

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY

CLINTON COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
10/24/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Cathy Hamilton	01-01-16 to 12-31-18
President of the Airport Authority Board	Alan Dunn	01-01-16 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE FRANKFORT CLINTON COUNTY
AIRPORT AUTHORITY, CLINTON COUNTY, INDIANA

This report is supplemental to our audit report of the Frankfort Clinton 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 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

September 12, 2016

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
FEDERAL FINDINGS

FINDING 2016-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Condition

There were several deficiencies in the internal control system of the Authority related to financial transactions and reporting. The Authority had not separated incompatible activities related to financial reporting, cash and investments, and the Schedule of Expenditures of Federal Awards (SEFA).

Financial Transactions and Reporting

The Treasurer entered the Authority's financial information into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source for the Annual Financial Report (AFR) and financial statement; however, the process was completed without a documented oversight, review or approval process, or other compensating control in place to ensure that information was submitted accurately.

Cash and Investments

The Authority had not established controls to ensure that reconciled cash and investment balances agreed to the financial statement. The Treasurer completed monthly bank reconciliations without any documented oversight or review procedures in place to ensure their accuracy. The ending cash and investment balance in the financial statement was understated by \$43,285 due to incorrect posting of receipts, which affected the ending cash balance, during the audit period.

Schedule of Expenditures of Federal Awards

The Authority did not have an adequate control system in place to ensure the accuracy of the SEFA. Federal grant information was prepared and submitted in the Gateway financial reporting system, which was the source for the SEFA, without a documented oversight, review or approval process, or other compensating control in place to ensure that information was submitted accurately.

Context

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period.

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.

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

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. . . ."

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](#)."

Cause

Management had not established a proper system of internal control that segregated key functions to ensure proper reporting of the AFR and financial statement, cash and investments, and the SEFA.

Effect

The failure to establish controls enabled misstatements of the financial statement to remain undetected. The financial statement contained the errors identified in the *Context*.

Recommendation

We recommended that the Authority's management establish a system of internal controls, including segregation of duties, related to financial transactions and reporting.

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 - Cash Management

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): 3-18-0026-016-2012,
3-18-0026-017-2013,
3-18-0026-018-2015

Compliance Requirement: Cash Management

Audit Findings: Material Weakness, Other Matters

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 Cash Management compliance requirement.

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

Effective procedures were not implemented by the Authority that would minimize the time elapsing between the transfer of federal funds and subsequent disbursement by the Authority. Three of four disbursements tested had periods of 44, 56, and 85 days between the submission of a payment request and the subsequent disbursement by the Authority.

Context

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period.

Criteria

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 200.305(b) states in part:

"For non-Federal entities other than states, payments methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means. See also § 200.302 Financial management paragraph (b)(6). Except as noted elsewhere in this part, Federal agencies must require recipients to use only OMB-approved standard government wide information collection requests to request payment. . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Cash Management compliance requirement.

Effect

The failure to establish an effective internal control system placed the Authority in noncompliance with the grant agreement and the Cash Management compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Authority's management establish controls to ensure compliance with the grant agreement and the Cash Management compliance requirement.

FRANKFORT CLINTON 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 2016-003

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 (of Other Identifying Numbers): 3-18-0026-016-2012,
3-18-0026-017-2013,
3-18-0026-018-2015

Compliance Requirement: Special Tests and Provisions - Wage Rate Requirements

Audit Finding: Material Weakness

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

The Authority hired an engineer to oversee compliance with wage rate requirements; however, the Authority did not implement documented oversight or review procedures to ensure compliance with the wage rate requirements was being properly completed.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period.

Criteria

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

Management had not developed a system of internal controls to ensure compliance with the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system, which would include segregation of duties, placed the Authority at risk of noncompliance with the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Authority's management establish controls related to the grant agreement and 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.

**FRANKFORT/CLINTON COUNTY AIRPORT
AUTHORITY**

3009 W. St. Rd. 28
Frankfort, IN 46041

CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Cathy Hamilton, Treasurer
Contact Phone Number: 765-659-6330

Views of Responsible Official:

Due to the timing of the audit, the finding has yet to be corrected at the current date.

Description of Corrective Action Plan:

The Airport Authority Board will be presented the Annual Financial Report for review prior to submission in Gateway.

The monthly bank reconciliation along with the monthly financial statement will be presented to an Airport Authority Board member for review prior to monthly meeting.

An excel spreadsheet will be created by the Treasurer to compare to the reports from Butler, Fairman & Seufert for the federal grant information prior to submission in Gateway.

Anticipated Completion Date: January 2019



(Signature)

Treasurer

(Title)

September 9, 2018

(Date)

**FRANKFORT/CLINTON COUNTY AIRPORT
AUTHORITY**

3009 W. St. Rd. 28
Frankfort, IN 46041

CORRECTIVE ACTION PLAN

FINDING 2016-002

Contact Person Responsible for Corrective Action: Cathy Hamilton, Treasurer
Contact Phone Number: 765-659-6330

Views of Responsible Official:

Contracted engineer, BFS, presents invoices to the Board and requests disbursement from the FAA.

Description of Corrective Action Plan:

Contracted engineer, BFS, has adjusted their timing on submission of disbursement requests to correct the elapsing time.

Anticipated Completion Date: January 1, 2017

Cathy G. Hamilton
(Signature)

Treasurer
(Title)

9-10-18
(Date)

**FRANKFORT/CLINTON COUNTY AIRPORT
AUTHORITY**

3009 W. St. Rd. 28
Frankfort, IN 46041

CORRECTIVE ACTION PLAN

FINDING 2016-003

Contact Person Responsible for Corrective Action: Cathy Hamilton, Treasurer
Contact Phone Number: 765-659-6330

Views of Responsible Official:

Due to the timing of the audit, the finding has yet to be corrected at the current date.

Description of Corrective Action Plan:

Will request the wage rate documentation be presented the Airport Authority Board on a regular basis.

Anticipated Completion Date: December 31, 2018

Cathy E. Hamilton
(Signature)

Treasurer
(Title)

9-9-18
(Date)

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
AUDIT RESULTS AND COMMENTS

ORDINANCES AND RESOLUTIONS

A similar comment appeared in prior Report B45237. The same comment also appeared in prior Report B51119.

As of December 31, 2012, the Authority was indebted to the City of Frankfort (City), in the amount of \$80,426 for loan and vendor payments paid by the City on behalf of the Authority. On August 7, 2012, the Authority Board and the Common Council agreed to a repayment schedule for these payments with yearly payments ranging from \$20,000 to \$20,426, with the final payment toward the debt being scheduled for 2016. No payments for the debt had been made by the Authority as of December 31, 2016.

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

BANK ACCOUNT RECONCILIATIONS

The same comment also appeared in prior Report B51119.

The Authority did not perform or adequately document its monthly bank reconciliation for two of the year's twelve months. For all months during the audit period, reconciliations were improperly reconciled to the manual check register instead of to the funds ledger that is the support for the financial statement.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

FRANKFORT CLINTON COUNTY AIRPORT AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on September 12, 2018, with Alan Dunn, President of the Airport Authority Board; Mike Nichols, Airport Authority Board member; and Cathy Hamilton, Treasurer.