

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF MOROCCO

NEWTON COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
04/13/2017

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2012-001 - Financial Transactions, Reporting, and Backup Processing	6-8
Finding 2012-002 - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Davis-Bacon Act	8-10
Finding 2012-003 - Procurement and Suspension and Debarment	10-11
Corrective Action Plan	12-14
Audit Results and Comments:	
Overdrawn Cash Balances	15
Transfers of Water Funds	15
Donations	15
Capital Asset Records	15-16
Wastewater Bond Ordinance Compliance	16
Loans from Other Funds to Wastewater Utility	16
Exit Conference	17
Town Council:	
Federal Findings:	
Finding 2012-001 - Financial Transactions, Reporting, and Backup Processing	20-22
Finding 2012-002 - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Davis-Bacon Act	22-24
Finding 2012-003 - Procurement and Suspension and Debarment	24-25
Corrective Action Plan	26-28
Audit Results and Comments:	
Fees	29
Transfers of Water Funds	29
Donations	29
Wastewater Bond Ordinance Compliance	30
Loans from Other Funds to Wastewater Utility	30
Exit Conference	31

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sherril L. Rainford	01-01-11 to 12-31-18
President of the Town Council	Robert W. Goczy	01-01-12 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE TOWN OF MOROCCO, NEWTON COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Morocco (Town), for the period from January 1, 2012 to December 31, 2012. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Town, which provides our opinions on the Town's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

February 7, 2017

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CLERK-TREASURER
TOWN OF MOROCCO

CLERK-TREASURER
TOWN OF MOROCCO
FEDERAL FINDINGS

FINDING 2012-001 - FINANCIAL TRANSACTIONS, REPORTING, AND BACKUP PROCESSING

Condition

There were several deficiencies in the internal control system of the Town related to financial transactions and reporting. The following deficiencies constituted material weaknesses:

1. *Lack of Segregation of Duties:* The Town had not separated incompatible activities related to cash and investments, receipts, disbursements, the Annual Financial Report (AFR), and the Schedule of Expenditures of Federal Awards (SEFA). The Clerk-Treasurer performed all functions related to reconciling cash, receipts, and disbursements. The Clerk-Treasurer also prepared and submitted the AFR in Gateway, a website for the reporting of financial information. Another employee handled all functions related to Utility billings and collections. The Town had implemented some controls, but these controls were undocumented and could not be audited.
2. *Monitoring of Controls:* An evaluation of the Town's system of internal control had not been conducted. Additionally, the Town had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the Town to monitor and assess the quality of the system of internal control.
3. *Preparing the SEFA:* The Town did not have a proper system of internal control in place to prevent, or detect and correct, errors on the SEFA.

The following federal awards were omitted from the SEFA presented for audit:

- a. ARRA - Water and Waste Disposal Systems for Rural Communities for \$127,231.
 - b. Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii for \$48,600.
4. *Backup Processing:* The Town did not have controls over backup processing. Accounting data was not backed up daily, a hard drive malfunction occurred and information was lost and could not be recovered. A complete detailed disbursement ledger was not available for four funds in 2012 for audit resulting in \$486,305 of unsubstantiated disbursements.

Audit adjustments were proposed, accepted by the Town, and made to the SEFA. These adjustments resulted in a presentation of the SEFA that was materially correct.

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:

CLERK-TREASURER
TOWN OF MOROCCO
FEDERAL FINDINGS
(Continued)

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with section .310. . . ."

OMB Circular A-133, Subpart C, section .310(b) states in part:

"Schedule of Expenditures of Federal Awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available"

For each computerized accounting system, procedures must be adequately documented to ensure all processing and maintenance is performed. Examples include instructions, checklists, and logs to ensure: . . .

Backups are completed successfully and cycled appropriately. . . .

A detailed transaction history (similar to a manually posted ledger page) must be maintained supporting each account. At least the last twelve months of transactions must be accessible on-line. Additional transactional history must be retained back to the date of the last audit. This additional history must be retained on-line or otherwise archived and easily accessible by State Board of Accounts Field Examiners. Records should also be retained in compliance with the appropriate retention schedule as approved by the Indiana Commission on Public Records.

