

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

ST. JOSEPH COUNTY AIRPORT AUTHORITY

ST. JOSEPH COUNTY, INDIANA

January 1, 2018 to December 31, 2018



FILED
09/26/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Year Appointed</u>	<u>Term Expires</u>
President	David R. Sage	1991	12-31-20
Vice President	Bernard J. Asdell	2013	12-31-19
Treasurer/Asst. Secretary	Thomas S. Botkin	2007	12-31-22
Secretary	Abraham Marcus	2010	12-31-21
CEO & Executive Director/Assistant Treasurer	Michael A. Daigle, A.A.E.		



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO: THE OFFICIALS OF THE ST. JOSEPH COUNTY AIRPORT
AUTHORITY, ST. JOSEPH COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the St. Joseph County Airport Authority (Airport Authority), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Airport Authority's basic financial statements and have issued our report thereon dated September 19, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Airport Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Airport Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2018-001 and 2018-002, that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Compliance and Other Matters

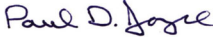
As part of obtaining reasonable assurance about whether the Airport Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

St. Joseph County Airport Authority's Response to Findings

The Airport Authority's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Airport Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airport Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

September 19, 2019



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

TO: THE OFFICIALS OF THE ST. JOSEPH COUNTY AIRPORT AUTHORITY, ST. JOSEPH COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the St. Joseph County Airport Authority's (Airport Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2018. The Airport Authority's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Airport Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Airport Authority's compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Basis for Qualified Opinion on the Airport Improvement Program

As described in item 2018-003 in the accompanying Schedule of Findings and Questioned Costs, the Airport Authority did not comply with requirements regarding Special Tests and Provisions - Revenue Diversion that are applicable to its Airport Improvement Program. Compliance with such requirements is necessary, in our opinion, for the Airport Authority to comply with the requirements applicable to that program.

Qualified Opinion on the Airport Improvement Program

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on the Airport Improvement Program* paragraph, the Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Airport Improvement Program for the year ended December 31, 2018.

Other Matters

The Airport Authority's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Airport Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Airport Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2018-003, that we consider to be a material weakness.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

The Airport Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Airport Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Airport Authority, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which comprise the Airport Authority's basic financial statements. We issued our report thereon dated September 19, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

September 19, 2019

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were prepared by management of the Airport Authority. The schedule and notes are presented as intended by the Airport Authority.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2018

	<u>Federal CFDA Number</u>	<u>Grant Number</u>		<u>Program or Award Amount</u>	<u>Amount Provided to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION						
Airport Improvement Program	20.106	03-18-0079-050-2017	Modify Terminal Bldg	1,987,953	-	423,081
		03-18-0079-051-2018	Airfield Signage	1,985,354		1,125,290
		03-18-0079-052-2018	ARFF Vehicle	592,264	-	17,985
					-	<u>1,566,356</u>
U.S. DEPARTMENT OF HOMELAND SECURITY						
Law Enforcement Office Reimbursement Agreement Program	97.090	HSTS02-16-H-SLR911		143,656	-	108,595
						<u>108,595</u>
					-	<u>1,674,951</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards

ST. JOSEPH COUNTY AIRPORT AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of St. Joseph County Airport Authority (the Airport Authority) for the year ended December 31, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Airport Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Airport Authority.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported in accordance with the generally accepted accounting principles basis of accounting used in the preparation of the financial statements. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles in Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. The basis noted above is different than the basis than that used in a prior period

NOTE 3 - INDIRECT COST RATE

The Airport Authority has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:

Name of Opinion Unit	Opinion Issued
Business-type Activities	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Program and type of auditor's report issued on compliance for it:

CFDA Number	Name of Federal Program or Cluster	Opinion Issued
20.106	Airport Improvement Program	Qualified
Dollar threshold used to distinguish between Type A and Type B programs: \$750,000		
Auditee qualified as low-risk auditee?		no

Section II - Financial Statement Findings

FINDING 2018-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition and Context

There were several deficiencies in the internal control system of the Airport Authority related to financial transactions and reporting. The Authority had not separated incompatible activities related to assets, liabilities, net position, revenues, expenses, and financial reporting.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Assets

There was no control in place to ensure that all cash accounts in the Airport Authority's name were included in the records of the Airport Authority and properly reported in the financial statements.

