

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

TOWN OF MOROCCO  
NEWTON COUNTY, INDIANA

January 1, 2010 to December 31, 2011



**FILED**  
09/12/2012



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sherril L. Rainford	01-01-08 to 12-31-14
President of the Town Council	Robert W. Goczy	01-01-08 to 12-31-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF MOROCCO, NEWTON COUNTY, INDIANA

We have audited the accompanying financial statements of the Town of Morocco (Town), for the years ended December 31, 2010 and 2011. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the Town prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting noted above is a different basis than that used in the prior year.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Town for the years ended December 31, 2010 and 2011, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated August 10, 2012, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

Our audit was conducted for the purpose of forming an opinion on the Town's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the Town's financial statements. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, and Schedule of Leases and Debt are presented for additional analysis and are not required parts of the financial statements. They have not been subjected to the auditing procedures applied by us in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Town's management, Town Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

August 10, 2012



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TOWN OF MOROCCO, NEWTON COUNTY, INDIANA

We have audited the financial statements of the Town of Morocco (Town), for the years ended December 31, 2010 and 2011, and have issued our report thereon dated August 10, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures 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 Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1 to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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.

The Town's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the Town's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, Town Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

August 10, 2012

## FINANCIAL STATEMENTS

The financial statements and accompanying notes were approved by management of the Town. The financial statements and notes are presented as intended by the Town.

TOWN OF MOROCCO  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For The Year Ended December 31, 2010

Fund	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
General Fund	\$ 144,329	\$ 205,148	\$ 201,304	\$ 148,173
Motor Vehicle Highway	101,619	100,097	117,774	83,942
Local Road & Street	12,305	6,323	6,899	11,729
Landfill Tipping	6,848	90,685	69,115	28,418
Vehicle Fund	193	-	-	193
Local Law Enforcemt Continuing Ed	2,965	551	448	3,068
Riverboat	-	7,053	801	6,252
Rainy Day	4,923	6,731	10,129	1,525
Levy Excess Fund	-	643	-	643
Cumulative Capital Imp - Cig Tax	3,756	3,300	5,340	1,716
Cumulative Capital Development	5,887	5,617	8,960	2,544
Payroll	8,762	268,049	276,811	-
Sewage Utility Operating	7,077	110,153	139,693	(22,463)
Sewage Utility Bond & Interest	142,679	256,566	375,948	23,297
Water Utility Operating	64,438	304,343	279,211	89,570
Water Utility Bond & Interest	-	11,044	10,037	1,007
Water Utility Meter Deposit	22,118	3,180	3,871	21,427
Water Works Construction	794	2,544,405	2,545,199	-
Water/Debt Reserve	-	1,831	-	1,831
Totals	<u>\$ 528,693</u>	<u>\$ 3,925,719</u>	<u>\$ 4,051,540</u>	<u>\$ 402,872</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MOROCCO  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For The Year Ended December 31, 2011

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11
General Fund	\$ 148,173	\$ 189,509	\$ 261,540	\$ 76,142
Motor Vehicle Highway	83,942	100,136	152,249	31,829
Local Road & Street	11,729	9,027	15,000	5,756
Landfill Tipping	28,418	82,657	70,169	40,906
Vehicle Fund	193	12,443	7,940	4,696
Local Law Enforcemt Continuing Ed	3,068	585	276	3,377
Riverboat	6,252	7,052	13,304	-
Rainy Day	1,525	-	-	1,525
Levy Excess Fund	643	-	-	643
Cumulative Capital Imp - Cig Tax	1,716	3,237	4,953	-
Cumulative Capital Development	2,544	5,564	5,696	2,412
Kessler Tile project	-	47,920	47,920	-
Payroll	-	246,711	246,711	-
Sewage Utility Operating	(22,463)	99,202	111,506	(34,767)
Sewage Utility Bond & Interest	23,297	258,642	77,175	204,764
Scrap Metal	-	9,894	-	9,894
Water Utility Operating	89,571	318,675	308,886	99,360
Water Utility Bond & Interest	1,007	55,620	29,192	27,435
Water Utility Meter Deposit	21,427	4,060	2,159	23,328
Water Works Construction	-	2,749,228	2,749,228	-
Water/Debt Reserve	1,831	5,492	-	7,323
Totals	<u>\$ 402,873</u>	<u>\$ 4,205,654</u>	<u>\$ 4,103,904</u>	<u>\$ 504,623</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MOROCCO  
NOTES TO FINANCIAL STATEMENTS

**Note 1. Summary of Significant Accounting Policies**

*A. Reporting Entity*

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council form of government and provides some or all of the following services: public safety (police and fire), highways and streets, public improvements, planning and zoning, economic development, general administrative services, water and wastewater utilities and trash service.

