

**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, 2016 to December 31, 2016



**FILED**  
09/21/2017



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Michael A. Daigle	01-01-16 to 12-31-16
Treasurer	Dr. Jay Asdell Thomas S. Botkin	01-01-16 to 12-31-16 01-01-17 to 12-31-17
President of the Airport Authority Board	Abraham Marcus David R. Sage	01-01-16 to 12-31-16 01-01-17 to 12-31-17



**STATE OF INDIANA**  
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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, 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 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](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

August 31, 2017

ST. JOSEPH COUNTY AIRPORT AUTHORITY  
FEDERAL FINDINGS

**FINDING 2016-001**

Subject: Internal Controls over Financial Transactions and Reporting  
Audit Finding: Material Weakness

*Condition*

An effective internal control system was not in place at the Airport Authority over the financial close and reporting process. There were no controls to ensure that the accounting records were properly closed and that the financial activity in the records was accurately reflected in the financial statements prepared by a consultant.

*Context*

The Airport Authority's financial statements were prepared by a consultant before the accounting records were closed for the year. The ending accrual balances reported in the Airport Authority's financial records were the same as the balances reported in the prior audited financial statements. After the accounting records were closed, updated financial statements were provided. The financial statements still included some immaterial variances; however, were materially correct.

*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. . . ."

*Cause*

Management of the Airport Authority had not established a proper system of internal control.

*Effect*

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

ST. JOSEPH COUNTY AIRPORT AUTHORITY  
FEDERAL FINDINGS  
(Continued)

*Recommendation*

We recommended that the Airport Authority's management establish controls to ensure that accounting records were properly closed and that the financial activity in the records are accurately reflected in the financial statements.

*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 - 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): AIP 03-18-0079-048-2014  
AIP 03-18-0079-049-2014

Compliance Requirement: Procurement and Suspension and Debarment

Audit Finding: Material Weakness, Other Matters

*Condition*

An effective internal control system was not in place at the Airport 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 no controls in place to ensure that procedures to ensure that all vendors were not suspended or debarred or otherwise excluded from participation in federal assistance programs were performed timely.

Procedures to ensure that contractors were not suspended and debarred from participation in federal assistance programs were not performed timely. The construction contract agreements for AIP 03-18-0079-048-2014 and AIP 03-18-0079-049-2014 were signed October 1, 2015; however, the contractor certification that they were not suspended or debarred was dated July 14, 2016.

*Context*

The lack of controls and the noncompliance applied to the only contract awarded during the audit period.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over 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). . . ."

ST. JOSEPH COUNTY AIRPORT AUTHORITY  
FEDERAL FINDINGS  
(Continued)

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 Airport Authority had not established an effective internal control structure that would have ensured compliance with the grant agreement and the Suspension and Debarment requirements of the Procurement and Suspension and Debarment compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the Airport Authority.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the Airport Authority's management establish controls to ensure compliance and to comply with the Procurement and Suspension and Debarment 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 - 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): AIP 03-18-0079-046-2014,  
AIP 03-18-0079-047-2014,  
AIP 03-18-0079-048-2014,  
AIP 03-18-0079-049-2014

Compliance Requirement: Special Tests and Provisions - Wage Rate Requirements

Audit Finding: Material Weakness

ST. JOSEPH COUNTY AIRPORT AUTHORITY  
FEDERAL FINDINGS  
(Continued)

*Condition*

An effective internal control system was not in place at the Airport Authority in order to ensure compliance with the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

The Airport Authority hired a consultant to administer all of its grants. The consultant received certified payrolls from the contractors/subcontractors and forwarded them to an Airport Authority employee who was on military leave. The Airport Authority was not able to provide copies of the certified payroll reports for audit. Certified payrolls were provided by the consultant; however, there was no evidence to indicate that the Airport Authority had implemented procedures to ensure that the consultant had adequately verified compliance.

