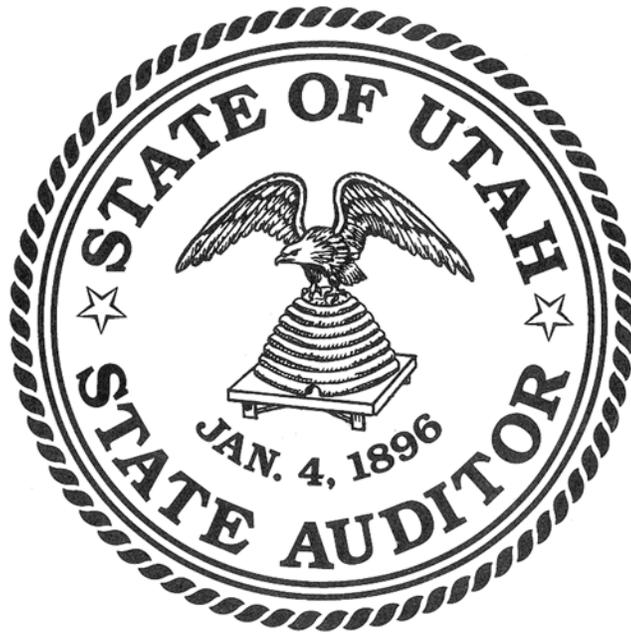


MORGAN COUNTY

Report on Internal Controls
For the Period July 1, 2015 to June 30, 2017

Report No. 18-MOCO-SP



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor

Jeremy Walker, CPA, Local Government Manager

MORGAN COUNTY
For the Period July 1, 2015 to June 30, 2017

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OFFICE OF THE
STATE AUDITOR

November 1, 2017

Morgan County Council
ATTN: Ned Mecham, Chair
48 W. Young Street
Morgan Utah, 84050

Dear Council Members:

As required by *Utah Code 17-36-45*, the Office of the State Auditor (Office) has conducted a review of Morgan County (County) for the period July 1, 2015 to June 30, 2017. The purpose of this review is to evaluate the internal control structure of the County required to ensure that all valid financial transactions are identified and recorded accurately and timely. We also evaluated compliance with certain statutory requirements. We made our evaluation through the following procedures.

- We interviewed employees, department heads, and elected officials.
- We examined documentation to support payments and verify authorizations.
- We reviewed all policies and procedures related to finances.

Our findings resulting from the above procedures are included in the attached recommendations section of this report. By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of the County during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please contact Jeremy Walker, Local Government Manager, at 801-538-1040 or jeremywalker@utah.gov.

Office of the State Auditor

Office of the State Auditor

FINDINGS AND RECOMMENDATIONS

1. INSUFFICIENT CONFLICT OF INTEREST DISCLOSURES

Morgan County (County) Council's practice related to disclosure of conflicts of interest does not meet the requirements of the County Officers and Employees Disclosure Act (Act) in Utah Code 17-16a. The Act requires verbal disclosure of conflicts of interest in open meetings, as well as written annual disclosure of conflicts in certain circumstances. However, we found no record of any written disclosures produced or maintained by the County despite identifying at least one circumstance where we believe written disclosure was required.

Although the Act requires disclosure of conflicts of interest, it does not necessarily prohibit Council members from participating in discussions or votes related to areas where a conflict occurs. Conversely, the County's Employee Code of Conduct, from which the Council derives its current practices for disclosure of conflicts of interest, may be unenforceable as it is simultaneously vague and all-inclusive. For example, the policy defines conflicts of interest in such broad terms that every council member could have a perceived conflict of interest on every issue. The Employee Code of Conduct also provides no details about how and when to disclose conflicts.

Recommendation:

We recommend that the County modify its practices to comply with the requirements of the County Officers and Employees Disclosure Act by requiring Council members to provide the appropriate disclosure of potential or actual conflicts of interest. We also recommend the County clarify its policies related to disclosure of conflicts of interest.

2. INADEQUATE SEPARATION OF DUTIES OVER CASH ACCOUNTS AND DISBURSEMENTS

The County has inadequate separation of financial duties. The County Treasurer oversees cash and check disbursements, reconciles cash accounts, and has the ability to adjust accounts. The ability to authorize transactions, adjust and reconcile accounts, and maintain custody of cash and checks, should be performed by separate individuals. Traditionally, an entity's governing board authorizes transactions (which the Council currently does), the Treasurer is the custodian of cash and check disbursements, and the Clerk/Auditor adjusts and reconciles accounts. Although the Clerk/Auditor has access to reports and the general ledger, we found no evidence that a reconciliation or review of adjustments was being performed by the Clerk/Auditor.

Utah Code 17-36-45 requires each county legislative body to work with the county auditor and county treasurer to implement an internal control structure whose objectives are to ensure:

- (a) the proper authorization of transactions and activities;
- (b) the appropriate segregation of:
 - (i) the duty to authorize transactions;
 - (ii) the duty to record transactions; and
 - (iii) the duty to maintain custody of assets;

Inadequate separation of these duties could allow errors and fraud to occur without detection. In situations where it is impractical to separate the duties due to the small number of employees, additional internal control procedures should be implemented to compensate for the separation of duties weaknesses.

Recommendation:

We recommend that the Council ensure that the County has adequate separation of financial duties, including separating responsibilities for:

- **Authorizing or approving transactions.**
- **Receipting and dispersing cash and checks.**
- **Adjusting and reconciling accounts.**

If not practical, we recommend the Council implement compensating controls.

