

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

PASSENGER FACILITY CHARGE COMPLIANCE AUDIT REPORT

OF

ST. JOSEPH COUNTY AIRPORT AUTHORITY

ST. JOSEPH COUNTY, INDIANA

January 1, 2019 to December 31, 2019



**FILED**  
11/17/2020



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SCHEDULE OF OFFICIALS

<b>Office</b>	<b>Official</b>	<b>Year Appointed</b>	<b>Term Expires</b>
President	Dr. Bernard J. Asdell	2013	12/31/2023
Vice President	Mr. Thomas S. Botkin	2007	12/31/2022
Treasurer/Asst. Secretary	Mr. Abraham Marcus	2010	12/31/2021
Secretary	Mr. David R. Sage	1991	12/31/2020
CEO & Executive Director/Assistant Treasurer	Mr. 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, 2019, 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 August 27, 2020.

***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 item 2019-001, 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

October 29, 2020



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM; REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF  
EXPENDITURES OF PASSENGER FACILITY CHARGES

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

**Report on Compliance for the Passenger Facility Charge Program**

We have audited the St. Joseph County Airport Authority's (Airport Authority) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) issued by the Federal Aviation Administration, that could have a direct and material effect on its passenger facility charge program for the year ended December 31, 2019. The Airport Authority's passenger facility charge 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 statutes, regulations, and the terms and conditions applicable to the passenger facility charge program.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Airport Authority's passenger facility charge 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 the Guide. Those standards and the Guide 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 the passenger facility charge 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 passenger facility charge program. However, our audit does not provide a legal determination of the Airport Authority's compliance.

***Opinion on the Passenger Facility Charge Program***

In our opinion, 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 its passenger facility charge program for the year ended December 31, 2019.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM; REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF  
EXPENDITURES OF PASSENGER FACILITY CHARGES  
(Continued)

**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 passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the passenger facility charge program and to test and report on internal control over compliance in accordance with the Guide, 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 the passenger facility charge 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 the passenger facility charge 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 the passenger facility charge 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 2019-002, that we consider to be material weaknesses.


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 Guide. Accordingly, this report is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM; REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF  
EXPENDITURES OF PASSENGER FACILITY CHARGES  
(Continued)

**Report on Schedule of Expenditures of Passenger Facility Charges**

We have audited the financial statements of the business-type activities of the Airport Authority, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Airport Authority's basic financial statements. We issued our report thereon dated August 27, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Passenger Facility Charges is presented for purposes of additional analysis as required by the Guide 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 Schedule of Passenger Facility Charges is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

  
Paul D. Joyce, CPA  
State Examiner

October 29, 2020

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SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY  
CHARGES AND ACCOMPANYING NOTES

The Schedule of Expenditures of Passenger Facility Charges 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 PASSENGER FACILITY CHARGES**  
**Year End December 31, 2019**

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Cash balance, January 1	\$ 1,639,652
Receipts:	
Passenger facility charge collections	1,742,617
Interest	<u>58,977</u>
Total receipts	<u>1,801,594</u>
Disbursements:	
Transfer to aviation fund	500,000
Transfer to bond and interest fund	<u>831,422</u>
Total disbursements	<u>1,331,422</u>
Cash balance, December 31	\$ <u>2,109,824</u>

ST. JOSEPH COUNTY AIRPORT AUTHORITY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES  
December 31, 2019

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I. Summary of Significant Accounting Policies

A. Reporting Entity

The St. Joseph County Airport Authority (Airport Authority) was established August 1, 1973, by the St. Joseph County Council under the provisions of Indiana Code 19-6-3.5, which has been modified as Indiana Code 8-22-3. The Airport Authority operates under the direction of a four-member board which is appointed by the Board of County Commissioners of St. Joseph County, an elected board.

The schedule contained herein represents the financial transactions of the Passenger Facility Charges (PFC) Collected and Expended required to show compliance with the Federal Aviation Administration's Passenger Facility Charge Audit Guide for Public Agencies, and is not combined with the financial transactions of the Airport Authority or any other agency to present the financial position, results of operations, or cash flows of the Airport Authority, in conformity with accounting principles generally accepted in the United States (GAAP).

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the Schedule of Expenditures of Passenger Facility Charges are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Passenger Facility Charge Fund revenues result from the collection of fees collected by airlines when a passenger books a flight. Expenditures in this fund are allowable reimbursements to the Aviation Fund for expenditures that were included in the PFC application.

