

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

ST. JOSEPH COUNTY AIRPORT AUTHORITY

ST. JOSEPH COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
09/15/2016

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Finding: Finding 2015-001 - Financial Transactions and Reporting	4-6
Corrective Action Plan.....	7-8
Exit Conference.....	9

SCHEDULE OF OFFICIALS

Office	Official	Year Appointed	Term Expires
President	Mr. Abraham Marcus	2010	12/31/2017
Vice President	Mr. David R. Sage	1991	12/31/2016
Treasurer	Dr. Jay Asdell	2013	12/31/2019
Secretary	Mr. Thomas S. Botkin	2007	12/31/2018
Executive Director	Mr. Michael A Daigle, A.A.E.		



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE ST. JOSEPH COUNTY AIRPORT
AUTHORITY, ST. JOSEPH COUNTY, INDIANA

This report is supplemental to our audit report of the St. Joseph County Airport Authority (Airport Authority), for the period from January 1, 2015, to December 31, 2015. It has been provided as a separate report so that the reader may easily identify any Federal Findings that pertain to the Airport Authority. It should be read in conjunction with our Financial Statements and Federal Single Audit Report of the Airport Authority, which provides our opinions on the Airport Authority's financial statements and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Finding, identified in the above referenced audit report, is included in this report.

Any Corrective Action Plan for the Federal Finding, incorporated within this report, was not verified for accuracy.

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

August 1, 2016

ST. JOSEPH COUNTY AIRPORT AUTHORITY
FEDERAL FINDING

FINDING 2015-001 - FINANCIAL TRANSACTIONS AND REPORTING

Condition

The Airport Authority's internal controls over the Financial Statements (Statements), Notes to the Financial Statements (Notes), and Schedule of Expenditures of Federal Awards (SEFA) were not effective in preventing, or detecting and correcting, errors in a timely manner. As a result, the Statements, Notes, and SEFA contained the following errors:

Statement of Net Position:

1. Capital Assets were overstated \$81,192; two vehicles were reported twice.
2. Bonds Payable (Net) of \$1,929,841 were misclassified as Unrestricted Net Position.

Statement of Revenues, Expenses, and Changes in Net Position:

1. Bonds Issue Costs of \$79,399 were omitted.
2. Pension Contributions of \$322,365 were misclassified as Capital Contributions.

Statement of Cash Flows:

1. Payments to Employees were overstated \$322,149.
2. Capital Contributions were overstated \$322,149.
3. Acquisition and Construction of Capital Assets were overstated \$81,192.
4. Bond Issuance Costs were overstated \$79,974.

Notes:

Included numerous inconsistencies with the financial information included on the face of the Statements.

SEFA:

Federal Expenditures of the Airport Improvement Program were overstated \$692,243.

Adjustments were proposed, accepted by the Airport Authority, and made to the Statements, Notes, and SEFA presented in this report.

Criteria

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.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
FEDERAL FINDING
(Continued)

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

2 CFR section 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with section 200.510 Financial statements. . . ."

2 CFR section 200.510(b) states:

"Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with section 200.502 Basis for determining Federal awards expended. 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 must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within a cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must 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. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in section 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe the significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in section 200.414 Indirect (F&A) costs."

Cause

Management of the Airport Authority had not established a proper system of internal control over financial transactions and reporting.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
FEDERAL FINDING
(Continued)

Effect

The failure to establish controls enabled material misstatements or irregularities to remain undetected.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

CORRECTIVE ACTION PLAN

Section II - Financial Statement Findings

FINDING 2014- 001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact person:

Brock Zeeb,

bzeeb@sbnair.com

574-282-4590 x223

Expected Completion date: 09/1/15

Corrective Action:

The Authority has developed and passed an internal controls guide. In order to improve this process, an evaluation of the Airport Authority's system of internal control has been conducted related to the payroll process. An additional step has been created which requires a review of the payroll input by a separate employee prior to submission to the third party vendor. This additional step has been communicated to the applicable parties and is now in force.

Status of Audit Finding: Action has been taken; policy and procedures have been implemented. Finding status is closed. No longer an internal control risk.



CORRECTIVE ACTION PLAN

FINDING 2015-001 - FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action:

Brock Zeeb, Director of Admin / Finance.

bzeeb@sbnair.com

Contact Phone Number: 574-282-4590 x 223

Expected completion date 12/1/2016

Views of Responsible Official:

The Airport Authority believes the current internal control structure is sound and is sufficient to detect misstatements or irregularities. In May 2016, the Board adopted a new internal controls guide and documented updated financial policies and procedures. Financial controls are under constant review to ensure the Authority is compliant with GAAP and equal to the minimum standards required by the Indiana State Board of Accounts.

Description of Corrective Action Plan:

This finding is connected to the conversion from the cash method to accrual for the Annual Financial Report that is due by March 1st of each year. The Airport Authority books and records are maintained on a cash basis throughout the year and converted back to an accrual basis in order to complete the Annual Financial Report by the prescribed deadline. The cash records proved to be sound. In coordination with our consultant, H.J. Umbaugh and Associates, the Authority made the decision in the conversion and reporting of the financials in an accrual method that resulted in the reported inaccuracies. The Annual Financial Report has been updated to accurately reflect the accrual basis changes suggested by the State Board of Accounts. To prevent future inconsistencies, the Airport Authority Staff and our consultant (H.J. Umbaugh & Associates) will complete the accrual basis Annual Financial Report by mid-February of every year to ensure additional time to reconcile the conversion. In addition, basic financial statements will be prepared each year by April 20th in order to allow for a second level of review of the accrual basis Annual Financial Report. Inconsistencies will be addressed by reopening the accrual basis Annual Financial Report and resubmitting after corrections have been made. In addition to an earlier completion of the AFR, the Authority and consultant will hold an extra meeting to ensure the decisions made in the conversion have been well thought out and discussed thoroughly.

[Handwritten Signature]
(Signature)

Director of Admin / Finance
(Title)

7/28/16
(Date)

ST. JOSEPH COUNTY AIRPORT AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on August 1, 2016, with Abraham Marcus, President; Michael A Daigle, A.A.E., Executive Director; and Brock Zeeb, Director of Administration and Finance.