3. UNTIMELY OR INACCURATE RECONCILIATIONS OF SIGNIFICANT ACCOUNTS

The County has not performed reconciliations of significant accounts in a timely or accurate manner. Statement on Auditing Standards No. 115, requires governmental entities to design and implement controls which allow them to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles (GAAP). This failure occurred, in part, due to the County's lack of policies, procedures, and accounting expertise. While the independent auditor can help identify material errors and compile financial statements, the County must have the knowledge, skills, and experience necessary to understand and take responsibility for all balances and entries required to prepare reports in accordance with GAAP. Lack of necessary knowledge, skills, and experience, is a key internal control weakness at the County that must be corrected.

A government entity may acquire financial reporting knowledge, skills, and experience through one of the following:

- Training existing employees or elected officials through higher education institutions and other formal training providers.
- Hiring individuals with the required knowledge, skills, and experience.
- Contracting with companies or individuals who have the required knowledge, skills, and experience.

We note that recent efforts have been made to this end. On August 15, 2017, the Council voted to contract with a CPA firm to assist the Treasurer, Clerk/Auditor, and Council in creating internal controls necessary to complete the County's reconciliation process.

Recommendation:

We recommend that the County acquire the required knowledge, skills, and experience necessary to provide timely and accurate reconciliations and reporting in accordance with GAAP.

4. LACK OF APPROVAL OF COUNCIL MEMBER EXPENDITURES BY COUNTY ATTORNEY

The expenditures of Council Members are not currently receiving a written endorsement by the County Attorney. Utah Code 17-50-405 requires expenses incurred by members of the legislative body to be presented to the County Attorney who shall determine its legality with a written endorsement before payment.

Recommendation:

We recommend that the County modify its policies and practices to include the review and written endorsement by the County Attorney of all Council Member expenditures before payment.

5. INSUFFICIENT DOCUMENTATION FOR PAYMENT OF MILEAGE AND PER DIEM

The documentation provided in support of mileage and per diem payments to County officials was often insufficient and sometimes non-existent. Utah Code 17-36-45(1)(c) requires each county legislative body to work with the county auditor and county treasurer to implement an internal control structure to ensure the design and use of adequate documents and records to ensure the proper recording of events. This would include a policy that clearly identified what information is required and in what format, such as a form or template. Travel-related expenses usually identify date(s) of travel, destination, and purpose.

Recommendation:

We recommend that the County ensure the design and use of adequate documents and records to ensure the proper recording of events.



October 27, 2017

Morgan County Council

Response to State Auditor Report on Internal Controls
For the Period July 1, 2015 to June 30, 2017
Report No. 18-MOCO-SP

Below is the response from the Council Members of Morgan County regarding each item noted in the State Auditor Report on Internal Controls for the period July 1, 2015 to June 30, 2017.

1. Insufficient Conflict of Interest Disclosures

The County accepts the recommendation of the State Auditor. The County will update and clarify its Employee Code of Conduct to ensure compliance with the requirements of the County Officers and Employee Disclosures Act (Utah Code 17-16a). The County will address and clarify with Council members, the specific elements and timing of an appropriate written and oral disclosure of potential or actual conflicts of interest, to ensure an understanding of and compliance with the requirements.

2. Inadequate Separation of Duties Over Cash Accounts and Disbursements

The County agrees with the recommendation of the State Auditor. The County has some separation of duties over cash accounts and disbursements in place and will continue to add compensating controls where needed. Currently the Clerk/Auditor oversees cash and check disbursements while the County Treasurer reconciles the bank account. Because the County Treasurer also has the ability to make adjustments, the County has implemented a compensating control in which the Clerk/Auditor and the outside CPA Firm reviews the list of adjustments made each month and compares the adjustments to the bank statement. As another level of separation, the council will remain responsible for authorizing and approving transactions.

3. Untimely or Inaccurate Reconciliations of Significant Accounts

The County agrees with the recommendation of the State Auditor. The County has already implemented procedures to ensure that all bank accounts are reconciled in a timely manner. The County has contracted with an outside CPA firm who has been coming in multiple times a month and working with the County Treasurer and Clerk/Auditor to set up the correct bank account details in the Caselle computer system and to also reconcile the accounts. The Clerk/Auditor is being trained to reconcile the treasurer's tax account and the CPA firm will continue to review this reconciliation on a monthly basis to ensure accuracy and completion. As stated in the response to finding 2, other bank reconciliations are completed by the County Treasurer who has the necessary knowledge and skills. The CPA firm will also

provide an independent review of these reconciliations on a monthly basis for accuracy and timely completion.

4. Lack of Approval of Council Member Expenditures by County Attorney

The County accepts the recommendation of the State Auditor. The County will modify its policies and procedures to require a written endorsement of legality by the County Attorney of all council member expenditures before payment takes place.

5. Insufficient Documentation for Payment of Mileage and Per Diem

The County agrees with the recommendation of the State Auditor. The County will develop a travel reimbursement request form and require all employees and county officials to use the form to and provide proper supporting documentation when requesting reimbursement for mileage, per diem, and other travel expenses. At a minimum, the form will require the date(s) of travel, destination, purpose and requested reimbursement.

Morgan County Council

DocuSigned by:
Ned J. Mecham 10/30/2017
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Ned Mecham

did not Respond 10/30/17
John Barber

did not respond 10/30/17
Daryl Ballantyne

DocuSigned by:
Robert Kilmer 10/30/2017
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Robert Kilmer

DocuSigned by:
Roland Haslam 10/30/2017
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Roland Haslam

DocuSigned by:
Austin Turner 10/30/2017
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Austin Turner

will not sign 10/30/17
Tina Cannon