The accompanying financial statements present the financial information for the Town.

*B. Basis of Accounting*

The financial statements are reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

*C. Cash and Investments*

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

*D. Receipts*

Receipts are presented in the aggregate on the face of the financial statements. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the Town.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

TOWN OF MOROCCO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Penalties which include fees received for late payments.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

*E. Disbursements*

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the Town. It includes all expenditures for the reduction of the principal and interest of the Town's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

TOWN OF MOROCCO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

*F. Interfund Transfers*

The Town may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

*G. Fund Accounting*

Separate funds are established, maintained, and reported by the Town. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the Town. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the Town in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

**Note 2. Budgets**

The operating budget is initially prepared and approved at the local level. The fiscal officer of the Town submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

**Note 3. Property Taxes**

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the Town in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

TOWN OF MOROCCO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**Note 4. Deposits and Investments**

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

**Note 5. Risk Management**

The Town may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the Town to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the Town by recording as a disbursement any replacement items purchased.

**Note 6. Pension Plan**

*A. Public Employees' Retirement Fund*

*Plan Description*

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System  
1 North Capital Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

TOWN OF MOROCCO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

*Funding Policy and Annual Pension Cost*

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

## SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town's 2010 Annual Report can be found on the Indiana Transparency Portal website: [www.in.gov/itp/annual\\_reports/](http://www.in.gov/itp/annual_reports/).

For additional financial information, the Town's 2011 Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statements contained in this report and the financial information presented in the Annual Reports of the Town which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the Town. It is presented as intended by the Town.

TOWN OF MOROCCO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010

	General Fund	Motor Vehicle Highway	Local Road & Street	Landfill Tipping	Vehicle Fund	Local Law Enforcement Continuing Ed	Riverboat
Cash and investments - beginning	\$ 144,329	\$ 101,619	\$ 12,305	\$ 6,848	\$ 193	\$ 2,965	\$ -
Receipts:							
Taxes	123,539	-	4,959	-	-	-	-
Licenses and permits	2,033	-	-	-	-	531	-
Intergovernmental	64,731	100,097	1,364	-	-	-	7,053
Charges for services	1,553	-	-	90,685	-	20	-
Fines and forfeits	1,755	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	11,537	-	-	-	-	-	-
<b>Total receipts</b>	<b>205,148</b>	<b>100,097</b>	<b>6,323</b>	<b>90,685</b>	<b>-</b>	<b>551</b>	<b>7,053</b>
Disbursements:							
Personal services	100,640	46,079	-	-	-	-	-
Supplies	15,785	18,236	46	-	-	-	-
Other services and charges	83,497	53,459	6,853	69,115	-	-	801
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	1,382	-	-	-	-	448	-
<b>Total disbursements</b>	<b>201,304</b>	<b>117,774</b>	<b>6,899</b>	<b>69,115</b>	<b>-</b>	<b>448</b>	<b>801</b>
Excess (deficiency) of receipts over disbursements	3,844	(17,677)	(576)	21,570	-	103	6,252
Cash and investments - ending	\$ 148,173	\$ 83,942	\$ 11,729	\$ 28,418	\$ 193	\$ 3,068	\$ 6,252

