

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

ST. JOSEPH COUNTY AIRPORT AUTHORITY

ST. JOSEPH COUNTY, INDIANA

January 1, 2018 to December 31, 2018



FILED
10/04/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Audit Results and Comments:	
Internal Controls over Financial Transactions and Reporting	4-5
Contracts	5
Collection of Amounts Due	6
Expenses	6-7
Credit Cards.....	7-9
Fund Sources and Uses	9
Late Submission of Annual Financial Report	9
Training on Internal Controls Standards.....	10
Executive Sessions	10-11
Compensation and Benefits	11
Official Response	12
Exit Conference.....	13

SCHEDULE OF OFFICIALS

Office	Official	Year Appointed	Term Expires
President	Mr. David R. Sage	1991	12/31/2020
Vice President	Dr. Bernard J. Asdell	2013	12/31/2019
Treasurer/Asst. Secretary	Mr. Thomas S. Botkin	2007	12/31/2022
Secretary	Mr. Abraham Marcus	2010	12/31/2021
CEO & Executive Director/Assistant Treasurer	Mr. Michael A. Daigle, A.A.E.		



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the St. Joseph County Airport Authority (Airport Authority), for the period from January 1, 2018 to December 31, 2018. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Airport Authority. It should be read in conjunction with our Financial Statements Audit Report of the Airport Authority, which provides our opinion on the Airport Authority's financial statements. This report may be found at www.in.gov/sboa/.

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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

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

September 19, 2019

ST. JOSEPH COUNTY AIRPORT AUTHORITY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

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

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 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:

ST. JOSEPH COUNTY AIRPORT AUTHORITY
AUDIT RESULTS AND COMMENTS
(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. . . .

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. . . ."

CONTRACTS

Condition and Context

There was a lack of supporting documentation for the amount of rent to be collected by the Airport Authority for leasing building space. The Airport Authority did not renew all leases appropriately. There were contracts/leases that expired and the terms were not updated in a new lease or amendment. One contract was updated with new terms, but the Airport Authority did not adjust the rent billed for the new rate.

Criteria

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

ST. JOSEPH COUNTY AIRPORT AUTHORITY
AUDIT RESULTS AND COMMENTS
(Continued)

COLLECTION OF AMOUNTS DUE

Condition and Context

The Airport Authority opened the Federal Inspection Station (FIS) in June 2017 to accommodate international flights. The Airport Authority Board approved a rate of \$0 for the 2018 general aviation facility fee. The Airport Authority documented 132 international flights in 2018. A landing fee could have applied, but detailed supporting documentation of those flights was not available for audit to determine an estimated loss of revenue.

Criteria

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

EXPENSES

Condition and Context

The Treasurer did not attend two Airport Authority Board meetings and did not retroactively approve the claim dockets presented during those meetings. In addition, the claim dockets only listed totals for payroll without any supporting detail. The total claims, including payroll, presented for approval during those meetings was \$1,959,926.

Bond payments of \$854,975 made in December were not included on a claim docket that was approved by the Airport Authority Board and the Treasurer.

There was also a lack of supporting documentation for petty cash transactions. Petty cash was used for cash shortages and posted to an account for supplies, and was also used for patron assistance without proper supporting documentation.

Criteria

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

ST. JOSEPH COUNTY AIRPORT AUTHORITY
AUDIT RESULTS AND COMMENTS
(Continued)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

Sales taxes that are paid on qualifying purchases by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

CREDIT CARDS

Condition and Context

Several payments were observed, which did not contain adequate supporting documentation, such as itemized receipts for credit card purchases. There were eight instances in two credit card statements where payments were made without proper documentation. The credit card receipts were retained; however, the itemized receipts were not retained.

Other items noted regarding credit card usage:

1. Sales tax was paid on some purchases. There were 12 instances in two credit card statements where sales tax was paid on items purchased.
2. One purchase was made with the Airport Authority's credit card, but the supporting documentation included shipping the order to a non-employee at a home address.
3. An employee made a personal purchase from Amazon with an Airport Authority credit card. The employee later reimbursed the Airport Authority for the expense.
4. The Administrative Assistant's credit card limit was for more than double what the Airport Authority's Credit Card Usage Policy states.
5. A purchase for flowers on a credit card for an employee exceeded the amount allowed according to the Airport Authority's Human Resources: Other Employee Benefits Policy.
6. A car rental paid for on a credit card included supplemental insurance. The Airport Authority's Policy, Procedures and Financial Standards Governing Business Travel and Expense Reimbursement states that employees should not purchase any supplemental insurance for rental cars.

Criteria

The SBOA will not take exception to the use of credit cards by a unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance/resolution, which has been approved in a meeting and documented in the minutes.
2. Issuance and use should be handled by an official or employee designated by the governing body.

ST. JOSEPH COUNTY AIRPORT AUTHORITY
AUDIT RESULTS AND COMMENTS
(Continued)

3. The purposes for which the credit card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the responsible person.
5. The designated responsible official or employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned.
6. Credit cards must not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing body and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment cannot be made on the basis of a statement or a credit card slip only. Procedures for payments must be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee may be the personal obligation of the responsible officer or employee.
8. If authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

Indiana Code 5-11-10-1.6 states in part:

" . . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

ST. JOSEPH COUNTY AIRPORT AUTHORITY
AUDIT RESULTS AND COMMENTS
(Continued)

Sales taxes that are paid on qualifying purchases by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

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

FUND SOURCES AND USES

Condition and Context

The Airport Authority Board approved an Air Service Agreement with a corporation in 2018. The Airport Authority would compensate the corporation for any lost revenues up to \$1,500,000 for services provided by the corporation, and in this case, flights to and from South Bend International Airport. The Airport Authority had \$1,033,324 for air service development expended from the Cumulative Building Fund in 2018. This total was \$33,324 over what is allowed.

