

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TERRE HAUTE REGIONAL AIRPORT AUTHORITY

VIGO COUNTY, INDIANA

January 1, 2018 to December 31, 2018



FILED
09/11/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Jeffrey Hauser	01-01-18 to 12-31-19
Director of Operations	Kara McIntosh	01-01-18 to 12-31-19
Finance Office Manager	Peggy Arnold Kelsey Veatch	01-01-18 to 03-31-19 04-01-19 to 12-31-19
President of the Board of Directors	Darryl Huyett Rachel Leslie	01-01-18 to 07-10-18 07-11-18 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TERRE HAUTE REGIONAL
AIRPORT AUTHORITY, VIGO COUNTY, INDIANA

This report is supplemental to our audit report of the Terre Haute Regional Airport Authority (Airport Authority), for the period from January 1, 2018 to December 31, 2018. 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/.

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 13, 2019

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FINANCE OFFICE MANAGER
TERRE HAUTE REGIONAL AIRPORT AUTHORITY

FINANCE OFFICE MANAGER
TERRE HAUTE REGIONAL AIRPORT AUTHORITY
FEDERAL FINDINGS

FINDING 2018-001

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

Repeat Finding

A similar comment also appeared in the immediately prior audit report, entitled *Finding 2017-001 - Material Weakness in Internal Control over Financial Reporting*.

Condition and Context

The Airport Authority had not separated incompatible activities related to cash, receipts, and financial close and reporting. There was no segregation of duties, such as a documented oversight, review, or approval process, regarding the reconciliation of cash or receipt processes. Additionally, there was no documented oversight, review, or approval of information entered into the Indiana Gateway for Government Units financial reporting system, for the Annual Financial Report, which was the source of the Airport Authority's financial statement. Control activities should be in place to reduce the risks of errors in financial reporting.

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; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

Cause

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

FINANCE OFFICE MANAGER
TERRE HAUTE REGIONAL AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish a system of internal controls could have enabled material misstatements or irregularities to remain undetected.

Recommendation

We recommended that management of the Airport Authority establish a proper system of internal control.

Views of Responsible Officials

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

FINDING 2018-002

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Other Matters

Repeat Finding

A similar comment also appeared in the immediately prior audit report, entitled *Finding 2017-001 - Material Weakness in Internal Control over Financial Reporting*.

Condition and Context

The Airport 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).

The SEFA contained the following errors for the Airport Improvement Program (AIP):

1. AIP 3-18-0082-043 was overstated by \$346, which was the state portion of the grant.
2. AIP 3-18-0082-045 was understated by \$448,093.
3. AIP 3-18-0082-046 was overstated by \$4,548.
4. AIP 3-18-0082-044 was overstated by \$537,738.

Audit adjustments were proposed, accepted by the Airport 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:

FINANCE OFFICE MANAGER
TERRE HAUTE 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.

FINANCE OFFICE MANAGER
TERRE HAUTE REGIONAL AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

- (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 percent de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

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 *Condition and Context*.

Recommendation

We recommended that the Airport Authority's management establish controls related to the preparation of 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 2018-003

Subject: Airport Improvement Program - Procurement and Suspension and Debarment

Federal Agency: Federal Aviation Administration

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): 3-18-0082-045, 3-18-0082-046,
3-18-0082-044

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2017-004.

Condition and Context

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 Procurement and Suspension and Debarment compliance requirement. Procedures were not established to ensure that the contracts contained appropriate language regarding suspension and debarment. These contracts were approved by the Board of Directors without the appropriate language stated in the contracts.

The lack of controls and noncompliance were systemic problems throughout the audit period.

FINANCE OFFICE MANAGER
TERRE HAUTE 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 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 a system of internal controls that would have ensured compliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to occur. 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 with the grant agreement and 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.

FINANCE OFFICE MANAGER
TERRE HAUTE REGIONAL AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

FINDING 2018-004

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

Federal Agency: Federal Aviation Administration

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): 3-18-0082-045, 3-18-0082-046,
3-18-0082-044

Compliance Requirement: Special Tests and Provisions - Wage Rate Requirements

Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2017-002.

Condition and Context

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 Special Tests and Provisions - Wage Rate Requirements compliance requirement. There was no oversight, review, or approval process of the certified payrolls for contractors to verify the wage rates were accurate.

The lack of controls was a systemic issue 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 of the Airport Authority had not developed a system of internal controls to ensure compliance with the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

Effect

The failure to establish an effective internal control system placed the Airport Authority at risk of noncompliance with the grant agreement and the compliance requirement listed above.

FINANCE OFFICE MANAGER
TERRE HAUTE REGIONAL AIRPORT AUTHORITY
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Airport Authority's management establish controls to ensure compliance with the grant agreement and the compliance requirement 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 2018-001

Contact Person Responsible for Corrective Action: **Kelsey Veatch**
Contact Phone Number: **812-877-2524**

Views of Responsible Official: **The Airport Authority Officials agree with the finding.**

Description of Corrective Action Plan:

The Airport Authority's management will establish documentation ensuring proper segregation of duties are applied to activities related to cash, receipts, and financial close and reporting.

The Finance Manager will provide the monthly bank reconciliation to be reviewed and approved by the board at each board meeting. All deposits will be reviewed and approved by the Public Safety Officer when taken to the bank by the Public Safety Officer.

The Airport Authority's management will develop a documented procedure for submitting information into Gateway for the annual financial report. This procedure will ensure oversight, review, and approval be made by an additional person prior to final submission.

The Airport Authority's management will adhere to Indiana Code 5-11-1-27(e) which defines the acceptable minimum level of internal control standards.

