

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

PORTER COUNTY AIRPORT AUTHORITY

PORTER COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
09/08/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Airport Director/Treasurer	Kyle J. Kuebler	01-01-16 to 12-31-18
President of the Airport Authority Board	Paul R. Chael	01-01-16 to 12-31-18



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 PORTER COUNTY AIRPORT AUTHORITY, PORTER COUNTY, INDIANA

This report is supplemental to our audit report of the Porter County Airport Authority (Authority), for the period from January 1, 2016 to December 31, 2016. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the Authority. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Authority, which provides our opinions on the Authority's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Result and Comment 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 Result and Comment contained herein describes the identified reportable instance 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, incorporated within this report, was not verified for accuracy.

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

August 28, 2017

PORTER COUNTY AIRPORT AUTHORITY
FEDERAL FINDINGS

FINDING 2016-001

Subject: Internal Controls over Financial Transactions and Reporting and
Preparation of the Schedule of Expenditures of Federal Awards
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediate prior report. The prior report finding number was 2015-001.

Condition

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

There were no controls over the input of financial information entered into the Indiana Gateway for Government Units financial reporting system (Gateway), which was the source for the Annual Financial Report (AFR), the financial statement, and the Schedule of Expenditures of Federal Awards (SEFA). Financial information was prepared and submitted into Gateway without effective oversight, review, approval, or other compensating control to ensure the accuracy of the information prior to submission.

Lack of Segregation of Duties: The Authority had not separated incompatible activities related to all areas of the financial statement.

1. Cash and Investments: Bank reconciliements were prepared by a single person without a proper system of oversight, review, or other compensating control.
2. Receipts: The Authority had established a system of internal control over receipts; however, the control was not properly implemented. There was no evidence of a review process to ensure that receipts were properly recorded to the correct fund and accounts and for the correct amount. In addition, official receipts were not signed; the computer software identified the user who recorded the receipts; however, the computer software allowed the user name to be altered.
3. Disbursements: The Authority had established a system of internal controls over disbursements, including payroll; however, the control was not properly implemented. There was no evidence of a review process to ensure that disbursements were properly recorded to the correct fund and accounts and for the correct amount could not be evidenced.
4. Transaction Recording: All financial transactions were recorded on an Excel spreadsheet, which could have been altered and would not have provided an audit trail of changes or corrections to the original information.

Context

The lack of internal controls was a systemic issue throughout the audit period. Due to the lack of controls, the SEFA included state funds which resulted in an overstatement of federal expenditures of \$259,238. An audit adjustment was proposed, accepted by the Authority, and made to the SEFA.

PORTER COUNTY AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; . . . Accurate and timely recording of transactions. . . ."

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

2 CFR 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 § 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 Federal award years, the auditee may list the amount of Federal awards expended for each Federal 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 the 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.

PORTER COUNTY AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

- (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 § 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 § 200.414 Indirect (F&A) costs."

Cause

The Authority had not established or properly implemented an effective system of internal control that segregated key functions.

Effect

The failure to establish and properly implement controls enabled a material misstatement of the SEFA to remain undetected.

Recommendation

We recommended that the Authority's management establish and document effective controls, including segregation of duties, to ensure the accuracy of the financial transactions reported in the financial statement and the SEFA.

Views of Responsible Officials

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

Finding 2016-002

Subject: Airport Improvement Program - Special Tests and Provisions - Wage Rate Requirements

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): 3-18-0083-26, 3-18-0083-27,
3-18-0083-28

Compliance Requirement: Special Tests and Provisions - Wage Rate Requirements

Audit Finding: Material Weakness

PORTER COUNTY AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

Repeat Finding

This is a repeat finding from the immediate prior report. The prior report finding number was 2015-002.

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 Special Tests and Provisions - Wage Rate Requirements compliance requirement. The Authority hired an engineer to oversee compliance with the wage rate requirements; however, the Authority did not implement procedures to ensure that the engineer adequately verified compliance.

Context

The lack of controls was a systemic problem throughout the audit period.

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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

The Authority had not developed a system of internal controls to ensure that compliance with the wage rate requirements was verified.

Effect

The failure to establish an effective internal control system could have enabled material noncompliance to go undetected. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

PORTER COUNTY AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Authority's management establish controls to ensure compliance with the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

Views of Responsible Officials

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

FINDING 2016-003

Subject: Airport Improvement Program - Procurement and 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): 3-18-0083-26, 3-18-0083-27,
3-18-0083-28

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediate prior report. The prior report finding number was 2015-003.

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 suspension and debarment requirements of the Procurement and Suspension and Debarment compliance requirement. There were not adequate procedures in place to ensure that all vendors were not suspended or debarred or otherwise excluded from participation in federal assistance programs.

The Authority did not perform a verification, obtain certifications, or add a clause to consulting contracts to ensure that the consulting firms were not suspended or debarred.

Context

The lack of controls was a systemic problem throughout the audit. The noncompliance was an isolated issue which applied only to consulting contracts.