TOWN OF MOROCCO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

	Rainy Day	Levy Excess Fund	Cumulative Capital Imp - Cig Tax	Cumulative Capital Development	Payroll	Sewage Utility Operating	Sewage Utility Bond & Interest
Cash and investments - beginning	\$ 4,923	\$ -	\$ 3,756	\$ 5,887	\$ 8,762	\$ 7,077	\$ 142,679
Receipts:							
Taxes	-	-	-	4,937	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	3,300	680	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	86,674	-
Penalties	-	-	-	-	-	2,704	-
Other receipts	6,731	643	-	-	268,049	20,775	256,566
Total receipts	<u>6,731</u>	<u>643</u>	<u>3,300</u>	<u>5,617</u>	<u>268,049</u>	<u>110,153</u>	<u>256,566</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	5,340	8,960	-	-	-
Utility operating expenses	-	-	-	-	-	137,293	355,948
Other disbursements	10,129	-	-	-	276,811	2,400	20,000
Total disbursements	<u>10,129</u>	<u>-</u>	<u>5,340</u>	<u>8,960</u>	<u>276,811</u>	<u>139,693</u>	<u>375,948</u>
Excess (deficiency) of receipts over disbursements	<u>(3,398)</u>	<u>643</u>	<u>(2,040)</u>	<u>(3,343)</u>	<u>(8,762)</u>	<u>(29,540)</u>	<u>(119,382)</u>
Cash and investments - ending	<u>\$ 1,525</u>	<u>\$ 643</u>	<u>\$ 1,716</u>	<u>\$ 2,544</u>	<u>\$ -</u>	<u>\$ (22,463)</u>	<u>\$ 23,297</u>

TOWN OF MOROCCO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

	Water Utility Operating	Water Utility Bond & Interest	Water Utility Meter Deposit	Water Works Construction	Water/Debt Reserve	Totals
Cash and investments - beginning	\$ 64,438	\$ -	\$ 22,118	\$ 794	\$ -	\$ 528,693
Receipts:						
Taxes	-	-	-	-	-	133,435
Licenses and permits	-	-	-	-	-	2,564
Intergovernmental	-	-	-	-	-	177,225
Charges for services	-	-	-	-	-	92,258
Fines and forfeits	-	-	-	-	-	1,755
Utility fees	247,325	-	-	-	-	333,999
Penalties	2,535	-	-	-	-	5,239
Other receipts	54,483	11,044	3,180	2,544,405	1,831	3,179,244
Total receipts	304,343	11,044	3,180	2,544,405	1,831	3,925,719
Disbursements:						
Personal services	-	-	-	-	-	146,719
Supplies	-	-	-	-	-	34,067
Other services and charges	-	-	-	-	-	213,725
Debt service - principal and interest	-	10,037	-	487,741	-	497,778
Capital outlay	4,788	-	-	-	-	19,088
Utility operating expenses	240,412	-	3,871	2,057,458	-	2,794,982
Other disbursements	34,011	-	-	-	-	345,181
Total disbursements	279,211	10,037	3,871	2,545,199	-	4,051,540
Excess (deficiency) of receipts over disbursements	25,132	1,007	(691)	(794)	1,831	(125,821)
Cash and investments - ending	\$ 89,570	\$ 1,007	\$ 21,427	\$ -	\$ 1,831	\$ 402,872

TOWN OF MOROCCO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2011

	General Fund	Motor Vehicle Highway	Local Road & Street	Landfill Tipping	Vehicle Fund	Local Law Enforcement Continuing Ed
Cash and investments - beginning	\$ 148,173	\$ 83,942	\$ 11,729	\$ 28,418	\$ 193	\$ 3,068
Receipts:						
Taxes	123,742	89,778	85	-	-	-
Licenses and permits	3,621	-	-	-	-	580
Intergovernmental	57,132	10,358	8,942	-	-	-
Charges for services	79	-	-	82,657	-	5
Fines and forfeits	1,262	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	3,673	-	-	-	12,443	-
<b>Total receipts</b>	<b>189,509</b>	<b>100,136</b>	<b>9,027</b>	<b>82,657</b>	<b>12,443</b>	<b>585</b>
Disbursements:						
Personal services	90,816	37,736	-	-	-	-
Supplies	9,821	11,229	-	-	-	225
Other services and charges	114,434	99,324	-	-	4,125	51
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	4,009	-	15,000	-	3,815	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	42,460	3,960	-	70,169	-	-
<b>Total disbursements</b>	<b>261,540</b>	<b>152,249</b>	<b>15,000</b>	<b>70,169</b>	<b>7,940</b>	<b>276</b>
Excess (deficiency) of receipts over disbursements	(72,031)	(52,113)	(5,973)	12,488	4,503	309
Cash and investments - ending	\$ 76,142	\$ 31,829	\$ 5,756	\$ 40,906	\$ 4,696	\$ 3,377

TOWN OF MOROCCO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2011  
 (Continued)