There was no evidence of a control to ensure that balances of the capital assets, accumulated depreciation, and construction in progress were accurately reported in the financial statements.

Liabilities and Net Position

There was no evidence of a control to ensure that liability and equity account balances, such as the accounts payable, bonds payable, contracts payable, and net position were accurately reported in the financial statements.

Revenues

There were no controls to ensure that revenue generating agreements and contracts were properly renewed, supported, documented, billed, and collected.

Expenses

There were no controls to ensure that all disbursements/expenses were properly approved. There were also no effective controls over payments to suppliers and contractors to ensure that the purchases were allowable.

Financial Reporting

There were no effective controls to ensure timely, complete, and accurate financial reports.

The Airport Authority also had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the Airport Authority to monitor and assess the quality of the system of internal control.

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. . . .

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators.

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

Cause

Management of the Airport Authority had not established an effective system of internal control. In addition, an evaluation of the Airport Authority's system of internal control had been conducted, but corrections were not addressed.

Effect

The failure to establish a system of internal controls could have enabled material misstatements or irregularities to go undetected. The failure to monitor the internal control system placed the Airport Authority at risk that controls may not have been either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

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 Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2017-001.

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). One employee prepared the SEFA for audit without a system of oversight or review to detect and correct errors.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(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. . . ."

Cause

The Airport Authority's management had not established a system of internal control that would ensure proper reporting of the SEFA.

Effect

Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

Views of Responsible Officials

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

Section III - Federal Award Findings and Questioned Costs

FINDING 2018-003

Subject: Airport Improvement Program - Special Tests and Provisions - Revenue Diversion

Federal Agency: U.S. Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): 03-18-0079-050-2017,
03-18-0079-051-2018,
03-18-0079-052-2018

Compliance Requirement: Special Tests and Provisions - Revenue Diversion

Audit Findings: Material Weakness, Modified Opinion

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Condition and Context

The Airport Authority had not designed or implemented controls to ensure that the Special Tests and Provisions - Revenue Diversion compliance requirements were met.

The Airport Authority did not properly account for airport-generated revenue:

Landing fees were to be charged on international flights for planes that exceeded 12,500 pounds. The Airport Authority did not weigh the planes or charge any landing fees for any of the 132 international flights during the audit period.

Amounts collected for lease rental contracts were not for the proper amount or in accordance with the contract. Amounts from one vendor were collected at the old contract rate even though a new contract had been obtained. Amounts collected from two vendors did not have a contract to support the amount collected for the audit period covered.

There were instances where expenditures of airport revenue were not used for permitted purposes or were not properly documented:

The Airport Authority purchased annual sponsorships for collegiate and minor league sporting events totaling \$105,000 for the audit period. An additional four season tickets and four individual sporting event tickets were purchased totaling \$4,160 during the audit period.

One former employee was paid a separation payment for \$10,000 that was not supported by an agreement approved by the governing board.

There were 12 expenditures tested that did not have adequate supporting documentation. This accounted for 22 percent of the disbursements tested.

The lack of controls was a systemic issue throughout the audit period. The compliance issues were isolated to the items noted above.

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). . . ."

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FAA Airport Compliance Manual Chapter 15 states in part:

"Prohibited Uses of Airport Revenue (a)

Unlawful Revenue Diversion. Unlawful revenue diversion is the use of airport revenue for purposes other than airport capital or operating costs or the costs of other facilities owned or operated by the sponsor and directly and substantially related to air transportation. Revenue diversion violates federal law and AIP grant assurances unless: (1) it is grandfathered within the scope of grandfathered financial authority established before 1982, or, (2) it is authorized under an exemption issued by the FAA as part of the airport privatization pilot program.

