

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, 2016 to December 31, 2019



FILED
04/22/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sherri Rainford	01-01-16 to 12-31-20
President of the Town Council	Robert Gonczy	01-01-16 to 12-31-20



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, 2016 to December 31, 2019. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statements Audit Report of the Town, which provides our opinions on the Town's financial statements. This report may be found at www.in.gov/sboa/.

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

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

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

April 7, 2020

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CLERK-TREASURER
TOWN OF MOROCCO

CLERK-TREASURER
TOWN OF MOROCCO
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

The Town had not designed or implemented proper segregation of duties related to cash and investments, receipts, disbursements, and financial reporting. The Town did not have enough employees to provide adequate segregation of duties. The Town Council did not provide enough documented oversight to provide proper segregation of duties.

An evaluation of the Town's system of internal controls 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 controls.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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

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

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. Clear documentation should be maintained for continuity as well as ease of communication to outside parties. . . ."

"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . ."

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

MVH RESTRICTED FUND RECEIPTS

Condition and Context

The Town did not allocate or deposit at least 50 percent of the distribution from the State Motor Vehicle Highway Account (MVH) at the time of the receipt into the MVH Restricted fund.

Instead, the Town deposited 50 percent of the December 2018 and 2019 local MVH property tax collections and 100 percent of the spring 2019 local MVH property tax collections into the MVH Restricted fund in 2019. The property tax collections deposited into the MVH Restricted fund exceeded the required amount had the Town deposited the 50 percent of distribution from the State MVH Account into the fund.

Criteria

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted.

The political subdivision, by ordinance or resolution, may elect to allocate more than fifty percent (50%) or the distributions to MVH Restricted. During the same fiscal year, the political subdivision may transfer, by ordinance or resolution, the amount allocated in excess of the 50% requirement from MVH Restricted to MVH. In no event can any transfers from MVH Restricted to MVH reduce the fiscal year distributions from the State Motor Vehicle Highway Account below 50% requirement for MVH Restricted.

Any amounts allocated in excess of the required 50% of distributions which remain in MVH Restricted at the end of the fiscal year must remain in MVH Restricted until expended for construction, reconstruction, or preservation. (State Examiner Directive 2018-2)

FEES

Condition and Context

The Town increased the sanitation charged to the Town's residents in 2016, 2017, 2018, and 2019. The fee charged was based upon a per unit charge that the Town was required to pay as detailed in the Town's contract with its waste service provider. However, an approved ordinance for the increased rates was not provided.

The Town charged penalties for late payment of sanitation charges; however, an ordinance authorizing the assessment of the penalties was not provided.

Criteria

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)

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

CAPITAL ASSETS

Condition and Context

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

Criteria

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 Towns, Chapter 1)

CLERK-TREASURER
TOWN OF MOROCCO
EXIT CONFERENCE

The contents of this report were discussed on April 7, 2020, with Sherri Rainford, Clerk-Treasurer; Robert Gonczy, President of the Town Council; David Gagnon, Town Council member; Scott Hivley, Town Council member; and Rebecca Goddard, Town Attorney.

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TOWN COUNCIL
TOWN OF MOROCCO

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AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

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

COMPENSATION AND BENEFITS

Condition and Context

The following deficiencies with the salary ordinances were noted:

- a. The elected Clerk-Treasurer's compensation was fixed by a salary ordinance adopted by the Town Council and effective as of January 1, 2016. On September 6, 2016, the Town Council authorized a salary increase of \$5,000 to the Clerk-Treasurer, effective immediately, which was not allowed by Indiana Code 36-5-3-2(c).
- b. The elected Clerk-Treasurer's compensation was fixed by a salary ordinance adopted by the Town Council and effective as of January 1, 2019. On December 17, 2019, the Town Council adopted Ordinance 2019-12, which was an amendment to the Salary Ordinance for 2019. This ordinance stated that all employees, including Clerk-Treasurer and Council members, were to receive a \$500 bonus, which was not allowed by Indiana Code 36-5-3-2(c).
- c. The Town Council did not formally establish the rate for hourly employees for any of the years in the audit period. The salary ordinances stated that the Town Council would set the hourly rates. The Town was unable to provide approved rates for these employees.
- d. The salary ordinances did not contain a compensation rate for Utility Board members.
- e. The 2017 Salary Ordinance did not contain a compensation rate for the Street Superintendent position.

Criteria

Indiana Code 36-5-3-2(c) states: "The compensation of an elected town officer may not be changed in the year for which it is fixed, nor may it be reduced below the amount fixed for the previous year."

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

FEES

Condition and Context

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

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DONATIONS

Condition and Context

The Town donated various amounts to a variety of local organizations, such as school and athletic groups, churches, preschools, retirement homes, and others, in the years 2016, 2017, 2018, and 2019. The Town used a portion of the Landfill Tipping fund for these donations.

Criteria

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

LOANS FROM OTHER FUNDS TO WASTEWATER UTILITY

Condition and Context

The Town loaned \$20,000 in 2009 from its Water Utility Operating fund to the Sewage Utility Operating fund. In 2010, the repayment of the loan to the Water Utility Operating fund was made by the Sewage Utl Bond & Int fund (formerly titled Sewer Debt Collection fund). Therefore, the Sewage Utility Operating fund owes the Sewage Utl Bond & Int fund \$20,000 as of December 31, 2019.

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 of an interest rate for the loans and there has not been a contingency for repayment of the principal amounts within five years.

Criteria

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

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