	Riverboat	Rainy Day	Levy Excess Fund	Cumulative Capital Imp - Cig Tax	Cumulative Capital Development	Kessler Tile project
Cash and investments - beginning	\$ 6,252	\$ 1,525	\$ 643	\$ 1,716	\$ 2,544	\$ -
Receipts:						
Taxes	-	-	-	-	4,872	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	7,052	-	-	3,237	692	47,920
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-
Total receipts	<u>7,052</u>	<u>-</u>	<u>-</u>	<u>3,237</u>	<u>5,564</u>	<u>47,920</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	47,920
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	13,304	-	-	4,953	5,696	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	<u>13,304</u>	<u>-</u>	<u>-</u>	<u>4,953</u>	<u>5,696</u>	<u>47,920</u>
Excess (deficiency) of receipts over disbursements	<u>(6,252)</u>	<u>-</u>	<u>-</u>	<u>(1,716)</u>	<u>(132)</u>	<u>-</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 1,525</u>	<u>\$ 643</u>	<u>\$ -</u>	<u>\$ 2,412</u>	<u>\$ -</u>

TOWN OF MOROCCO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2011  
 (Continued)

	Payroll	Sewage Utility Operating	Sewage Utility Bond & Interest	Scrap Metal	Water Utility Operating
Cash and investments - beginning	\$ -	\$ (22,463)	\$ 23,297	\$ -	\$ 89,571
Receipts:					
Taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Utility fees	-	86,867	258,642	-	278,264
Penalties	-	4,709	-	-	3,660
Other receipts	246,711	7,626	-	9,894	36,751
Total receipts	<u>246,711</u>	<u>99,202</u>	<u>258,642</u>	<u>9,894</u>	<u>318,675</u>
Disbursements:					
Personal services	219,836	-	-	-	-
Supplies	-	-	-	-	-
Other services and charges	-	-	-	-	-
Debt service - principal and interest	-	-	77,175	-	-
Capital outlay	-	-	-	-	-
Utility operating expenses	-	111,243	-	-	233,133
Other disbursements	26,875	263	-	-	75,753
Total disbursements	<u>246,711</u>	<u>111,506</u>	<u>77,175</u>	<u>-</u>	<u>308,886</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>(12,304)</u>	<u>181,467</u>	<u>9,894</u>	<u>9,789</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ (34,767)</u>	<u>\$ 204,764</u>	<u>\$ 9,894</u>	<u>\$ 99,360</u>

TOWN OF MOROCCO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2011  
 (Continued)

	Water Utility Bond & Interest	Water Utility Meter Deposit	Water Works Construction	Water/Debt Reserve	Totals
Cash and investments - beginning	\$ 1,007	\$ 21,427	\$ -	\$ 1,831	\$ 402,873
Receipts:					
Taxes	-	-	-	-	218,477
Licenses and permits	-	-	-	-	4,201
Intergovernmental	-	-	2,749,228	-	2,884,561
Charges for services	-	-	-	-	82,741
Fines and forfeits	-	-	-	-	1,262
Utility fees	-	-	-	-	623,773
Penalties	-	-	-	-	8,369
Other receipts	55,620	4,060	-	5,492	382,270
Total receipts	<u>55,620</u>	<u>4,060</u>	<u>2,749,228</u>	<u>5,492</u>	<u>4,205,654</u>
Disbursements:					
Personal services	-	-	-	-	348,388
Supplies	-	-	-	-	21,275
Other services and charges	-	-	-	-	265,854
Debt service - principal and interest	-	-	-	-	77,175
Capital outlay	-	-	-	-	46,777
Utility operating expenses	-	-	2,749,228	-	3,093,604
Other disbursements	29,192	2,159	-	-	250,831
Total disbursements	<u>29,192</u>	<u>2,159</u>	<u>2,749,228</u>	<u>-</u>	<u>4,103,904</u>
Excess (deficiency) of receipts over disbursements	<u>26,428</u>	<u>1,901</u>	<u>-</u>	<u>5,492</u>	<u>101,750</u>
Cash and investments - ending	<u>\$ 27,435</u>	<u>\$ 23,328</u>	<u>\$ -</u>	<u>\$ 7,323</u>	<u>\$ 504,623</u>

TOWN OF MOROCCO  
 SCHEDULE OF PAYABLES AND RECEIVABLES  
 December 31, 2011

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	\$ 15,199	\$ -
Wastewater	8,734	26,935
Water	<u>7,025</u>	<u>12,221</u>
Totals	<u>\$ 30,958</u>	<u>\$ 39,156</u>