CLERK-TREASURER
TOWN OF MOROCCO
FEDERAL FINDINGS
(Continued)

Public records, financial statement information, and supporting information generated through the computer system must be maintained in a manner that will allow access for audit and public inquiry. Acceptable mechanisms include hardcopy, on equipment provided by the governmental unit, or via the Internet. (Accounting and Uniform Compliance Guidelines Manual for Indiana Political Subdivisions - Information Technology)

Cause

Management of the Town had not properly implemented the internal control system relating to financial transactions. Management of the Town had not established an effective system of internal controls over reporting and backup processing.

Effect

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

The opinion on the financial statement has been modified as the result of a scope limitation due to the backup processing deficiency.

Views of Responsible Officials

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

**FINDING 2012-002 - ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/
COST PRINCIPLES, CASH MANAGEMENT, AND DAVIS-BACON ACT**

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's program
and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Numbers and Years (or Other Identifying Numbers): DR2-09-192, 038-CDBG-11-SUB
Pass-Through Entity: Indiana Office of Community and Rural Affairs

Condition

An effective internal control system was not in place at the Town in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements:

Activities Allowed or Unallowed

The Town did not have policies or procedures in place to ensure compliance with Activities Allowed or Unallowed requirements. The Town relied entirely upon the Grant Administrator to determine if activities were allowed or unallowed. The Town did not perform any subsequent review or follow-up activity to ensure that program activities were allowable.

CLERK-TREASURER
TOWN OF MOROCCO
FEDERAL FINDINGS
(Continued)

Allowable Costs/Cost Principles

The Town did not have policies or procedures in place to ensure compliance with Allowable Costs/Cost Principles requirements. The Town relied entirely upon the Grant Administrator to determine if costs were allowable. The Town did not perform any subsequent review or follow-up activity to ensure that program expenditures were for allowable costs.

Cash Management

The Town did not have policies and procedures in place to ensure that program funds were spent within the required time period after the funds' receipt.

Davis-Bacon Act

The Town did not have policies or procedures in place to ensure compliance with Davis-Bacon Act requirements related to the receipt of weekly certified payrolls. The Town relied entirely upon the Grant Administrator to ensure compliance with the Davis-Bacon Act requirements, and did not have any policies or procedures in place to ensure that weekly certified payrolls were received and reviewed by the Grant Administrator.

Context

The internal control deficiencies noted were a systemic problem during the audit period.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system placed the Town at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

CLERK-TREASURER
TOWN OF MOROCCO
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

Views of Responsible Officials

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

FINDING 2012-003 - PROCUREMENT AND SUSPENSION AND DEBARMENT

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's program
and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Numbers and Years (or Other Identifying Numbers): DR2-09-192, 038-CDBG-11-SUB

Pass-Through Entity: Indiana Office of Community and Rural Affairs

Condition

An effective internal control system was not in place at the Town in order to ensure compliance with requirements related to the grant agreement and the following compliance requirement:

Procurement

The Town did not have a procurement policy. The Town did not have a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts. The Town did not have internal controls to ensure compliance with the procurement requirements.

Suspension and Debarment

For services in which bids were not required, there were no controls in place to ensure that vendors were not suspended or debarred from participation in federal programs. The Town did not perform any activities to ensure that these vendors were not suspended or debarred.

Context

The internal control deficiencies noted were a systemic problem during the audit period. There were no internal controls related to Procurement and Suspension and Debarment transactions during the audit period. The Town relied entirely on the Grant Administrator for internal controls, and did not perform follow-up or review.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

CLERK-TREASURER
TOWN OF MOROCCO
FEDERAL FINDINGS
(Continued)

24 CFR 85.36(b) states in part:

- "(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. . . .
- (3) Grantees and subgrantees will maintain a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts. . . ."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system enabled material noncompliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and compliance requirement listed above.

Views of Responsible Officials

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



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

Town Council:
Duke Gagnon
Bob Gonczy
Rick McCann

CORRECTIVE ACTION PLAN

FINDING 2012-001

Contact Person Responsible for Corrective Action: Sherri Rainford
Contact Phone Number: 219-285-2070

Description of Corrective Action Plan:

The Town of Morocco Clerk's office is small, consisting of myself and my Utility Clerk. Due to the number of employees that work in the Town Hall, it is difficult to segregate duties, and the Town Hall will have to accept some risk.

