

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SOUTH CENTRAL REGIONAL AIRPORT AUTHORITY

CLARK COUNTY, INDIANA

January 1, 2014 to December 31, 2014



**FILED**

12/16/2016



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Airport Manager	Melodee A. McNames John Secor	01-01-14 to 04-06-15 04-07-15 to 12-31-16
Treasurer	Melodee A. McNames (Vacant)	01-01-14 to 04-06-15 04-07-15 to 12-31-16
President of the Board	Thomas Galligan	01-01-14 to 12-31-16



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE SOUTH CENTRAL REGIONAL  
AIRPORT AUTHORITY, CLARK COUNTY, INDIANA

This report is supplemental to our audit report of the South Central Regional Airport Authority (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 Authority. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Authority, which provides our opinions on the Authority's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://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

November 1, 2016

SOUTH CENTRAL REGIONAL AIRPORT AUTHORITY  
FEDERAL FINDINGS

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

*Condition*

There were deficiencies in the internal control system of the Authority related to financial transactions and reporting.

1. Lack of Segregation of Duties: The Authority had not separated incompatible activities related to cash and investments, receipts, and disbursements. The Office Manager performed nearly all functions related to these areas without any oversight, review, or approval process.
2. Monitoring of Controls: An evaluation of the Authority's system of internal control had not been conducted. Additionally, the Authority had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the Authority to monitor and assess the quality of the system of internal control.
3. Preparing Financial Statement: Effective internal control over financial reporting involved the identification and analysis of the risks of material misstatement to the Authority's audited financial statement and then determining how those identified risks should be managed. The Authority had not identified risks to the preparation of a reliable financial statement and, as a result, had failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements. The Office Manager independently prepared the financial statement without any oversight, review, or approval process.

*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.

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)

*Cause*

Management of the Authority had not established a proper system of internal control. An evaluation of the Authority's system of internal control had not been conducted. Management had not conducted a risk assessment related to the Authority's financial reporting and transactions.

*Effect*

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the Authority at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

SOUTH CENTRAL REGIONAL AIRPORT AUTHORITY  
FEDERAL FINDINGS  
(Continued)

*Views of Responsible Officials*

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

**FINDING 2014-002 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

*Condition*

The Authority did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). No documentation was provided by the Authority indicating a review or approval had been conducted on the SEFA.

*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.

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)

*Cause*

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

*Effect*

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA could have remained undetected.

*Views of Responsible Officials*

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

**FINDING 2014-003 - SPECIAL TESTS AND PROVISIONS - REVENUE DIVERSION**

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): 3-18-0041-018-2008,  
3-18-0041-022-2009,  
3-18-0041-024-2011,  
3-18-0041-025-2012,  
3-18-0041-026-2013

SOUTH CENTRAL REGIONAL AIRPORT AUTHORITY  
FEDERAL FINDINGS  
(Continued)

*Condition*

An effective internal control system was not in place at the Authority in order to ensure compliance with requirements related to the grant agreement and Special Tests and Provisions - Revenue Diversion compliance requirement.

One employee at the Authority collected receipts, posted receipts to the ledger, and deposited the receipts. There were no controls in place for segregation of duties related to recording and expending of receipts.

*Context*

This was a systemic problem. The Authority had not designed or implemented adequate policies and procedures to ensure that revenue was properly receipted and only expended for operating and capital activities. A monitoring or review process had not been established to ensure that revenues were in compliance with the Special Tests and Provisions - Revenue Diversion compliance requirement.

*Criteria*

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. . . ."

*Cause*

Management had not developed a system of internal control that segregated key functions related to the recording and expending of Authority revenues.

*Effect*

The failure to establish an effective internal control system placed the Authority at risk of noncompliance with the grant agreement and the compliance requirement. Noncompliance with the grant agreement and the compliance requirement could have resulted in a loss of federal funds to the Authority.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the Authority's management establish controls, including segregation of duties, related to the grant agreement and compliance requirement pertaining to Special Tests and Provision - Revenue Diversion.

*Views of Responsible Officials*

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

SOUTH CENTRAL REGIONAL AIRPORT AUTHORITY  
FEDERAL FINDINGS  
(Continued)

***FINDING 2014-004 - PROCUREMENT, SUSPENSION AND DEBARMENT***

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

Federal Award Numbers and Years (or Other Identifying Numbers): 3-18-0041-018-2008,  
3-18-0041-022-2009,  
3-18-0041-024-2011,  
3-18-0041-025-2012,  
3-18-0041-026-2013

*Condition*

An effective internal control system was not in place at the Authority in order to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirements. The Authority was relying on the Grant Administrator for compliance with requirements pertaining to Procurement and Suspension and Debarment.

Written policies and procedures outlining responsibilities and duties for procurement had not been established identifying Procurement and Suspension and Debarment requirements in order to ensure staff is knowledgeable about the grant requirements and a process is in place to ensure adherence to the requirements. The Authority did not have a written code of ethical conduct.

*Context*

The Authority did not have a formal written policy outlining their procurement policies. Two of the three vendors tested did not have any evidence that the Authority had verified compliance with Suspension and Debarment prior to entering into contracts with those vendors.

*Criteria*

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 18.36(b) states in part:

*"Procurement standards.*

- (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.
- (2) Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.
- (3) Grantees and subgrantees will maintain a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts. . . ."

SOUTH CENTRAL REGIONAL AIRPORT AUTHORITY  
FEDERAL FINDINGS  
(Continued)

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

*Cause*

Management had not developed a system of internal control that segregated key functions related to verifying compliance with Procurement and Suspension and Debarment requirements.