Criteria

Indiana Code 8-22-3-25 states in part:

"(a) Subject to subsection (c), the board may provide a cumulative building fund in compliance with IC 6-1.1-41 to provide for the acquisition of real property, and the construction, enlarging, improving, remodeling, repairing, or equipping of buildings, structures, runways, or other facilities for use in connection with the airport needed to carry out this chapter and to facilitate and support commercial air transportation. . . .

(d) Spending under subsection (a) to facilitate and support commercial intrastate air transportation is subject to a maximum of one million dollars (\$1,000,000) cumulatively for all years in which money is spent under that subsection."

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

LATE SUBMISSION OF ANNUAL FINANCIAL REPORT

The Airport Authority's Annual Financial Report for 2018 was not filed electronically until April 5, 2019, which was 35 days past the due date.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

ST. JOSEPH COUNTY AIRPORT AUTHORITY
AUDIT RESULTS AND COMMENTS
(Continued)

TRAINING ON INTERNAL CONTROLS STANDARDS

Condition and Context

There was no documentation indicating that personnel had received training on internal control standards.

Criteria

Indiana Code 5-11-1-27(g) states in part:

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

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

EXECUTIVE SESSIONS

Condition and Context

The Airport Authority Board met and conducted Airport Authority business in executive sessions. Staff raises and bonuses were approved by the Airport Authority Board at the executive sessions, but final action was not taken at a meeting open to the public.

Criteria

Indiana Code 5-14-1.5-6.1 states in part:

". . . (b) Executive sessions may be held only in the following instances:

- (1) Where authorized by federal or state statute.
- (2) For discussion of strategy with respect to the following:
 - (A) Collective bargaining.
 - (B) Initiation of litigation or litigation that is either pending or has been threatened specifically in writing. As used in this clause, 'litigation' includes any judicial action or administrative law proceeding under federal or state law.
 - (C) The implementation of security systems.
 - (D) The purchase or lease of real property by the governing body up to the time a contract or option to purchase or lease is executed by the parties.
 - (E) School consolidation. . . .
- (5) To receive information about and interview prospective employees.
- (6) With respect to any individual over whom the governing body has jurisdiction:

ST. JOSEPH COUNTY AIRPORT AUTHORITY
AUDIT RESULTS AND COMMENTS
(Continued)

- (A) to receive information concerning the individual's alleged misconduct; and
 - (B) to discuss, before a determination, the individual's status as an employee, a student, or an independent contractor who is:
 - (I) a physician; or
 - (II) a school bus driver.
 - (7) For discussion of records classified as confidential by state or federal statute. . . .
 - (9) To discuss a job performance evaluation of individual employees. This subdivision does not apply to a discussion of the salary, compensation, or benefits of employees during a budget process. . . .
 - (13) To discuss information and intelligence intended to prevent, mitigate, or respond to the threat of terrorism.
 - (14) To train . . . members of an airport authority board appointed under IC 8-22-3 with an outside consultant about the performance of the role of the members as public officials. A board may hold not more than one (1) executive session per calendar year under this subdivision. . . .
- (c) A final action must be taken at a meeting open to the public.
- (d) Public notice of executive sessions must state the subject matter by specific reference to the enumerated instance or instances for which the executive sessions may be held under subsection (b). The requirements stated in section 4 of this chapter for memoranda and minutes being made available to the public is modified as to executive sessions in that the memoranda and minutes must identify the subject matter considered by specific reference to the enumerated instance or instances for which public notice was given. The governing body shall certify by a statement in the memoranda and minutes of the governing body that no subject matter was discussed in the executive session other than the subject matter specified in the public notice. . . ."

COMPENSATION AND BENEFITS

Condition and Context

The August payroll included a \$10,000 check to an employee which was not supported by attendance records, a pay rate schedule, salary ordinance, resolution, or contract adopted by the governing board.

Criteria

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)



September 25, 2019

State Board of Accounts
302 Washington St., Room E418
Indianapolis, Indiana 46204-2765

This letter is in response to the audit report the Airport Authority was provided at the exit conference on September 19, 2019. As stated in our Corrective Action Plans, the Airport Authority understands the importance of effective and efficient internal controls. South Bend International Airport underwent significant growth in 2018, which has extended into 2019. With growth comes challenges and with challenges comes opportunity. Management feels our current state of internal controls is strong overall, but can be improved. We will begin our focus towards improvement with the items identified by the State Board of Accounts in the 2018 audit. That focus will include training for all relevant staff on internal control standards. It will also include a complete review of our existing policies to not only address comments in this audit, but also look for other areas we could improve upon. Many improvements in our internal control policies were made over the past year that do not show up in a report. For example, in working with our consultants, the tracking and routing of federal award expenditures was improved and streamlined. In addition, our year end reconciliation process was improved for not only greater staff efficiency but a better end product for Management and audit review.

Thank you for the opportunity to share our thoughts on the audit.

Signed: *Michael Aspell*
Title: *CEO / Exec. Dir.*
Date: *9/30/19*

Signed: *Ar M LLC*
Title: *VP of FINANCE*
Date: *9/30/19*

ST. JOSEPH COUNTY AIRPORT AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on September 19, 2019, with Abraham Marcus, Treasurer; Michael A. Daigle, A.A.E, Chief Executive Officer; Aaron Kobb, Vice President of Finance; Thomas S. Botkin, Board member; and David R. Sage, Board member.