One action plan is have one of council members look at the monthly bank reconciliation and initial that he has reviewed it.

I will also be viewing daily deposits prepared by the Utility Clerk and I will be initialing the deposit slips to document my review, which includes comparing them to what is being entered into the accounting software program.

I will also print out the yearly CTAR and have the council make sure that all funds match and any and all grants are included in the report.

We have also previously addressed how we back up prior to this audit. A back up is now taken off site every night.

Anticipated Completion Date: April 1, 2017

Robert W. Honey
President
2/7/17

Sherri L. Rainford

(Signature)

Clerk Treasurer

(Title)

2/7/17

(Date)



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

Town Council:
Duke Gagnon
Bob Gonczy
Rick McCann

CORRECTIVE ACTION PLAN

FINDING 2012-002

Contact Person Responsible for Corrective Action: Sherri Rainford
Contact Phone Number: 219-285-2070

Description of Corrective Action Plan:

When the Town of Morocco is awarded a grant there will be a spreadsheet prepared when the money is disbursed and the date the money is disbursed. The Clerk Treasurer will prepare this spreadsheet and either the Utility Clerk or a Town official will sign off on the disbursements. This will ensure that the money is being disbursed out of the proper funds in a timely fashion.

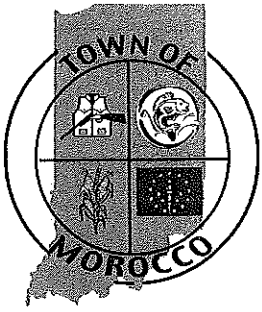
The Clerk Treasurer will make sure that all activities and costs are allowable under the grant. This will be documented by signing off on claims that are presented by the Grant Administrator.

The Clerk Treasurer will contact the grant administrator and ask to see weekly or monthly payrolls. The emails will be saved and placed in the grant folder.

Anticipated Completion Date: April 1, 2017

Bob W. Gonczy
President
2/7/17

Sherri L. Rainford
(Signature)
Clerk Treasurer
(Title)
2/7/17
(Date)



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

Town Council:
Duke Gagnon
Bob Gonczy
Rick McCann

CORRECTIVE ACTION PLAN

FINDING 2012-003

Contact Person Responsible for Corrective Action: Sherri Rainford
Contact Phone Number: 219-285-2070

Description of Corrective Action Plan:

The Clerk Treasurer will make sure that all vendors involved in the grant are checked for suspension and debarment. This will be done by checking the website www.sam.gov. These then will be printed out and placed in the grant folder.

The Town Attorney will be asked to draw up a procurement policy. This policy will be used for the operations of the Town and for grants.

Anticipated Completion Date: April 1, 2017

Robert W. Gonczy
PRESIDENT
2/7/17

Sherri L. Rainford
(Signature)
Clerk Treasurer
(Title)
2/7/17
(Date)

CLERK-TREASURER
TOWN OF MOROCCO
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement presented for audit included the Sewer Operating fund with an overdrawn cash balance of \$58,776 at December 31, 2012.

The cash 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 unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TRANSFERS OF WATER FUNDS

Documentation authorizing the transfer of water funds each month to the Water/RD fund was not provided for audit. The Town transferred \$14,400 in 2012 from the Water Operating fund to the Water/RD fund.

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

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

DONATIONS

The Town donated various amounts to a variety of local organizations, such as scouting groups, school and athletic groups, churches, preschools, and others. The Town used a portion of its Landfill Tipping fund for these donations.

Public funds cannot be donated or given to other organizations or individuals unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CAPITAL ASSET RECORDS

The Town did not maintain capital asset records/asset inventory records.

Similar comments have appeared in several prior reports.

CLERK-TREASURER
TOWN OF MOROCCO
AUDIT RESULTS AND COMMENTS
(Continued)

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Town of Indiana, Chapter 1)

WASTEWATER BOND ORDINANCE COMPLIANCE

The Town of Morocco Wastewater Ordinance 1997-3 required the establishment of a Debt Reserve fund with a balance to equal the maximum annual debt service on the bonds then outstanding. The Utility had five years from the date of delivery of the 1997 Bonds to accumulate these funds in reserve. As of December 31, 2015, a Debt Reserve fund had not been established.