PORTER COUNTY AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

The Authority had not developed a system of internal controls that would have ensured compliance with the suspension and debarment requirements of the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish internal controls enabled material noncompliance to go undetected, which could have resulted in the 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 to ensure compliance and comply with the Procurement and Suspension and Debarment compliance requirement.

PORTER COUNTY 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 2016-004

Subject: Airport Improvement Program - Reporting

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): 3-18-0083-26, 3-18-0083-27,
3-18-0083-27

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is not a repeat finding from the immediate prior report.

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 Reporting compliance requirement. The Authority hired an engineer to oversee compliance with the Reporting compliance requirement; however, the Authority did not implement procedures to ensure that the engineer adequately verified compliance.

Due to the lack of controls, the Authority filed an inaccurate Federal Financial Report (SF-425) on September 30, 2016.

Context

The lack of controls was an issue throughout the audit. The Federal Financial Report SF-425, due on September 30 of each year and was filed on September 30, 2016, included \$214,326 of the local share that was still unpaid as of August 14, 2017.

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. . . ."

PORTER COUNTY AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

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. . . ."

2 CFR 200.302(b)(2) states in part:

"Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . ."

Cause

The Authority had not established an effective internal control structure that would have ensured compliance with the grant agreement and the Reporting compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the 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 to ensure compliance and comply with the Reporting compliance requirement.

Views of Responsible Officials

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

4207 Murvihill Road
Valparaiso, IN 46383
Phone: 219-462-6508
Fax: 219-462-2913
E-Mail: vpz@vpz.org



CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Kyle J. Kuebler, Airport Director/Treasurer

Contact Phone Number: 219-462-6508

Views of Responsible Official: The Airport Authority concurs with the finding.

Description of Corrective Action Plan: In regard to the Conditions listed in the Schedule Of Findings And Questioned Costs, the following itemizes the noted Condition with the proposed modification to address the cited deficiency in the Internal Control System of the Airport Authority:

1. Lack of Segregation of Duties

a. Financial Reporting

The Treasurer will enter any required annual financial reporting into Gateway, and the Airport Authority Board will review and approve the entries that comprise such required annual financial reporting prior to its final submission in Gateway.

b. Bank Reconciliations

Bank Reconcilements will be prepared by the Treasurer or Airport Director, and will be reviewed by a staff member of the Airport Authority. An Airport Authority Form will evidence who was responsible for the preparation and review of the Bank Reconciliations, and on what dates such action was accomplished.

c. Receipts

An Airport Authority Form will document the initial posting of receipts, and will further evidence a review process to verify that receipts were properly recorded in the correct fund and account, and for the correct amount. The Airport Authority Form will evidence who was responsible for the initial posting and review of receipts, and on what dates such action was accomplished. A Report generated from the computerized accounting program will be attached to the form evidencing the initial posting and review of the receipts, with such Report(s) used to justify the journal entries and balance sheet totals of the computerized accounting system to the postings accomplished within the Ledger Of Receipts, Disbursements and Balances and the Ledger Of Appropriations, Encumbrances, Disbursements and Balances. The initial posting and review of receipts will be accomplished by different staff members of the Airport Authority. The process of Receipts (invoicing) associated with the collection of funds will be modified to include the signature of the Airport Authority Staff who accepted such payment.

d. Payroll and Vendor Disbursements

An Airport Authority Form will document the initial posting of payroll and vendor disbursements, and will further evidence a review process to verify that the payroll and vendor disbursements were properly recorded in the correct fund and account, and for the correct amount. The Airport Authority Form will evidence who was responsible for the initial posting and review of the payroll and vendor disbursements, and on what dates such action was accomplished. A Report generated from the computerized accounting program will be attached to the form evidencing the initial posting and review of the payroll and vendor disbursements, with such Report(s) used to justify the journal entries and balance sheet totals of the computerized accounting system to the postings accomplished within the Ledger Of Receipts, Disbursements and Balances and the Ledger Of Appropriations, Encumbrances, Disbursements and Balances. The initial posting and review of the payroll and vendor disbursements will be accomplished by different staff members of the Airport Authority.

e. Schedule of Expenditures of Federal Awards (SEFA)

The Treasurer will enter any required annual Schedule of Expenditures of Federal Awards (SEFA) reporting into Gateway, and the Airport Authority Board will review and approve the entries that comprise such required annual Schedule of Expenditures of Federal Awards (SEFA) reporting prior to its final submission in Gateway.

f. Transaction Recording

The Airport Authority maintains an Excel Spreadsheet of a Ledger Of Receipts, Disbursements and Balances and a Ledger Of Appropriations, Encumbrances, Disbursements and Balances, that is in the format of the handwritten forms approved by the State Board of Accounts. Outputs of receipts and disbursements generated by the computerized accounting software are then posted within the Ledger Of Receipts, Disbursements and Balances and the Ledger Of Appropriations, Encumbrances, Disbursements and Balances. The computerized accounting software accomplishes journal entries to the general ledger and balance sheet allowing an audit trail of all transactions.

2. Monitoring of Controls

The Airport Authority will act to identify or communicate corrective actions to improve controls upon any changes or additions to its line of business, or at least every three (3) years to coincide with the Airport Authority's review of its Airport Improvement Program (AIP) Grant Oversight Policies and Procedures.