*Context*

The lack of controls was a systemic issue, occurring 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 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 Airport Authority had not established an effective internal control structure to ensure compliance with the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

*Effect*

The failure to establish an effective internal control system could have enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the Airport Authority.

*Questioned Costs*

There were no questioned costs identified.

ST. JOSEPH COUNTY AIRPORT AUTHORITY  
FEDERAL FINDINGS  
(Continued)

*Recommendation*

We recommended that the Airport 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.

## CORRECTIVE ACTION PLAN

### ***Section II - Financial Statement Findings***

#### ***FINDING 2016– 001***

Contact person responsible for corrective action:

Aaron Kobb

Contact email and phone number:

[akobb@sbnair.com](mailto:akobb@sbnair.com)

574-282-4590 x223

Views of Responsible Officials:

We concur with the finding.

Description of Corrective Action Plan:

The Authority currently has 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 year-end accounting process. An additional step has been created which establishes a year end checklist for the Airport Authority's accounting staff. This checklist will incorporate an already existing annual reporting requirements listing. In addition, both reports will be reviewed monthly during routine staff meetings to ensure all necessary actions are being taken and deadlines are being met. This additional step has been communicated to the applicable parties and will be fully implemented by year end 2017.

Anticipated Completion date: 12/31/17

## CORRECTIVE ACTION PLAN

### ***Section III – Federal Award Findings and Questioned Costs***

#### ***FINDING 2016- 002***

Contact person responsible for corrective action:

Aaron Kobb

Contact email and phone number:

[akobb@sbnair.com](mailto:akobb@sbnair.com)

574-282-4590 x223

Views of Responsible Officials:

We concur with the finding.

Description of Corrective Action Plan:

The Authority currently has 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 execution of construction contract agreements. While potential contractors acknowledge the issue of suspension and disbarment at the time of bid, an additional step has been created which establishes the execution of a separate certificate and verification at the time of contract execution. This additional step has been communicated to the applicable parties and will be fully implemented by year end 2017.

Anticipated Completion date: 12/31/17

## CORRECTIVE ACTION PLAN

### ***Section III – Federal Award Findings and Questioned Costs***

#### ***FINDING 2016 - 003***

Contact person responsible for corrective action:

Aaron Kobb

Contact email and phone number:

[akobb@sbnair.com](mailto:akobb@sbnair.com)

574-282-4590 x223

Views of Responsible Officials:

We concur with the finding.

Description of Corrective Action Plan:

The Authority currently has 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 wage rate compliance. Certified payroll reports will now be sent to the Airport Authority with a cover letter and signature page acknowledging the review and verification of the presented payroll reports by Airport Authority personnel. This additional step has been communicated to the applicable parties and will be fully implemented by year end 2017.

Anticipated Completion date: 12/31/17

ST. JOSEPH COUNTY AIRPORT AUTHORITY  
AUDIT RESULTS AND COMMENTS

***ANNUAL FINANCIAL REPORT***

The Annual Financial Report for 2016, due March 1, 2017, was not filed electronically until May 11, 2017, which was 71 days past the due date.

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."

***FUND SOURCES AND USES***

The December 2016 county tax distributions of \$399,420 were incorrectly recorded in the Airport Aviation fund. The Debt Service and Cumulative Building funds should have received \$296,382 and \$103,038, respectively. This resulted in the understatement of restricted cash of \$399,420 and the overstatement of unrestricted cash by the same amount.

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

ST. JOSEPH COUNTY AIRPORT AUTHORITY  
EXIT CONFERENCE

The contents of this report were discussed on August 31, 2017, with Michael A. Daigle, Executive Director; Aaron Kobb, Director of Administration and Finance; David R. Sage, President of the Airport Authority Board; Thomas S. Botkin, Treasurer of the Airport Authority Board; Abraham Marcus, Secretary of the Airport Authority Board; and Mitchell Heppenheimer, Airport Authority Board Attorney.