A similar comment appeared in prior Reports B31867, B37332, and B40876.

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

LOANS FROM OTHER FUNDS TO WASTEWATER UTILITY

As stated in prior Report B40876, the Town loaned \$20,000 in 2009 from its Water Operating fund to the Sewer Operating fund. In 2010, the repayment of the loan to the Water Operating fund was made by the Sewer Debt Collection fund. Therefore, the Sewer Operating fund owes the Sewer Debt Collection 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.

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."

CLERK-TREASURER
TOWN OF MOROCCO
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2017, with Sherri L. Rainford, Clerk-Treasurer, and Robert W. Gonczy, President of the Town Council.

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TOWN COUNCIL
TOWN OF MOROCCO

TOWN COUNCIL
TOWN OF MOROCCO
FEDERAL FINDINGS

FINDING 2012-001 - FINANCIAL TRANSACTIONS, REPORTING, AND BACKUP PROCESSING

Condition

There were several deficiencies in the internal control system of the Town related to financial transactions and reporting. The following deficiencies constituted material weaknesses:

1. *Lack of Segregation of Duties:* The Town had not separated incompatible activities related to cash and investments, receipts, disbursements, the Annual Financial Report (AFR), and the Schedule of Expenditures of Federal Awards (SEFA). The Clerk-Treasurer performed all functions related to reconciling cash, receipts, and disbursements. The Clerk-Treasurer also prepared and submitted the AFR in Gateway, a website for the reporting of financial information. Another employee handled all functions related to Utility billings and collections. The Town had implemented some controls, but these controls were undocumented and could not be audited.
2. *Monitoring of Controls:* An evaluation of the Town's system of internal control had not been conducted. Additionally, the Town had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the Town to monitor and assess the quality of the system of internal control.
3. *Preparing the SEFA:* The Town did not have a proper system of internal control in place to prevent, or detect and correct, errors on the SEFA.

The following federal awards were omitted from the SEFA presented for audit:

- a. ARRA - Water and Waste Disposal Systems for Rural Communities for \$127,231.
 - b. Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii for \$48,600.
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Audit adjustments were proposed, accepted by the Town, and made to the SEFA. These adjustments resulted in a presentation of the SEFA that was materially correct.

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:

TOWN COUNCIL
TOWN OF MOROCCO
FEDERAL FINDINGS
(Continued)

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

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OMB Circular A-133, Subpart C, section .310(b) states in part:

"Schedule of Expenditures of Federal Awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available . . . "

For each computerized accounting system, procedures must be adequately documented to ensure all processing and maintenance is performed. Examples include instructions, checklists, and logs to ensure: . . .

Backups are completed successfully and cycled appropriately. . . .

A detailed transaction history (similar to a manually posted ledger page) must be maintained supporting each account. At least the last twelve months of transactions must be accessible on-line. Additional transactional history must be retained back to the date of the last audit. This additional history must be retained on-line or otherwise archived and easily accessible by State Board of Accounts Field Examiners. Records should also be retained in compliance with the appropriate retention schedule as approved by the Indiana Commission on Public Records.

TOWN COUNCIL
TOWN OF MOROCCO
FEDERAL FINDINGS
(Continued)

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Cause

Management of the Town had not properly implemented the internal control system relating to financial transactions. Management of the Town had not established an effective system of internal controls over reporting and backup processing.

Effect

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

The opinion on the financial statement has been modified as the result of a scope limitation due to the backup processing deficiency.

Views of Responsible Officials

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

***FINDING 2012-002 - ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/
COST PRINCIPLES, CASH MANAGEMENT, AND DAVIS-BACON ACT***

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's program
and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Numbers and Years (or Other Identifying Numbers): DR2-09-192, 038-CDBG-11-SUB
Pass-Through Entity: Indiana Office of Community and Rural Affairs

Condition

An effective internal control system was not in place at the Town in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements:

Activities Allowed or Unallowed

The Town did not have policies or procedures in place to ensure compliance with Activities Allowed or Unallowed requirements. The Town relied entirely upon the Grant Administrator to determine if activities were allowed or unallowed. The Town did not perform any subsequent review or follow-up activity to ensure that program activities were allowable.