*Effect*

The failure to establish internal controls related to Procurement enabled material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could have resulted in the loss of federal funds to the Authority. Additionally, the failure to maintain supporting documentation of internal control procedures related to Suspension and Debarment prevented the ability to verify if the Authority was in compliance with the requirements for Suspension and Debarment.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

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

*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

### **FINDING 2014-001 Internal Controls over Financial Transactions and Reporting**

Report Period: 1/1/2014 to 12/31/2014

Contact Person Responsible for Corrective Action: Tom Galligan, South Central Regional Airport Authority, President

Contact Phone Number: 812-207-0335

#### Description of Corrective Action Plan:

- The Airport Authority has increased staff to include one part-time contractor in order to separate the activities related to cash, receipts and disbursements. The contractor shall receive and code all invoices for payment as well as receive all payments into a pre-printed SBOA-approved receipt book, denoting type of payment (cash, check, etc.). The Airport Manager shall then approve invoices for remittance as well as any deposits. The Office Manager shall input the invoices and deposits into Quick Books and print the checks. The Airport Manager as well as the Board President and/or Vice President shall counter-sign each check. The Airport Manager/Office Manager will ensure that these activities are reported to the Airport Authority Board as part of the financial packet at its regular monthly meetings and that the processing of cash, receipts and disbursements are approved at that time.

#### Anticipated Completion Date:

- It is anticipated that the Airport Authority will be able to implement this practice at its next monthly Board Meeting.

### **FINDING 2014-002 Preparation of the Schedule of Expenditures of Federal Awards**

Report Period: 1/1/2014 to 12/31/2014

Contact Person Responsible for Corrective Action: Tom Galligan, South Central Regional Airport Authority, President

Contact Phone Number: 812-207-0335

#### Description of Corrective Action Plan:

- At year-end, the Schedule of Expenditures of Federal Awards shall be presented to the Board for review and approval prior to submission within the Gateway Financial System.

#### Anticipated Completion Date:

- This corrective action should begin at the next monthly Board meeting.

### **FINDING 2014-003 Special Tests and Provisions – Revenue Diversion**

Report Period: 1/1/2014 to 12/31/2014

Pass-Through Entity or Federal Grantor Agency: Department of Transportation

Contact Person Responsible for Corrective Action: Tom Galligan, South Central Regional Airport Authority, President

Contact Phone Number: 812-207-0335

Description of Corrective Action Plan:

- The Airport Authority has increased staff to include one part-time contractor in order to separate the activities related to cash, receipts and disbursements. The contractor shall receive and code all invoices for payment as well as receive all payments into a pre-printed SBOA-approved receipt book, denoting type of payment (cash, check, etc.). The Airport Manager shall then approve invoices for remittance as well as any deposits. The Office Manager shall input the invoices and deposits into Quick Books and print the checks. The Airport Manager as well as the Board President and/or Vice President shall counter-sign each check. The Airport Manager/Office Manager will ensure that these activities are reported to the Airport Authority Board as part of the financial packet at its regular monthly meetings and that the processing of cash, receipts and disbursements are approved at that time.

Anticipated Completion Date:

- It is anticipated that the Airport Authority will be able to implement this practice within the next 30-days and begin obtaining Board approval at its next monthly Board Meeting.

**FINDING 2014-004 Procurement, Suspension and Debarment**

Report Period: 1/1/2014 to 12/31/2014

Pass-Through Entity or Federal Grantor Agency: Department of Transportation

Contact Person Responsible for Corrective Action: Tom Galligan, South Central Regional Airport Authority, President

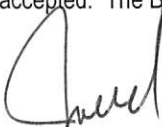
Contact Phone Number: 812-207-0335

Description of Corrective Action Plan:

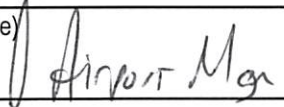
- The Airport Authority contracts with an outside consultant as grant administrator and has relied upon their expertise in order to ensure that wording is present in all contracts to address procurement, suspension and debarment. The Airport Authority will ensure that the consultant addresses this deficiency and that whenever a contract is accepted that it contains the necessary language regarding procurement, suspension and debarment.

Anticipated Completion Date:

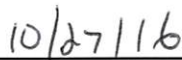
- The proposed corrective action shall be implemented at the next Board meeting that a contract is being considered or accepted. The Board shall vote on the acceptance of the contract based on the inclusion of said language.



(Signature)



(Title)



(Date)

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SOUTH CENTRAL REGIONAL AIRPORT AUTHORITY  
AUDIT RESULTS AND COMMENTS

***ANNUAL FINANCIAL REPORT AND FORM 100-R***

The Annual Financial Report for 2014 was not filed electronically until June 27, 2016, which was 484 days past the due date. The Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100-R or its equivalent) has not been filed.

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

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

Indiana Code 5-11-13-1 states in part:

"Every state, county, city, town, township, or school official, elective or appointive, who is the head of or in charge of any office, department, board, or commission of the state or of any county, city, town, or township, and every state, county, city, town, or township employee or agent who is the head of, or in charge of, or the executive officer of any department, bureau, board, or commission of the state, county, city, town, or township, and every executive officer by whatever title designated, . . . shall during the month of January of each year prepare, make, and sign a certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

***RECEIPT ISSUANCE***

We were unable to verify that all collections were properly recorded to the Authority's records at the time the transactions occurred because receipts were not issued for any collections during the audit period.

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

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

***COMPENSATION AND BENEFITS***

Compensation and benefits paid to employees was not included on a salary ordinance, resolution, or Board approved contract.

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

SOUTH CENTRAL REGIONAL AIRPORT AUTHORITY  
EXIT CONFERENCE

The contents of this report were discussed on November 1, 2016, with Thomas Galligan, President of the Board; John Secor, Airport Manager; and Kris Brutscher, Office Manager.