II. Detailed Notes

Passenger Facility Charge

Effective November 1, 1994, a Passenger Facility Charge (PFC) of \$3.00 per ticket was implemented by the approval of the Federal Aviation Administration (FAA) and the Airport Authority. Effective July 1, 2011, the Passenger Facility Charge was increased to \$4.50 per ticket. The revenues are to be used to repay the debt service on the 2011 and 2012 bond issues (prior to the 2019 refunding) the 2019 bond issue, and for any other purposes allowed by the FAA and the Airport Authority Board. During 2019 the Airport Authority earned \$1,742,617 from 39 separate airlines. The Airport Authority is authorized to receive a maximum of \$40,172,802. As of December 31, 2019, the Airport Authority has earned a total of \$30,215,106.

Verification of Total Earned Amount:

Prior Audited Notes	\$28,472,489
Total Earned in 2019	<u>1,742,617</u>
Total Earned to Date	\$30,215,106

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:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Passenger Facility Charge Program:

Internal control over program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of Auditor's Report	Unmodified

**Section II - Financial Statement Findings**

**FINDING 2019-001**

Subject: Schedule of Expenditures of Passenger Facility Charges  
Audit Finding: Material Weakness

*Condition and Context*

There was a deficiency in the internal control system of the Airport Authority related to the Schedule of Expenditures of Passenger Facility Charges (Schedule). Quarterly reports used to compile the Schedule were prepared and submitted to the Federal Aviation Administration without an oversight or review process in place.

*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. . . .

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

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*

Management of the Airport Authority had not established a proper system of internal controls over the Schedule.

*Effect*

The failure to establish a system of internal controls could have enabled material misstatements of the Schedule to 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 - Passenger Facility Charge Program Findings and Questioned Costs**

**FINDING 2019-002**

Subject: Passenger Facility Charge - Internal Controls

Federal Agency: Federal Aviation Administration

Federal Program: Passenger Facility Charge

Compliance Requirements: Additional Program Requirements No. 2, Special Notification and Reporting Requirement No. 2, Special Notification and Reporting Requirement No. 3

Audit Finding: Material Weakness

*Condition and Context*

An effective internal control system was not in place at the Airport Authority to ensure compliance with the Additional Program Requirements No. 2, Special Notification and Reporting Requirement No. 2, and Special Notification and Reporting Requirement No. 3.

*Additional Program Requirements No. 2*

There was no evidence of a timely review of passenger facility charge revenues entered into the accounting software system to ensure that they were properly recorded on each approved project.

*Special Notification and Reporting Requirement No. 2*

Quarterly reports were prepared and submitted to the Federal Aviation Administration without an oversight or review process in place.

*Special Notification and Reporting Requirement No. 3*

There were no internal controls in place to ensure that air carriers submitted quarterly reports to the Airport Authority documenting total passenger facility charges collected.

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

The lack of internal 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 Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards 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*

The Airport Authority's management had not developed or implemented a system of internal controls to ensure compliance with the Additional Program Requirements No. 2, Special Notification and Reporting Requirement No. 2, and Special Notification and Reporting Requirement No. 3.

*Effect*

The failure to establish an effective internal control system placed the Airport Authority at risk of noncompliance with the compliance requirements listed above. A lack of segregation of duties within an internal control system could have also enabled noncompliance with compliance requirements and allowed the misuse and mismanagement of Passenger Facility Charges by not having proper oversight, reviews, and approvals over the activities of the Passenger Facility Charges program.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the Airport Authority's management establish a system of internal controls, including segregation of duties, related to the Additional Program Requirements No. 2, Special Notification and Reporting Requirement No. 2, and Special Notification and Reporting Requirement No. 3.

*Views of Responsible Officials*

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

AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the Airport Authority. The document is presented as intended by the Airport Authority.



**CORRECTIVE ACTION PLAN  
Year Ended December 31, 2019**

St. Joseph County Airport Authority respectively submits the following corrective action plan for the year ended December 31, 2019.

Audit period: Year ended December 31, 2019

**FINDING 2019-001**

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:

To ensure a documented and timely review of quarterly reports submitted to the Federal Aviation Administration. The Authority will review the existing policies and adopt the necessary changes.

Anticipated Completion Date: December 31, 2020

**FINDING 2019-002**

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:

To ensure a documented and timely review of posted revenues, the Authority will review the existing policies and adopt the necessary changes. A monthly report of revenue postings will be reviewed by the Vice President of Finance to ensure revenues are accurately posted to the correct account or fund. The Authority will also review the existing policies and adopt necessary changes to ensure a timely and documented review of quarterly reports to the Federal Aviation Administration. In addition, the Authority will review the existing policies regarding the submission of quarterly reports from air carriers documenting total passenger facility charges collected.

Anticipated Completion Date: December 31, 2020

## 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/>.