TOWN OF MOROCCO  
SCHEDULE OF LEASES AND DEBT  
December 31, 2011

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Governmental activities:			
2011 Promissary Note	Police car	\$ 24,732	\$ 7,628
2007 Loan	Equipment and software purchases	<u>5,006</u>	<u>5,077</u>
Total Governmental activities		<u>29,738</u>	<u>12,705</u>
Wastewater:			
Revenue bonds	Improvements to wastewater system	2,092,000	132,263
Revenue bonds	Improvements to wastewater system	<u>1,338,000</u>	<u>84,648</u>
Total Wastewater		<u>3,430,000</u>	<u>216,911</u>
Water:			
Revenue bonds	Improvements to waterworks system	1,305,000	51,875
Revenue bonds	Improvements to waterworks system	<u>79,000</u>	<u>3,864</u>
Total Water		<u>1,384,000</u>	<u>55,739</u>
Totals		<u>\$ 4,843,738</u>	<u>\$ 285,355</u>

TOWN OF MOROCCO  
AUDIT RESULTS AND COMMENTS

***INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted several deficiencies in the internal control system of the Town of Morocco related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. **Lack of Segregation of Duties:** Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***FIXED ASSETS***

As previously reported in Report B31867 and Report B37332, information presented for audit did not indicate an inventory or record of fixed assets using Form 211.

Every governmental unit should have a complete inventory of all fixed assets owned which reflects their acquisition value. Such inventory should be recorded on the applicable General Fixed Asset Account Group Form. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Town of Indiana, Chapter 7)

TOWN OF MOROCCO  
AUDIT RESULTS AND COMMENTS  
(Continued)

***DISBURSEMENT SUPPORTING DOCUMENTATION***

Twelve payments out of sixty disbursement transactions tested were not supported by adequate documentation, such as receipts, invoices, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit 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 Cities and Towns, Chapter 7)

***WATER RATE ORDINANCE***

The Water Utility passed Ordinance No. 6-1-2010 for water rates and charges effective January 1, 2011. The computer system software was not reprogrammed to reflect the new ordinance as of January 1, 2011.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***WASTEWATER BOND ORDINANCE COMPLIANCE***

The Town of Morocco Wastewater Ordinance 1997-3 requires the Debt Reserve Fund to equal the maximum annual debt service on the bonds then outstanding. The Utility has five years from the date of delivery of the 1997 Bonds to accumulate these funds in reserve. At December 31, 2011, the balance in the Debt Reserve Fund was zero. A similar comment was made in the two prior reports, Reports B31867 and B37332.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***LOANS FROM OTHER FUNDS TO WASTEWATER UTILITY***

The following three loans were made from other funds to the wastewater utility: 2009 Water Utility Operating, \$20,000; 2010 Water Utility Operating, \$20,000; 2011 Landfill Tipping, \$5,000.

The 2009 Water Utility Operating \$20,000 loan was repaid from the Sewage Utility Bond and Interest Fund in October 2010, therefore the Sewage Utility Operating Fund owes the Sewage Utility Bond and Interest Fund \$20,000.

There is no statutory allowance for the use of operating funds of one utility to support operations of another utility without the creation of a cash reserve fund. There also was no documentation as to an interest rate for the loans and there has not been a contingency for repayment of the principal amounts within five years.

TOWN OF MOROCCO  
AUDIT RESULTS AND COMMENTS  
(Continued)

Recurring cash flow problems experienced by a municipally owned utility could indicate a need for an increase in utility relates.

Indiana Code 8-1.5-3-11(f) states:

"A cash reserve fund, if authorized by ordinance, may be used to make loans to another utility owned by the same municipality, for periods not to exceed five (5) years, at any interest rate. The repayment of the loan and interest shall be returned to the cash reserve fund."

Indiana Code 36-9-23-25(b) states:

"Just and equitable fees are the fees required to maintain the sewage works in the sound physical and financial conditions necessary to render adequate and efficient service. The fees must be sufficient to:

- (1) pay all expenses incidental to the operation of the works, including legal expenses, maintenance costs, operating charges, repairs, lease rentals, and interest charges on bonds or other obligations;
- (2) provide the sinking fund required by section 21 of this chapter;
- (3) provide adequate money to be used as working capital; and
- (4) provide adequate money for improving and replacing the works."

