

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

SPECIAL INVESTIGATION REPORT

OF

LOGANSPORT/CASS COUNTY AIRPORT AUTHORITY

CASS COUNTY, INDIANA

January 1, 2012 to December 31, 2016



FILED
06/27/2017

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STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE LOGANSPORT/CASS COUNTY
AIRPORT AUTHORITY, CASS COUNTY, INDIANA

This is a special investigation report for the Logansport/Cass County Airport Authority (Authority), for the period January 1, 2012 to December 31, 2016, and is in addition to any other report for the Authority as required under Indiana Code 5-11-1. All reports pertaining to the Authority may be found at www.in.gov/sboa/.

We performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The 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.

This report was forwarded to the Office of the Indiana Attorney General and the local prosecuting attorney.

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

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

March 15, 2017

LOGANSPORT/CASS COUNTY AIRPORT AUTHORITY
RESULTS AND COMMENTS

PENALTIES, INTEREST, AND OTHER CHARGES

Timothy Dalton (Dalton), Airport Manager, was responsible for maintaining the accounting records of the Logansport/Cass County Airport Authority (Authority).

The Authority paid penalties, interest, and other charges to Internal Revenue Service and Indiana Department of Revenue in the amount of \$14,471.70 and \$3,165.45, respectively, because payments were not remitted on a timely basis.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit. Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

We requested Dalton to reimburse the Authority \$17,637.15 for penalties, interest, and other charges paid for untimely remittances. (See Summary of Charges, page 8)

VENDING AND CONCESSION SALES NOT DEPOSITED

The Authority provided a vending machine and snack counter for use by patrons in the lobby of the airport.

Dalton was responsible for maintaining the vending (pop) machine and snack counter. His responsibilities included, but were not limited to, ordering product, restocking the machine and snack counter, and accounting for sales (including depositing cash and posting to the records).

All purchases necessary to stock the vending machine and snack counter were paid from the General Operating fund.

Vending machine and snack counter sales totaling \$7,550.50 were not receipted to the ledger or deposited to the bank during the examination period.

The Authority did not have sufficient internal controls and accounting procedures in place over the operation of the vending machines and snack counter.

Clearly defined policies should be adopted by the Authority documenting procedures to be followed related to the operation of vending machines.

If vending machines are located in areas where the public makes use of the machines and generates the resulting revenues, we advise officials to place the revenues in the general fund. Any alternative procedure must be authorized by resolution/ordinance of the governing body. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any official or employee may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

LOGANSPORT/CASS COUNTY AIRPORT AUTHORITY
RESULTS AND COMMENTS
(Continued)

We requested Dalton to reimburse the Authority \$7,550.50, for vending and concession sales not deposited. (See Summary of Charges, page 8)

ADDITIONAL SPECIAL INVESTIGATION COSTS

The State of Indiana incurred additional costs in the amount of \$8,998 due to the special investigation of the Authority records.

Audit costs incurred because of poor records, nonexistent records or other inadequate bookkeeping practices, or because of theft or shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

We requested Dalton to reimburse the State of Indiana \$8,998 for additional special investigation costs. (See Summary of Charges, page 8)

INTERNAL CONTROL DEFICIENCIES

The Airport Manager was responsible for all aspects of Authority's financial activity. This included preparing checks, recording financial transactions in the Airport Authority's ledger, depositing cash collections, reconciling depository balances, and monitoring budget compliance. The Authority's internal control structure failed to provide for any oversight of Authority's accounting functions beyond the monthly approval of claims by the board. Failure to establish an internal control structure that included reasonable reviews and other comprehensive oversight responsibilities related to the accounting functions of the Authority allowed errors and irregularities to occur and not be identified in a timely manner.

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. . . ."

EMPLOYEE POSITION BOND

The employees of the Airport are insured by a Public Employees Position Bond by Ohio Casualty Insurance Company in the amount of \$60,000 for the period July 1, 2008 to June 30, 2017.

LOGANSPORT/CASS COUNTY AIRPORT AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on March 15, 2017, with Timothy M. Dalton, Airport Manager; Mark Hildebrandt, President of the Board; David Brumett, Board member; and Robert Barr, Board member.