15.6. Airport Revenue Defined. Airport revenue generally includes those revenues paid to or due to the airport sponsor for use of airport property by the aeronautical and nonaeronautical users of the airport. It also includes revenue from the sale of airport property and resources and revenue from state and local taxes on aviation fuel.

Revenue Generated by the Airport. Revenue generated by the airport for the aeronautical and nonaeronautical use of the airport includes, but is not limited to, the fees, charges, rents, or other payments received by or accruing to the sponsor from air carriers, tenants, concessionaires, lessees, purchasers of airport properties, airport permit holders making use of the airport property and services, etc."

Department of Transportation - Federal Aviation Administration - Policy and Procedures Concerning the Use of Airport Revenue; Notice states in part (6):

"Policies Regarding the Requirement for a Self-Sustaining Rate Structure

Each federally assisted airport owner/operator is required by statute and grant assurance to have an airport fee and rental structure that will make the airport as self-sustaining as possible under the particular airport circumstances, in order to minimize the airport's reliance on Federal funds and local tax revenues. The FAA has generally interpreted the self-sustaining assurance to require airport sponsors to charge FMV commercial rates for nonaeronautical uses of airport property. However, in the case of aeronautical uses, user charges are also subject to the standard of reasonableness. In applying the two standards together for aeronautical property, the FAA has considered it acceptable for an airport operator to charge fees to aeronautical users that are less than FMV, but more than nominal charges. The FAA defines 'aeronautical use' as any activity which involves, makes possible, or is required for the operation of aircraft, or which contributes to or is required for the safety of such operations. Policy Statement Regarding Airport Fees, Statement of Applicability, 61 FR at 32017. Many entities lease airport property for aeronautical and nonaeronautical uses at nominal lease rates. The FAA has determined that nominal leases to many of these entities is consistent with the requirement to maintain a self-sustaining airport rate structure."

Chapter 15. Permitted and Prohibited Uses of Airport Revenue states in part (e):

"Introduction. This chapter discusses the sponsor's use of airport revenue. It supplements, but does not supersede, the guidance issued in FAA's *Policy and Procedures Concerning the Use of Airport Revenue*, 64 Fed. Reg. 7696, February 16, 1999, (*Revenue Use Policy*).

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Market and Promotion.

When unrelated to airport operations, marketing and promotion costs are prohibited uses of airport revenue. Examples include participating financially in marketing as destinations city or regional attractions such as hotels, convention centers, sports arena, theaters, and other entertainment attractions having no connection to the promotion of the airport."

2 CFR 200.403 states in part:

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- (f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also § 200.306 Cost sharing or matching paragraph (b).
- (g) Be adequately documented. . . ." See also §§ 200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

Cause

The Airport Authority's management had not developed or implemented a system of internal controls to ensure compliance with the grant agreement and the Special Tests and Provisions - Revenue Diversion 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 Airport Authority.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Airport Authority's management establish effective internal controls to ensure compliance and comply with the Special Tests and Provisions - Revenue Diversion compliance requirement.

Views of Responsible Officials

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

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AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the Airport Authority. The documents are presented as intended by the Airport Authority.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE AUDIT YEAR ENDING DECEMBER 31, 2018

FINDING 2017-001

Fiscal year in which the finding initially occurred: 2017
Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: U.S. Department of Transportation
Contact Person Responsible for Corrective Action: Aaron Kobb, VP of Finance
Contact Phone Number: 574-282-4590 ext 223

Status of Audit Finding:

The Airport Authority with the auditors last year to determine that going forward, the SEFA would be reported on an accrual basis like the rest of our financial reporting. Beginning with the 2019 year end financials, all year-end schedules and adjustments will be prepared by staff, reviewed as a department, and ultimately reviewed and approved by the Vice President of Finance. We will continue to look for areas to improve our controls and update our internal policies accordingly.