**WASTEWATER RATE ORDINANCE COMPLIANCE**

The Wastewater Utility rate ordinance no. 99-2 established the rates and charges for sewage services. The ordinance also specified the amount of collections to be posted to the operating and debt service funds. The computer system software was not programmed to accurately determine the correct amounts to be posted to each fund.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**OVERDRAWN FUND BALANCES**

The Sewage Utility Operating Fund was overdrawn in 2010 by \$22,463 and 2011 by \$34,767.

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**WATER OPERATING FUNDS USED FOR WASTEWATER EXPENSES**

The officials of the Water Utility used operating funds to pay for expenses related to the Wastewater Utility.

TOWN OF MOROCCO  
AUDIT RESULTS AND COMMENTS  
(Continued)

Payments or transfers which are not authorized by statute, ordinance or resolution must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TOWN OF MOROCCO, NEWTON COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Morocco (Town) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the years ended December 31, 2010 and 2011. The Town's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 Town'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. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the years ended December 31, 2010 and 2011.

Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Town's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

A deficiency in internal control over compliance 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, 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Town's management, Town Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

August 10, 2012

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## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were prepared by management of the Town. The schedule and note are presented as intended by the Town.

TOWN OF MOROCCO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended December 31, 2010 and 2011

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-10	Total Federal Awards Expended 12-31-11
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
ARRA - Water and Waste Disposal Systems for Rural Communities	10.781	IN-701-91-04	\$ 1,315,000	\$ -
		IN-701-00-05	80,000	2,749,228
		IN-701-91-06	<u>1,068,540</u>	<u>-</u>
Total for federal grantor agency			<u>2,463,540</u>	<u>2,749,228</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Office of Community and Rural Affairs				
CDBG - State-Administered CDBG Cluster				
Community Development Block Grant/ State's Program and Non-Entitlement Grants in Hawaii	14.228	DR2-09-192	-	47,920
Community Focus Fund				
Total federal awards expended			<u>\$ 2,463,540</u>	<u>\$ 2,797,148</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF MOROCCO  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

***Basis of Presentation***

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Morocco and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of towns with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

TOWN OF MOROCCO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I – Summary of Auditor's Results**

Financial Statements:

Type of auditor's report issued:	Unqualified
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?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.781	ARRA - Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

**Section II – Financial Statement Findings**

**FINDING 2011-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to the achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

TOWN OF MOROCCO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

Inadequate segregation of duties and a failure to mitigate the lack of segregation of duties with council oversight can result in errors in financial information and records not being timely determined and corrected. Unreliable financial information can also result in ineffective and inefficient operations, and an inability to execute management's objectives. Inadequate oversight can also result in a failure to remain compliant with applicable laws and regulations.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We recommended that the Town redistribute assigned duties to provide for better segregation of duties. The Town should analyze and assess the risk of material misstatement of the financial statements and implement controls sufficient to prevent and detect misstatements. The Town Council should examine each claim for propriety and closely monitor financial reports and budgets.

***Section III – Federal Award Findings and Questioned Costs***

No matters are reportable.

TOWN OF MOROCCO  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



Sherri Rainford • Clerk-Treasurer  
**TOWN OF MOROCCO**  
OFFICE OF THE CLERK TREASURER

*Town Council:*  
Duke Gagnon  
Bob Gonczy  
Rick McCann

August 10, 2012

Finding No. 2011-1, Internal Controls over Financial Transactions and Reporting

Auditee Contact Person: Sherri Rainford  
Title of Contact Person: Morocco Town Clerk/Treasurer  
Phone Number: 219-285-2070

Corrective Action Planned:

1. Lack of Segregation of Duties: The Clerk Treasurer will designate duties for the Utility Clerk and sign off on daily deposits, and adjustments.
2. Preparing Financial Statements: The Town Clerk and the Town Manager will start compiling a Capital Asset list.
3. Monitoring of Controls: The Town Council will begin monitoring all financial reporting on a regular basis.

Sherri Rainford  
Morocco Town Clerk/Treasurer  
August, 10, 2012

Robert W. Gonczy  
Morocco Town Board President  
August 10, 2012

TOWN OF MOROCCO  
EXIT CONFERENCE

The contents of this report were discussed on August 10, 2012, with Robert W. Gonczy, President of the Town Council, and Sherri L. Rainford, Clerk-Treasurer. The officials concurred with our audit findings.