Board of Directors

**Mark Hildebrandt
C.L. "Tad" Wilkinson
Robert J. Barr
Patrick E. McNary
David Brumett
Stephen Plank**

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27 March 2017

OFFICIAL RESPONSE

**State Board of Accounts
302 West Washington Street, Room E 418
Indianapolis IN 46204-2765**

In response to information disclosed at an exit interview conducted March 15, 2017 at Logansport and Cass County Airport Authority (LCCAA) in Logansport Indiana regarding an audit of the LCCAA for the periods of January 1, 2012 through January 31, 2015, the following response and comments are provided:

An LCCAA Board Director contacted a member of the SBOA staff last fall expressing concerns about LCCAA accounting practices, which triggered an audit. All members of the LCCAA Board were supportive of this action, both before the audit was announced and upon learning an audit would be conducted.

Prior to contacting the SBOA, LCCAA Board members had been meeting with LCCAA staff to review and examine financial records, as well as bookkeeping and accounting record keeping practices and policies. These meetings occurred weekly over the course of many months.

Weekly meetings continued during the audit period that began in the fall of 2016, through February of this year. These meetings are scheduled to continue until such time that the LCCAA Board of Directors are satisfied that new and updated policies and procedures have been adequately crafted, and formally adopted with sufficient reporting controls to verify compliance and accuracy so that policies and procedures are being continuously followed by staff members responsible to follow the policies instituted.

The main thrust of these policies is to correct deficiencies documented in the LCCAA audit exit interview regarding banking account reconciliations, timely deposits, condition of records, annual reporting, certified reports filed past deadlines, official bond information not filed as required, expenditures in excess of appropriated budget amounts, no debit card policy, lack of rental contracts/agreements, overdrawn fund balances, penalties/interest and other charges not authorized to be paid, inadequate vending and concession control policies, and overpayments that were made.

LCCAA recently conducted training of staff and some board members to better understand and use the Keystone Software system by retaining a Keystone Software representative for a half-day training session. This training was conducted March 7, 2107.

The LCCAA Board of Directors understands the need for both new and updated policies and procedures, as well as reporting requirements to confirm and verify that the improved policies and procedures are being followed. These policies and procedures will be included with other policies and procedures to produce an LCCAA Operations Manual. Key provisions for all policies and procedures include adequate checks and balances on how funds and transactions are managed and documented, as well as adoption of reporting procedures to ensure the LCCAA Board confirms and verifies that adequate documentation exists to comply with statutory requirements for the satisfactory management of public funds, and that adequate documentation exists to facilitate the SBOA to efficiently test any and all transactions to assure compliance with Indiana Statutes.

To date, we have drafted new policies for; documenting receipt of all mail received via USPS, debit card transactions, accounts payable procedures, accounts receivable procedures, cash receipts, hangar (rent) billings and contracts, credit card sales reconciliation with log spreadsheet, and rotating fuel fund log spreadsheet.

The above list of new policies is not a complete list of what is required. It is a list of policies drafted to be included with other policies and procedures to form a comprehensive Operations Manual. It is the board's intent to complete, adopt and institute this manual by October 1, 2017.

The LCCAA Board of Directors sincerely appreciates the professionalism and patience we received from the SBOA audit staff. Our goal is to make the next audit much more transparent and efficient, with results that show conformance to Indiana statutory requirements.

Sincerely,



Mark Hildebrandt
President, LCCAA

Cc: LCCA Board Members
Counsel – Donald Tribbett

LOGANSPORT/CASS COUNTY AIRPORT AUTHORITY
SUMMARY OF CHARGES
(Due to Malfeasance, Misfeasance, or Nonfeasance)

| | <u>Charges</u> | <u>Credits</u> | <u>Balance Due</u> |
|---|---------------------|----------------|---------------------|
| Timothy M. Dalton, Airport Manager: | | | |
| Penalties, Interest, and Other Charges, page 3 | \$ 17,637.15 | \$ - | \$ 17,637.15 |
| Vending and Concession Sales Not Deposited, pages 3 and 4 | 7,550.50 | - | 7,550.50 |
| Additional Special Investigation Costs, page 4 | <u>8,998.00</u> | <u>-</u> | <u>8,998.00</u> |
| Totals | <u>\$ 34,185.65</u> | <u>\$ -</u> | <u>\$ 34,185.65</u> |

This report was forwarded to the Office of the Indiana Attorney General and the local prosecuting attorney.

AFFIDAVIT

STATE OF INDIANA)
Wabash COUNTY)

I, Sandra Gerlach, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Logansport/Cass County Airport Authority, Cass County, Indiana, for the period from January 1, 2012 to December 31, 2016, is true and correct to the best of my knowledge and belief.

Sandra Gerlach
Field Examiner

Subscribed and sworn to before me this 6 day of June, 2017

Joy Harber
Notary Public

My Commission Expires: May 1 2022
County of Residence: Wabash

