

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

EVANSVILLE-VANDERBURGH AIRPORT
AUTHORITY DISTRICT
A COMPONENT UNIT OF
VANDERBURGH COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
12/10/2015

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2014-001 - Preparation of the Schedule of Expenditures of Federal Awards	4-5
Finding 2014-002 - Internal Control Over Reporting	5
Finding 2014-003 - Matching	5-6
Finding 2014-004 - Reporting	6-7
Corrective Action Plan.....	8-11
Audit Results and Comments:	
Issuance of Warrants.....	12
Credit Cards.....	12-13
Official Response	14
Exit Conference.....	15

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Douglas P. Joest	01-01-14 to 12-31-15
Treasurer	Derrick Stewart	01-01-14 to 12-31-14
	J P Engelbrecht	01-01-15 to 06-30-15
	Alan Leibundguth	07-01-15 to 12-31-15
President of the Board	Rick Kaskel	01-01-14 to 12-31-15



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 EVANSVILLE-VANDERBURGH AIRPORT
AUTHORITY DISTRICT, VANDERBURGH COUNTY, INDIANA

This report is supplemental to our audit report of the Evansville-Vanderburgh Airport Authority District (Airport Authority), for the period from January 1, 2014 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the Airport Authority. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Airport Authority, which provides our opinions on the Airport Authority's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

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

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

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

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

October 8, 2015

EVANSVILLE-VANDEBURGH AIRPORT AUTHORITY DISTRICT
FEDERAL FINDINGS

FINDING 2014-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

During the audit of the SEFA, we noted the following errors: the amount reported for the Airport Improvement Program was understated by \$4,329,228, and a federal program was omitted from the grant schedule. Audit adjustments in the amount of \$4,629,607 were proposed, accepted by the Airport Authority, and made to the SEFA presented in this report.

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

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

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.

EVANSVILLE-VANDEBURGH AIRPORT AUTHORITY DISTRICT
FEDERAL FINDINGS
(Continued)

- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

FINDING 2014-002 - INTERNAL CONTROL OVER REPORTING

We noted a deficiency in the internal control system of the Airport Authority related to financial reporting. The financial statements and related notes that were initially presented for audit contained material errors. It was determined that the Director of Finance prepared the financial statements and related notes without an oversight, review, or approval process. Revised financial statements and related notes were then prepared, reviewed, and presented for audit and were determined to be materially correct.

Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Airport Authority's financial statements and then determining how those identified risks should be managed. The Airport Authority has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent, or detect and correct, material misstatements, including the notes to the financial statements.

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)

Section III - Federal Award Findings and Questioned Costs

FINDING 2014-003 - MATCHING

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number and Year: AIP-3-18-0020-48-2011, AIP-3-18-0020-49-2011,
AIP-3-18-0020-54-2013, and AIP-3-18-0020-55-2013

Management of the Airport Authority has not established an effective internal control system, which would include segregation of duties, related to the grant agreements and the Matching compliance requirement. There was no control to ensure that the Airport Authority met their local share match.

EVANSVILLE-VANDEBURGH AIRPORT AUTHORITY DISTRICT
FEDERAL FINDINGS
(Continued)

The failure to establish an effective internal control system places the Airport Authority at risk of noncompliance with the grant agreement and 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 program.

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

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

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

The failure to establish internal controls has enabled noncompliance to go undetected. Noncompliance with the compliance requirements 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 agreements and the Matching compliance requirement.

FINDING 2014-004 - REPORTING

Federal Agency: Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106

Federal Award Numbers and Years: AIP-3-18-0020-47-2010, AIP-3-18-0020-48-2011,
AIP-3-18-0020-49-2011, AIP-3-18-0020-51-2011,
AIP-3-18-0020-52-2012, AIP-3-18-0020-53-2012,
AIP-3-18-0020-54-2013, AIP-3-18-0020-55-2013,
AIP-3-18-0020-56-2013, and AIP-3-18-0020-57-2014

Management of the Airport Authority has not established an effective internal control system, which would include segregation of duties, related to the grant agreements and the Reporting compliance requirement.

EVANSVILLE-VANDEBURGH AIRPORT AUTHORITY DISTRICT
FEDERAL FINDINGS
(Continued)

The Airport Authority has not designed or implemented adequate policies or procedures to ensure that accurate reports are filed. The Airport Improvement Program requires that either Form SF-270, Request for Advance or Reimbursement, or Form SF-271, Outlay Report and Request for Reimbursement for Construction Programs, be filed to obtain federal reimbursement of expenses. Of the 56 reimbursement reports filed in 2014, 6 reported the incorrect percentage of federal participation and resulted in a net overpayment of \$14,964 which is considered a questioned cost. The following errors were noted on the Federal Financial Report, SF-425, filed for the period ending September 30, 2014: One grant was not included, one grant included a reimbursement that was not received until November 21, 2014, which was after the end of the reporting period, and information reported for 4 grants was incorrect due to errors made in the completion and filing of Form SF-270 as previously discussed. Lastly, some of the financial information reported on FAA Form 5100-127, Operating and Financial Summary, did not agree with the ledgers presented for audit.

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

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

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

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

49 CFR 18.20(b) states in part:

"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."

The failure to establish internal controls has enabled material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements 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, to ensure compliance with the grant agreements and the Reporting compliance requirement.

