

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, 2016 to December 31, 2016



FILED
11/02/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Airport Manager	John Secor	01-01-16 to 12-31-18
Secretary/Treasurer	(Vacant)	01-01-16 to 12-31-16
	Dan Gregory	01-01-17 to 12-31-17
	J. Greg Dietz	01-01-18 to 12-31-18
President of the Airport Authority Board	Thomas Galligan	01-01-16 to 12-31-17
	James E. Baker	01-01-18 to 12-31-18



STATE OF INDIANA
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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, 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 27, 2018

SOUTH CENTRAL REGIONAL AIRPORT AUTHORITY
FEDERAL FINDINGS

FINDING 2016-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat of Finding 2015-001 from the immediately prior audit.

Condition

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

1. Cash and Investments and Receipts: The Authority had not separated incompatible activities related to cash and investments and receipts. The Office Manager performed nearly all functions related to these areas without any oversight, review, or approval process.
2. Payroll Disbursements: Payroll was outsourced to a third-party vendor. Payroll disbursements were not included on the Unpaid Bill Detail (Accounts Payable Register) and were not approved by the Airport Authority Board.
3. Financial Close and Reporting: The Office Manager input the Authority's financial information into the Indiana Gateway for Government Units financial reporting system, which was used to compile the financial statement. There was no oversight, review, or approval process prior to submission.

Context

The lack of segregation of duties was systemic 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. 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. . . ."

SOUTH CENTRAL REGIONAL AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

Cause

Management of the Authority had not established a proper system of internal controls to segregate key functions.

Effect

The failure to establish an effective internal control system increased the risk for incorrect financial reporting and could have enabled material misstatements or irregularities to remain undetected.

Recommendation

We recommended that the Authority's management establish and implement a system of internal controls 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: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Repeat Finding

This is a repeat of Finding 2015-002 from the immediately prior audit.

Condition

The Authority had not established effective internal controls to prevent, or detect and correct, errors in the grant information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the Schedule of Expenditures of Federal Awards (SEFA).

Context

The SEFA presented for audit contained the following errors:

1. The Community Facilities Loans and Grants program was understated by \$2,899,060.
2. The Airport Improvement Program was overstated by \$47,714.

Audit adjustments were proposed, accepted by the Authority, and made to the SEFA.

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:

SOUTH CENTRAL REGIONAL AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

"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. . . ."

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.
- (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 that 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."

SOUTH CENTRAL REGIONAL AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

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 remained undetected. The SEFA contained the errors identified in the *Context*.

Recommendation

We recommended that the Authority's management establish controls to prevent, or detect and correct, errors on 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 2016-003

Subject: Community Facilities Loans and Grants Cluster - Procurement and Suspension and Debarment
Federal Agency: Department of Agriculture
Federal Program: Community Facilities Loans and Grants
CFDA Number: 10.766
Federal Award Number and Year (or Other Identifying Number): 01
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

Condition

An effective internal control system was not in place at the Authority to ensure compliance with requirements related to the grant agreement and the following requirements:

Procurement

The Authority did not have a purchasing policy addressing micro-purchases, small purchases, and other purchases, nor did it have written standards covering conflicts of interest governing performance of its employees engaged in the selection, award, and administration of contracts.

Suspension and Debarment

The Authority did not have any procedures in place to provide assurance that a vendor had not been excluded or disqualified from participating in a federal program. There was no oversight to verify that a vendor was not suspended or debarred.

Context

Noncompliance with the program requirements and lack of internal controls were systemic issues, which occurred throughout the audit period.

SOUTH CENTRAL REGIONAL AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

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 200.319(c) states in part: "The non-Federal entity must have written procedures for procurement transactions. . . ."

2 CFR 200.320 states in part:

"The non-Federal entity must use one of the following methods of procurement.

(a) Procurement by micro-purchases. Procurement by micro-purchase is the acquisition of supplies or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold (§ 200.67 Micro-purchase). To the extent practicable, the non-Federal entity must distribute micro-purchases equitably among qualified suppliers. Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable.

(b) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources.

(c) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm fixed price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for procuring construction, if the conditions in paragraph (c)(1) of this section apply. . . ."