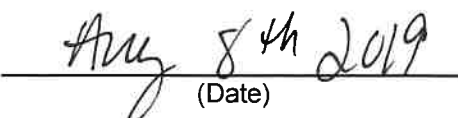
Anticipated Completion Date: **Completed as of July 2019**



(Signature)



(Title)



(Date)



CORRECTIVE ACTION PLAN

FINDING 2017-002 (Repeat Finding)

Contact Person Responsible for Corrective Action: **Kelsey Veatch**
Contact Phone Number: **812-877-2524**

Views of Responsible Official: **The Airport Authority Officials agree with the finding.**

Description of Corrective Action Plan:

The airport will establish controls to ensure compliance with the preparation of the Schedule of Expenditures of Federal Awards (SEFA) requirements to prevent, detect, and/or correct errors on the SEFA. The Finance Manager will establish better control procedures to ensure this compliance along with verifying any documentation and submittals from the contracted grant administrator (currently Woolpert).

Anticipated Completion Date: **Completed as of July 2019**

Kelsey Veatch
(Signature)

Finance Manager
(Title)

Aug 8 2019
(Date)



FINDING 2018-003

Contact Person Responsible for Corrective Action: Kara McIntosh

Contact Phone Number: 812-877-2524:

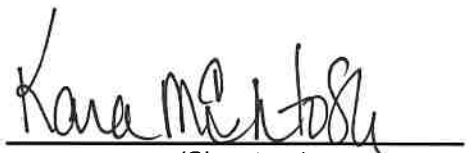
Views of the Responsible Official: Agree with the finding

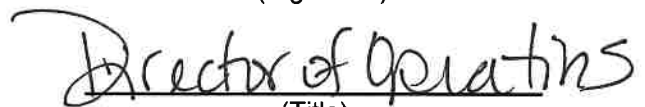
Description of Corrective Action Plan: Procurement, Suspension, and Debarment

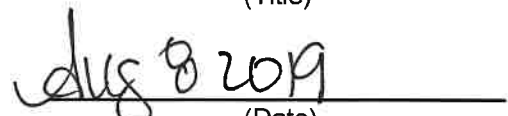
The Airport Authority approved advertising for an airport consultant, as a result, the previously submitted ad was published and the airport interviewed prospective firms from the resources. There were board members and staff on the selection committee. Each firm was scored in selected categories by each member of the will implement procedures to verify consultant and contractors have been verified.

In addition, the airport staff have implemented an AIP checklist to verify that our contracted grant administrator has received and reviewed payroll from contractors. The payroll will be included in our filing system.

Anticipated Completion Date: Completed April 2019


(Signature)


(Title)


(Date)



CORRECTIVE ACTION PLAN

FINDING 2018-004

Contact Person Responsible for Corrective Action: Kara McIntosh

Contact Phone Number: 812-877-2524:

Views of the Responsible Official: Agree with the finding

Description of Corrective Action Plan: Wage Rate Requirements

The airport will establish controls to ensure compliance with the Special Test and Provisions – Wage Rate Requirements. The airport staff will coordinate with the contracted grant administrator to verify wage rate requirements for all invoices.

Anticipated Completion Date: Completed April 2019

Kara McIntosh
(Signature)

Director of Operations
(Title)

Aug 8 2019

FINANCE OFFICE MANAGER
TERRE HAUTE REGIONAL AIRPORT AUTHORITY
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

Condition and Context

At December 31, 2018, the Federal Projects (AIP) Fund was overdrawn \$463,721.

Criteria

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

SCHEDULE OF CAPITAL ASSETS

Condition and Context

The Airport Authority did not maintain a detail listing of all capital assets owned to be used in preparing the yearly Annual Financial Report Indiana Gateway for Government Units submission. The Airport Authority's capital asset records contain no compilation for use in preparing the Schedule of Capital Assets and were not updated for the current period.

Criteria

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)

FINANCE OFFICE MANAGER
TERRE HAUTE REGIONAL AIRPORT AUTHORITY
AUDIT RESULTS AND COMMENTS
(Continued)

TIMELY RECORDING

Condition and Context

Receipts were not recorded in the records timely for 16 out of 31 FAA receipts, totaling \$958,935. The receipts were deposited directly to the Airport Authority's bank account through electronic transactions. The receipts were recorded in the records up to nine months later than actually deposited.

Criteria

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Airport Authority's Indiana Gateway for Government Units (Gateway) certification on internal control standards was not made correctly. The Airport Authority indicated on Gateway that the training over internal control standards had occurred when in fact training had not been performed.

Criteria

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](#)."

FINANCE OFFICE MANAGER
TERRE HAUTE REGIONAL AIRPORT AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on August 13, 2019, with Kelsey Veatch, Finance Office Manager; Jeff W. Hauser, Executive Director; Kara McIntosh, Director of Operations; Richard E. Baker, Board of Directors' Treasurer; Scott Craig, Attorney; and Rick Burger, Board of Directors member.

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BOARD OF DIRECTORS
TERRE HAUTE REGIONAL AIRPORT AUTHORITY

BOARD OF DIRECTORS
TERRE HAUTE REGIONAL AIRPORT AUTHORITY
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROLS STANDARDS

Condition and Context

Documentation indicating that Airport Authority employees, whose official duties included receiving, processing, depositing, disbursing, or otherwise having access to funds that belonged to the Airport Authority, had received training over internal control standards that was developed or approved by the Indiana State Board of Accounts could not be provided for audit, as the training was not received by personnel.

Criteria

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."

BOARD OF DIRECTORS
TERRE HAUTE REGIONAL AIRPORT AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on August 13, 2019, with Kelsey Veatch, Finance Office Manager; Jeff W. Hauser, Executive Director; Kara McIntosh, Director of Operations; Richard E. Baker, Board of Directors' Treasurer; Scott Craig, Attorney; and Rick Burger, Board of Directors member.