TOWN COUNCIL
TOWN OF MOROCCO
FEDERAL FINDINGS
(Continued)

Allowable Costs/Cost Principles

The Town did not have policies or procedures in place to ensure compliance with Allowable Costs/Cost Principles requirements. The Town relied entirely upon the Grant Administrator to determine if costs were allowable. The Town did not perform any subsequent review or follow-up activity to ensure that program expenditures were for allowable costs.

Cash Management

The Town did not have policies and procedures in place to ensure that program funds were spent within the required time period after the funds' receipt.

Davis-Bacon Act

The Town did not have policies or procedures in place to ensure compliance with Davis-Bacon Act requirements related to the receipt of weekly certified payrolls. The Town relied entirely upon the Grant Administrator to ensure compliance with the Davis-Bacon Act requirements, and did not have any policies or procedures in place to ensure that weekly certified payrolls were received and reviewed by the Grant Administrator.

Context

The internal control deficiencies noted were a systemic problem during the audit period.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system placed the Town at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

TOWN COUNCIL
TOWN OF MOROCCO
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

Views of Responsible Officials

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

FINDING 2012-003 - PROCUREMENT AND SUSPENSION AND DEBARMENT

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's program
and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Numbers and Years (or Other Identifying Numbers): DR2-09-192, 038-CDBG-11-SUB

Pass-Through Entity: Indiana Office of Community and Rural Affairs

Condition

An effective internal control system was not in place at the Town in order to ensure compliance with requirements related to the grant agreement and the following compliance requirement:

Procurement

The Town did not have a procurement policy. The Town did not have a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts. The Town did not have internal controls to ensure compliance with the procurement requirements.

Suspension and Debarment

For services in which bids were not required, there were no controls in place to ensure that vendors were not suspended or debarred from participation in federal programs. The Town did not perform any activities to ensure that these vendors were not suspended or debarred.

Context

The internal control deficiencies noted were a systemic problem during the audit period. There were no internal controls related to Procurement and Suspension and Debarment transactions during the audit period. The Town relied entirely on the Grant Administrator for internal controls, and did not perform follow-up or review.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

TOWN COUNCIL
TOWN OF MOROCCO
FEDERAL FINDINGS
(Continued)

24 CFR 85.36(b) states in part:

- "(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. . . .

- (3) Grantees and subgrantees will maintain a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts. . . ."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system enabled material noncompliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

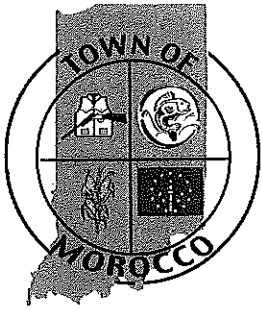
There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and compliance requirement listed above.

Views of Responsible Officials

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



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

Town Council:
Duke Gagnon
Bob Gonczy
Rick McCann

CORRECTIVE ACTION PLAN

FINDING 2012-001

Contact Person Responsible for Corrective Action: Sherri Rainford
Contact Phone Number: 219-285-2070

Description of Corrective Action Plan:

The Town of Morocco Clerk's office is small, consisting of myself and my Utility Clerk. Due to the number of employees that work in the Town Hall, it is difficult to segregate duties, and the Town Hall will have to accept some risk.

One action plan is have one of council members look at the monthly bank reconciliation and initial that he has reviewed it.

I will also be viewing daily deposits prepared by the Utility Clerk and I will be initialing the deposit slips to document my review, which includes comparing them to what is being entered into the accounting software program.

I will also print out the yearly CTAR and have the council make sure that all funds match and any and all grants are included in the report.

We have also previously addressed how we back up prior to this audit. A back up is now taken off site every night.