FINDING 2017-002

Fiscal year in which the finding initially occurred: 2017
Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: U.S. Department of Transportation
Contact Person Responsible for Corrective Action: Aaron Kobb, VP of Finance
Contact Phone Number: 574-282-4590 ext 223

Status of Audit Finding:

The Airport Authority has implemented changes to our existing policies to incorporate the results from this finding. In addition, we worked with our consulting partners and internal staff on the communication and roll out of the new procedure so that all parties are aware of the expectations. In summary, a new cover page was added to contractor pay applications allowing for an Authority representative attests to the review of the pay application including the wage documentation. While the fully executed documents are maintained by our grant administrator, the Authority is also saving all documents in a dedicated job file on our secured network. The contract document that is signed between the contractor and the Authority does not directly speak to the wage compliance provision. However, the contract does refer to the bid/proposal that the contractor submitted and incorporates that as part of the overall contract documents. As we continue with federally funded projects we will continue to review our processes and revise accordingly.

FINDING 2017-003

Fiscal year in which the finding initially occurred: 2017
Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: U.S. Department of Transportation
Contact Person Responsible for Corrective Action: Aaron Kobb, VP of Finance
Contact Phone Number: 574-282-4590 ext 223

Status of Audit Finding:
In accordance with 200.302 *Financial Management* and 200.305 *Payment* we are in the process of updating our internal policies and procedures. This update will identify the policy on the processing of invoices related to federal projects. In addition, it will document the procedure for the reimbursement of funds from our Federal and State partners.

In response to 200.400.31 *Compensation-Fringe Benefits* we will continue to research and update our policies accordingly.

A. Miller
(Signature)

VP of Finance
(Title)

8/28/19
(Date)

(Note to Officials: To determine what audit findings are required to be reported in the Summary Schedule of Prior Audit Findings, please see U.S. Office of Management and Budget (OMB), Circular A-133, Subpart C, section .315(b) for audit periods beginning before December 26, 2014. For audit periods beginning after December 26, 2014, please see 2 CFR §200.511(b).)



**CORRECTIVE ACTION PLAN
Year Ended December 31, 2018**

U.S. Department of Transportation

St. Joseph County Airport Authority respectively submits the following corrective action plan for the year ended December 31, 2018.

Audit period: Year ended December 31, 2018

The findings from the schedule of findings and questioned costs for the year ended December 31, 2018, are discussed below. The findings are numbered consistently with the numbers assigned in the Schedule.

SECTION II – Financial Statement Findings

FINDING 2018-001

Contact Person Responsible for Corrective Action: Aaron Kobb, Vice President of Finance, 574-282-4590 ext. 223

Views of Responsible Officials: We concur with the finding.

Description of Corrective Action Plan:

The Authority currently has an existing internal controls guide. The Authority will review the existing policies and adopt the necessary changes needed to address this finding. In addition, those changes will be communicated to our Board and formal training will be conducted with Authority staff.

Anticipated Completion Date: December 31, 2019

FINDING 2018-002

Contact Person Responsible for Corrective Action: Aaron Kobb, Vice President of Finance, 574-282-4590 ext. 223

Views of Responsible Officials: We concur with the finding.

Description of Corrective Action Plan:

The Authority will implement an additional level of control and documentation for the review of the Schedule of Expenditures of Federal Awards along with all year end reconciling reports.

Anticipated Completion Date: December 31, 2019

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2018-003

Contact Person Responsible for Corrective Action: Aaron Kobb, Vice President of Finance,
574-282-4590 ext. 223

Views of Responsible Officials: We concur with the finding.

Description of Corrective Action Plan:

The Authority will review existing controls and revise as needed and work to educate all employees on the compliance requirements of our grant assurances. In addition, the Authority will work with counsel to gain a better understanding of state code requirements for executive sessions and how to best satisfy those requirements. In addition, all necessary Authority personnel will complete an internal controls standards training program.

Anticipated Completion Date: December 31, 2019

If the U.S. Department of Transportation has questions regarding this plan, please call Aaron Kobb at (574)-282-4590 ext 223.

Regards,



Aaron Kobb, Vice President of Finance

OTHER REPORTS

In addition to this report, other reports may have been issued for the Airport Authority. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.