2 CFR 200.318(c)(1) states:

"The non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts. No employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract. The officers, employees, and agents of the non-Federal entity may neither solicit nor accept gratuities,

SOUTH CENTRAL REGIONAL AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

favors, or anything of monetary value from contractors or parties to subcontracts. However, non-Federal entities may set standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value. The standards of conduct must provide for disciplinary actions to be applied for violations of such standards by officers, employees, or agents of the non-Federal entity."

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

Management had not developed an effective internal control system that would have ensured compliance with the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and 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 related to the grant agreement and the requirements identified above.

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: Community Facilities Loans and Grants Cluster - Reporting
Federal Agency: Department of Agriculture
Federal Program: Community Facilities Loans and Grants
CFDA Number: 10.766
Federal Award Number and Year (or Other Identifying Number): 01
Compliance Requirement: Reporting
Audit Finding: Material Weakness

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 the Reporting compliance requirement. One individual prepared and submitted the required reports with no oversight, review, or approval process in place.

Context

The lack of internal controls was a systemic problem 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 that segregated key functions.

Effect

The failure to establish an effective internal control system placed the Authority at risk of non-compliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements 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.

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 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.



CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: **Jim Baker, South Central Regional Airport Authority, President**
Contact Phone Number: **502-523-6444**
Views of Responsible Official: **In Agreement**

Description of Corrective Action Plan:

Duties divided between Airport Manager and Office Manager. Example: Receipts processed and posted by Office Manager. Airport Manager reviews and approves deposit summary, then physically takes deposit to bank.

Anticipated Completion Date:
Implementation is on-going.

FINDING 2016-002

Contact Person Responsible for Corrective Action: **Jim Baker, South Central Regional Airport Authority, President**
Contact Phone Number: **502-523-6444**
Views of Responsible Official: **In Agreement**

Description of Corrective Action Plan:

The Schedule of Expenditures of Federal Awards (SEFA) shall be presented to the Board for review and approved, prior to submission within the Gateway Financial System.

Anticipated Completion Date:
Implementation is on-going.

FINDING 2016-003

Contact Person Responsible for Corrective Action: **Jim Baker, South Central Regional Airport Authority, President**
Contact Phone Number: **502-523-6444**
Views of Responsible Official: **In Agreement**

6003 Propeller Lane
Sellersburg, Indiana 47172
Phone: 812.246.7460
scraa@flyjvy.com



FLYJVVY.COM



Description of Corrective Action Plan:

The Authority Board will adopt a procurement policy for purchases, suspensions and debarment in a timely manner.

Anticipated Completion Date:

Implementation on-going

FINDING 2016-004

Contact Person Responsible for Corrective Action: Contact Person Responsible for Corrective Action: **Jim Baker, South Central Regional Airport Authority, President**

Contact Phone Number: **502-523-6444**

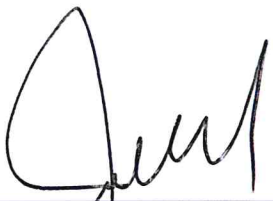
Views of Responsible Official: **In Agreement**

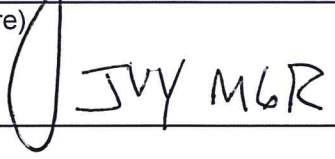
Description of Corrective Action Plan:


The Authority does not anticipate any future federal loans. However, the Authority will implement controls to ensure compliance with requirements related to grant agreement and the reporting compliance requirement.

Anticipated Completion Date:

Implementation on-going



(Signature)


(Title)


(Date)

SOUTH CENTRAL REGIONAL AIRPORT AUTHORITY
AUDIT RESULTS AND COMMENTS

ADOPTION OF INTERNAL CONTROL STANDARDS AND TRAINING

The Authority did not present any evidence for audit that they had adopted the internal control standards and procedures. In addition, none of the required personnel had received training on the internal control standards and procedures.

Indiana 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

FORM 100-R NOT FILED

A similar comment also appeared in prior Report B47334, entitled *ANNUAL FINANCIAL REPORT AND FORM 100R*.

The Authority did not file the Certified Report of Names, Addresses, Duties, and Compensation of Public Employees (Form 100-R) for 2016.

Indiana Code 5-11-13-1(a) states in part:

"Every state, county, city, town, township, or school official . . . 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 . . . The certification must be filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

SOUTH CENTRAL REGIONAL AIRPORT AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on September 27, 2018, with John Secor, Airport Manager; Jessica May, Office Manager; James E. Baker, President of the Airport Authority Board; and Kevin Baity, Airport Authority Board member.