control over compliance findings identified in our audit is described in the Corrective Action Plan at pages 58 and 59. 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.

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.

**Whittaker & Company, PLLC**



Gary, Indiana  
April 22, 2014

## **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Schedule of Expenditures of Federal Awards and accompanying note 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, 2013**

<u>Federal Grantor Agency</u>	<u>Pass-Through Entity or Direct Grant</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity (or Other) Identifying Number</u>	<u>Total Federal Awards Expended</u>
<b>Department of Transportation</b>				
<b>Airport Improvement Program</b>	Direct Grant			
Runway Expansion		20.106	3-18-0028-25	\$ -
Runway Expansion		20.106	3-18-0028-26	-
Runway Expansion		20.106	3-18-0028-27	50,365
Runway Expansion		20.106	3-18-0028-28	743,501
Runway Expansion		20.106	3-18-0028-29	6,000,000
<b>Total - Department of Transportation</b>				<u>6,793,866</u>
<b>Total federal awards expended</b>				<u>\$ 6,793,866</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  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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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 awards are received.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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*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

Listed below are findings that were cited as material weaknesses at December 31, 2012 and remained material weaknesses during the December 31, 2013 audit period.

Because the previous years' audit, period ended December 31, 2012, was not completed until October 2013, findings from the previous years' audit, cited as material weaknesses were not updated by the Authority until November 2013 and subsequent. Testing performed on expenditures subsequent to October 2013 determined that procedures had been implemented and were operating effectively.



**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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*Section II – Financial Statement Findings*

***FINDING 2013-01 - INTERNAL CONTROLS AND COMPLIANCE  
OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted deficiencies in the internal control system of the Gary Chicago International Airport Authority (the “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.

*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 statement prepared by the Finance Manger 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 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.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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*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.

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.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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- (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.

***FINDING 2013-02 - 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 segregation of duties, related to the grant agreement and all of the compliance requires 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 the clients activities of each grant award, officials can efficiently 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.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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Also, monies spent but not yet reimbursed by the Airport Improvement Program Grant were recorded in the Airport Improvement Fund. The money should be recorded in the fund in which the monies were expensed until reimbursement is received by the federal grant.

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

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 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 Improvement Grants, to provide guidance as evidence 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 claim for reimbursement prior to submission for reimbursement; however, there was a lack 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 exceeded 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 those reviews were conducted.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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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.

***FINDING 2013-03 –COMPLIANCE RELATED TO THE 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

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)

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
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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 December 31, 2012 and 3013 were not filed until July 2014.

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 Airport Authority but not yet claimed for reimbursement were excluded from the reports. These reporting errors resulted in the Airport materially misrepresenting the financial transaction of the grant award activities for the quarter which reports were filed.

A Final SF-425 is due within 90 days of the projected or period end. Final reports for the 3-18-002826 and 3-18-0028-27 grant awards were not filed until July 2014.

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 5100-26).

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 section 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 financial assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

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.

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*Section III – Federal Award Findings and Questioned Costs*

***FINDING 2013-01 - INTERNAL CONTROLS AND COMPLIANCE  
OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted deficiencies in the internal control system of the Gary Chicago International Airport Authority (the “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.

*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 statement prepared by the Finance Manger 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.

*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.

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

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

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

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

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

- (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.



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- (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.

***FINDING 2013-02 - 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 segregation of duties, related to the grant agreement and all of the compliance requires 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 the clients activities of each grant award, officials can efficiently 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. Also, monies spent but not yet reimbursed by the Airport Improvement Program Grant were recorded in the Airport Improvement Fund. The money should be recorded in the fund in which the monies were expensed until reimbursement is received by the federal grant.

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

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 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 Improvement Grants, to provide guidance as evidence 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 claim for reimbursement prior to submission for reimbursement; however, there was a lack 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 exceeded 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 those 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.

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
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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.

***FINDING 2013-03 –COMPLIANCE RELATED TO THE 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

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)

**GARY CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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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 December 31, 2012 and 3013 were not filed until July 2014.

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 Airport Authority but not yet claimed for reimbursement were excluded from the reports. These reporting errors resulted in the Airport materially misrepresenting the financial transaction of the grant award activities for the quarter which reports were filed.

A Final SF-425 is due within 90 days of the projected or period end. Final reports for the 3-18-002826 and 3-18-0028-27 grant awards were not filed until July 2014.

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 5100-26).

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 section 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:

- (2) Financial reporting. Accurate current and complete disclosure of the financial results of financial assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

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.



April 23, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
CORRECTIVE ACTION PLAN

The previous years' audit, period ended December 31, 2012, was not completed until October, 2013, the corrective actions were put in place in November, 2013 and subsequent. Therefore the following findings, which were previously reported in the 2012 audit, were included again due to the limited amount of time the corrective action was in place in 2013. Whittaker & Co. verified that the Airport's corrective action plan had been implemented.

**Finding 2013-01 – Internal Controls and Compliance Over Financial Transactions and Reporting**

***Contact Person: William Outlar (219) 949-4903***

***Anticipated Completion Date: December 2013***

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

The bank reconciliations are prepared by the Accounting Specialist and reviewed by the Finance Manager. The financial statements are submitted to the Airport Director for review prior to submitting to the Board for review and approval.

Reports that are filed with outside agencies are forwarded to the board for approval.

In 2013, the Accounting Specialist position was vacant from July, 2013 to November, 2013. Since the position has been filled, the Accounting Specialist processes all disbursements. The disbursements are reviewed by the Finance Manager and the Interim Airport Director prior to submitting them to the Board for approval. Payroll transactions and bank reconciliations are prepared by the Accounting Specialist and approved by the Finance Manager.

**Receipts**

The Office Manager prepares receipts for all incoming checks and the Finance Manager prepares the deposit ticket and makes the deposit. When either of these individuals is absent the Deputy Director will fill in.

The Schedule of expenditures for Federal awards was submitted to the Interim Director and the Board for final approvals.

**Finding 2013-02 Internal Controls Over Compliance Requirements That Have A Direct and Material Effect to the Airport Improvement Program**

**Contact Person: William Outlar (219) 949-4903**

**Anticipated Completion Date: December 2013**

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 has been established

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

Projects have been aligned 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 submits 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. The report will be initialed indicated the Finance Manager's review.

Davis-Bacon Act

A checklist has been established which is used by the project manager to indicate his/her review of the prevailing wages, as well as other key document reviews. The project manager initials the checklist indicating the reviews that were performed for the Pay Application. The Finance Manager will follow up monthly and spot check prevailing wage documents for compliance.

**Finding 2013-03 Compliance Related to the Airport Improvement Program Reporting**

**Contact Person: William Outlar (219) 949-4903**

**Anticipated Completion Date: July 30,, 2014**

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

Form 5100-60: The Airport is now using Form 271.

All SF-425 reports will be filed timely using quarterly and cumulative transactions of disbursed. The Airport Authority is required to file 5100-126 and 5100-127 by April 30, 2014 using financial data. The report was not filed until July 2014.

Signed: , Interim Airport Director

**Gary Chicago International Airport Authority  
Exit Conference**

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The contents of this report were discussed on April 22, 2014, with Bridgette R. Lane, Interim Airport Director, Carolyn Keith, Finance Manager/Treasurer, and Jim Cooper, Acting President of the Airport Authority Board of Directors. Responses have been made a part of this report and may be found at pages 58 and 59.