Anticipated Completion Date: September 30, 2017



(Signature)
Kyle J. Kuebler,
Airport Director/Treasurer

(Title)
August 28, 2017

(Date)

4207 Murvihill Road
Valparaiso, IN 46383
Phone: 219-462-6508
Fax: 219-462-2913
E-Mail: vpz@vpz.org



CORRECTIVE ACTION PLAN

FINDING 2016-002

Contact Person Responsible for Corrective Action: Kyle J. Kuebler, Airport Director/Treasurer

Contact Phone Number: 219-462-6508

Views of Responsible Official: The Airport Authority concurs with the finding.

Description of Corrective Action Plan: The Airport Authority will modify its Airport Improvement Program (AIP) Grant Oversight Policies and Procedures to require that its Consultant provide a correspondence evidencing that it has reviewed and certifies the Special Test and Provision-Wage Rate Requirements. The Airport Improvement Program (AIP) Grant Oversight Policies and Procedures will also be modified to require the Airport Director or Treasurer to review the findings of the Consultant in order to ensure compliance with requirements related to the grant agreement and the Special Tests and Provisions - Wages Rate Compliance Requirement, and evidence such review.

Anticipated Completion Date: September 30, 2017

(Signature)

Kyle J. Kuebler,
Airport Director/Treasurer

(Title)

August 28, 2017

(Date)

4207 Murvihill Road
Valparaiso, IN 46383
Phone: 219-462-6508
Fax: 219-462-2913
E-Mail: vpz@vpz.org



CORRECTIVE ACTION PLAN

FINDING 2016-003

Contact Person Responsible for Corrective Action: Kyle J. Kuebler, Airport Director/Treasurer

Contact Phone Number: 219-462-6508

Views of Responsible Official: The Airport Authority concurs with the finding.

Description of Corrective Action Plan: The Airport Authority will modify its Airport Improvement Program (AIP) Grant Oversight Policies and Procedures to require that its Consultant provide a correspondence evidencing that it has reviewed all bidder related to any contract to be funded under the federal Airport Improvement Program (AIP) within the System For Award Management (SAM), and certify compliance of all bidders with regard to Procurement, Suspension and Debarment. The Airport Improvement Program (AIP) Grant Oversight Policies and Procedures will also be modified to require the Airport Director or Treasurer to review the Consultant's standing within the System For Award Management (SAM), in order to ensure compliance with requirements related to the grant agreement and the Procurement, Suspension and Debarment, upon the execution of all contractual agreements, and evidence such review.

Anticipated Completion Date: September 30, 2017



(Signature)
Kyle J. Kuebler,
Airport Director/Treasurer

(Title)
August 28, 2017

(Date)

4207 Murvihill Road
Valparaiso, IN 46383
Phone: 219-462-6508
Fax: 219-462-2913
E-Mail: vpz@vpz.org



CORRECTIVE ACTION PLAN

FINDING 2016-004

Contact Person Responsible for Corrective Action: Kyle J. Kuebler, Airport Director/Treasurer

Contact Phone Number: 219-462-6508

Views of Responsible Official: The Airport Authority concurs with the finding.

Description of Corrective Action Plan: The Airport Authority will modify its Airport Improvement Program (AIP) Grant Oversight Policies and Procedures to require that its Consultant provide a correspondence evidencing that it has reviewed and certifies the Annual Federal Financial Report (SF 425) Requirements. The Airport Improvement Program (AIP) Grant Oversight Policies and Procedures will also be modified to require the Airport Director or Treasurer to review the findings of the Consultant in order to ensure compliance with requirements related to the grant agreement and the Annual Federal Financial Report (SF 425) Requirements, and evidence such review prior to its acceptance by the Airport Authority Board.

Anticipated Completion Date: September 30, 2017

A handwritten signature in blue ink, appearing to read "K. Kuebler", is written over a horizontal line.

(Signature)

Kyle J. Kuebler,
Airport Director/Treasurer

(Title)

August 28, 2017

(Date)

PORTER COUNTY AIRPORT AUTHORITY
AUDIT RESULT AND COMMENT

CAPITAL ASSETS

The Authority did not properly maintain a complete inventory of capital assets. Upon purchase, the costs of the capital assets were added to capital asset accounts for land, land improvements, etc., in the general ledger; however, records providing historical costs for some of the Authority's capital assets were not available, and records classifying and summarizing capital assets were incomplete. Deletions or disposals of capital assets were not recorded.

In addition, the Authority had not established a capital asset policy which would have set a dollar amount as a threshold to be used in determining which items would have been recorded and capitalized.

A similar comment appeared in prior Reports B37058 and B41951 entitled "Internal Controls over Financial Transactions and Reporting."

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

The governing body of a unit must have a written policy concerning capital assets that includes at a minimum, the threshold at which an item is considered a capital asset. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

PORTER COUNTY AIRPORT AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on August 28, 2017, with Kyle J. Kuebler, Airport Director/Treasurer, and Mark Taylor, Airport Authority Board member.