Anticipated Completion Date: April 1, 2017

Robert W. Honey
President
2/7/17

Sherri L. Rainford

(Signature)

Clerk Treasurer

(Title)

2/7/17

(Date)



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

Town Council:
Duke Gagnon
Bob Gonczy
Rick McCann

CORRECTIVE ACTION PLAN

FINDING 2012-002

Contact Person Responsible for Corrective Action: Sherri Rainford
Contact Phone Number: 219-285-2070

Description of Corrective Action Plan:

When the Town of Morocco is awarded a grant there will be a spreadsheet prepared when the money is disbursed and the date the money is disbursed. The Clerk Treasurer will prepare this spreadsheet and either the Utility Clerk or a Town official will sign off on the disbursements. This will ensure that the money is being disbursed out of the proper funds in a timely fashion.

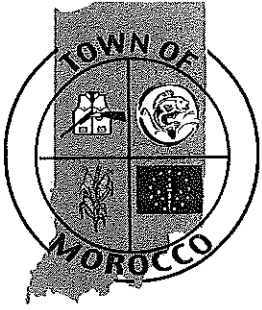
The Clerk Treasurer will make sure that all activities and costs are allowable under the grant. This will be documented by signing off on claims that are presented by the Grant Administrator.

The Clerk Treasurer will contact the grant administrator and ask to see weekly or monthly payrolls. The emails will be saved and placed in the grant folder.

Anticipated Completion Date: April 1, 2017

Bob W. Gonczy
President
2/7/17

Sherri L. Rainford
(Signature)
Clerk Treasurer
(Title)
2/7/17
(Date)



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

Town Council:
Duke Gagnon
Bob Gonczy
Rick McCann

CORRECTIVE ACTION PLAN

FINDING 2012-003

Contact Person Responsible for Corrective Action: Sherri Rainford
Contact Phone Number: 219-285-2070

Description of Corrective Action Plan:

The Clerk Treasurer will make sure that all vendors involved in the grant are checked for suspension and debarment. This will be done by checking the website www.sam.gov. These then will be printed out and placed in the grant folder.

The Town Attorney will be asked to draw up a procurement policy. This policy will be used for the operations of the Town and for grants.

Anticipated Completion Date: April 1, 2017

Robert W. Gonczy
PRESIDENT
2/7/17

Sherri L. Rainford

(Signature)
Clerk Treasurer

(Title)
2/7/17

(Date)

TOWN COUNCIL
TOWN OF MOROCCO
AUDIT RESULTS AND COMMENTS

FEES

The Town increased the sanitation charge in January 2012. However, an approved ordinance for the increased rate was not provided.

Fees can only be collected as specifically authorized by law or properly authorized ordinance/resolution. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TRANSFERS OF WATER FUNDS

Documentation authorizing the transfer of water funds each month to the Water/RD fund was not provided for audit. The Town transferred \$14,400 in 2012 from the Water Operating fund to the Water/RD fund.

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

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

DONATIONS

The Town donated various amounts to a variety of local organizations, such as scouting groups, school and athletic groups, churches, preschools, and others. The Town used a portion of its Landfill Tipping fund for these donations.

Public funds cannot be donated or given to other organizations or individuals unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TOWN COUNCIL
TOWN OF MOROCCO
AUDIT RESULTS AND COMMENTS
(Continued)

WASTEWATER BOND ORDINANCE COMPLIANCE

The Town of Morocco Wastewater Ordinance 1997-3 required the establishment of a Debt Reserve fund with a balance to equal the maximum annual debt service on the bonds then outstanding. The Utility had five years from the date of delivery of the 1997 Bonds to accumulate these funds in reserve. As of December 31, 2015, a Debt Reserve fund had not been established.

A similar comment appeared in prior Reports B31867, B37332, and B40876.

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

LOANS FROM OTHER FUNDS TO WASTEWATER UTILITY

As stated in prior Report B40876, the Town loaned \$20,000 in 2009 from its Water Operating fund to the Sewer Operating fund. In 2010, the repayment of the loan to the Water Operating fund was made by the Sewer Debt Collection fund. Therefore, the Sewer Operating fund owes the Sewer Debt Collection 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.

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."

TOWN COUNCIL
TOWN OF MOROCCO
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2017, with Sherri L. Rainford, Clerk-Treasurer, and Robert W. Gonczy, President of the Town Council.