CORRECTIVE ACTION PLAN

FINDING 2014-001 Preparation of the Schedule of Expenditures of Federal Award

Contact Person Responsible for Corrective Action: Douglas Joest
Contact Phone Number: 812-421-4401

Description of Corrective Action Plan: The Evansville-Vanderburgh Airport Authority District has established the following process when submitting Federal Awards: All requests will be prepared by the Director of Finance and submitted to the Executive Director for final approval and submission to the FAA and INDOT. In addition to these steps all grants will be reconciled with the Engineering firm's records and the Delphi systems. These reconciled documents will be used to submit date into the Gateway System to ensure that all documentation on file with Evansville-Vanderburgh Airport Authority District is accurate.

Anticipated Completion Date: Immediately



(Signature)

Executive Director

(Title)

9/28/15

(Date)

CORRECTIVE ACTION PLAN

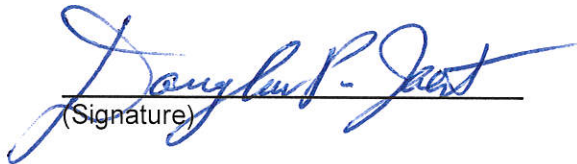
FINDING 2014-002 Internal Control over Reporting

Contact Person Responsible for Corrective Action: Douglas Joest

Contact Phone Number: 812-421-4401

Description of Corrective Action Plan: The Evansville-Vanderburgh Airport Authority District has established the following process when preparing the Annual Financial Reporting Records: All records will be prepared by the Director of Finance and reviewed by the Executive Director before these reports are finalized.

Anticipated Completion Date: Immediately



(Signature)

Executive Director

(Title)

9-24-15

(Date)

CORRECTIVE ACTION PLAN

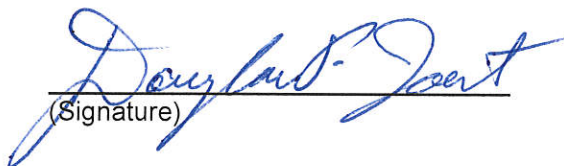
FINDING 2014-003 Matching

Contact Person Responsible for Corrective Action: Douglas Joest

Contact Phone Number: 812-421-4401

Description of Corrective Action Plan: The Evansville-Vanderburgh Airport Authority District has established the following process when submitting Federal Awards: All requests will be prepared by the Director of Finance and submitted to the Executive Director for final approval and submission to the FAA and INDOT. In addition to these steps all grants will be reconciled with the Engineering and Delphi systems to ensure that all documentation on file with Evansville-Vanderburgh Airport Authority District is accurate.

Anticipated Completion Date: Immediately



(Signature)

Executive Director

(Title)

9-24-15

(Date)

CORRECTIVE ACTION PLAN

FINDING 2014-004 Reporting

Contact Person Responsible for Corrective Action: Douglas Joest

Contact Phone Number: 812-421-4401

Description of Corrective Action Plan: The Evansville-Vanderburgh Airport Authority District has established the following process when submitting Federal Awards: All reports will be prepared by the Director of Finance and reviewed by the Executive Director before these reports are finalized.

Anticipated Completion Date: Immediately



(Signature)

Executive Director
(Title)

9/28/15
(Date)

EVANSVILLE-VANDERBURGH AIRPORT AUTHORITY DISTRICT
AUDIT RESULTS AND COMMENTS

ISSUANCE OF WARRANTS

The Airport Authority Board appoints a Treasurer annually. Per Indiana Code, part of the duties of the Treasurer includes the issuance of all warrants. During the audit period and through the date of this report, the Executive Director of the Airport Authority District issued all warrants. Warrants for amounts over \$20,000 were countersigned by either the Treasurer or the President of the Board.

Indiana Code 8-22-3-20(b) states in part:

" . . . The treasurer shall issue all warrants for the payment of money from the funds of the authority, but a warrant may be issued for the payment of a claim only if the claim has been allowed in accordance with the procedure prescribed by the regulations of the board. All warrants must be countersigned by the president or vice president."

CREDIT CARDS

The Airport Authority Board passed a Resolution approving the use of credit cards for authorized travel, education, and related expenses. Several charges made with the credit card were not for the approved uses. In addition, 8 out of the 10 credit cards payments tested did not have adequate supporting documentation available to support the total amount paid. The error resulted in \$1,744 of expenditures which did not have adequate supporting documentation to verify the purpose of the disbursement.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.

EVANSVILLE-VANDEBURGH AIRPORT AUTHORITY DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)



November 2, 2015

**State Board of Accounts
302 Washington Street, Room E418
Indianapolis, IN 46204-2769**

Dear Sir:

Please find below the Evansville Vanderburgh Airport Authority Audit Results and Comments Report response:

Issuance of Warrants (Cash Disbursements)

Indiana Code 8-22-3-20(c)), allows the use of a facsimile signature, which delegates the authority to issue payroll and like warrants in a timely manner. All warrants are approved by the whole board each month, including the Treasurer. We feel that this monthly board review to approve all disbursements is in compliance with the intent of the law.

As a result of this finding, the Evansville Vanderburgh Airport Authority board will consider appointing the Executive Director or other individual that is in the office daily to serve as Treasurer.

Credit Cards

The original credit card policy was written when only travel and educational expenses were paid for in this manner. This policy will be updated to reflect the use of other goods and services that may be purchased with a properly issued airport authority credit card. It should be noted that all credit card payments are approved like any other payment and will be reviewed for the appropriateness of charges to the Evansville-Vanderburgh Airport Authority.

Sincerely,

Doug Joest

Executive Director of the Evansville Vanderburgh Airport Authority

EVANSVILLE-VANDERBURGH AIRPORT AUTHORITY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on October 8, 2015, with Douglas P. Joest, Executive Director; Jean R. Stevens, Director of Finance; and Alan Leibundguth, Treasurer.