

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF BICKNELL

KNOX COUNTY, INDIANA

January 1, 2013 to December 31, 2013



**FILED**

11/26/2014



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Rebecca McGlone	01-01-12 to 12-31-15
Mayor	Jon G. Flickinger	01-01-12 to 12-31-15
President of the Board of Public Works	Jon G. Flickinger	01-01-12 to 12-31-15
President Pro Tempore of the Common Council	Richard R. Byrer Terry Stremming	01-01-13 to 12-31-13 01-01-14 to 12-31-14
Superintendent of Water Utility	Earl E. Horst	01-01-13 to 12-31-14
Superintendent of Wastewater Utility	Matthew D. Brough	01-01-13 to 12-31-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

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Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE CITY OF BICKNELL, KNOX COUNTY, INDIANA

This report is supplemental to our audit report of the City of Bicknell (City), for the period from January 1, 2013 to December 31, 2013. 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 City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://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 Result and Comment 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 Result and Comment contained herein describes 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

October 9, 2014

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CLERK-TREASURER  
CITY OF BICKNELL

CLERK-TREASURER  
CITY OF BICKNELL  
FEDERAL FINDINGS

**FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

We noted several deficiencies in the internal control system of the City 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 City to reduce risks to the achievement of financial reporting objectives. The City has not separated incompatible activities related to utility billings and collections. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. Monitoring of Controls: Effective internal control over financial reporting requires the City Council and Board of Public Works to monitor and assess the quality of the City's system of internal control. The City Council and Board of Public Works have not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the City 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 City has no process to identify or communicate corrective actions to improve controls.
3. The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal controls in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: program names were not always accurate or were incomplete; the Highway Planning and Construction Grant included state funds and was overstated by \$99,394.

Audit adjustments of \$99,394 were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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)

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."

CLERK-TREASURER  
CITY OF BICKNELL  
FEDERAL FINDINGS  
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OMB Circular A-133, Subpart C, section .310(b) states:

"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.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

***FINDING 2013-002 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM***

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 Number and Year (or Other Identifying Number): NSP3-001-003

Pass-Through Entity: Indiana Housing & Community Development Authority

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Allowable Activities; Allowable Costs; Cash Management; Matching, Level of Effort and Earmarking; Period of Availability; Program Income; Reporting; and Special Tests and Provisions. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the

CLERK-TREASURER  
CITY OF BICKNELL  
FEDERAL FINDINGS  
(Continued)

compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

The City entered into a contract with Myszak and Palmer, Inc. (Program Administrator), to provide program administration for the Neighborhood Stabilization Program (NSP3) grant. The City signed the required documents but did not monitor that the compliance requirements for the program were met. The City relied on Myszak and Palmer, Inc., to meet the federal compliance requirements of the program and did not perform any monitoring to ensure this occurred.

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."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

***FINDING 2013-003 - CASH MANAGEMENT***

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 Number and Year (or Other Identifying Number): NSP3-001-003

Pass-Through Entity: Indiana Housing and Community Development Authority

The City entered into a contract with Myszak and Palmer, Inc. (Program Administrator), to provide program administration for the Neighborhood Stabilization Program (NSP3) grant. The Program Administrator was responsible, per the contract with the City, for disbursing grant funds to vendors performing services related to the program.

CLERK-TREASURER  
CITY OF BICKNELL  
FEDERAL FINDINGS  
(Continued)

The Program Administrator compiled the invoices to be submitted for reimbursement and filed the reimbursement requests from the City's computer that had Indiana Housing and Community Development Authority's (IHCDA) software installed. The Clerk-Treasurer authorized and submitted the reimbursement requests to IHCDA. When the reimbursements were received, the City receipted them into a separate grant fund and then disbursed the reimbursement amounts to the Program Administrator within the required three business days. The Program Administrator was then required to disburse the grant funds within three business days to the vendors. The Program Administrator did not comply, in a few instances, with the requirement of disbursing the funds to a \$5,000 balance or less within three days of receiving the reimbursements from the City.

The Program Administrator maintained a Federal Cash Control Register documenting the transactions of the grant funds that were received and subsequently disbursed, but they did not provide a copy to the City. The City did not maintain a separate Federal Cash Control Register, but instead relied on the Program Administrator to do so.

The grant funds that the City remitted to the Program Administrator were not accounted for separately, but instead were comingled with other grant funds in the business bank account of the firm.

Indiana Housing and Community Development Authority Neighborhood Stabilization Program Manual, Chapter 12, Section II: Drawing Funds Process, paragraph H, states in part:

"NSP recipients may choose to either establish a separate fund within the general fund or establish a separate bank account for the NSP program. The bank account must be non-interest bearing."

"NSP recipients have three business days to disburse drawn funds from their local NSP account to a \$5,000 balance or less. The NSP recipient must begin counting the three days from the date it receives the NSP reimbursement check from IHCDA. Additionally, if the recipient disburses the NSP funds to a subrecipient or award administrator, they, in turn, must achieve a \$5,000 balance or less within three business days of receiving the funds.

If the recipient is unable to disburse the federal funds in a timely manner, the recipient must immediately return the funds to IHCDA."

Indiana Housing and Community Development Authority Neighborhood Stabilization Program Manual, Chapter 12, Section II: Drawing Funds Process, paragraph K, states in part:

"The Federal Cash Control Register must be used to record requests for claims submitted, checks received, disbursements, and the balance of federal cash on hand on both a daily and cumulative basis.

If you employ the services of an award administrator or subrecipient who makes payments with the NSP funds, this entity is also responsible for keeping a federal cash control register and is responsible for disbursing funds in the manner prescribed for the funding source."

Noncompliance with the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management ensure compliance with the Cash Management requirements of the program.



**Bicknell Clerk-Treasurer's Office**

119 E. 2nd Street  
P.O. Box 127  
Bicknell, IN 47512  
(812)735-4636  
(812)735-5253  
bicknellct@yahoo.com

**CORRECTIVE ACTION PLAN**

October 09, 2014

**FINDING 2013-1- INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

Auditee Contact Person: Rebecca McGlone  
Title of Contact Person: Clerk – Treasurer  
Phone Number of Contact Person: 812-735-4636  
Expected Completion Date: As information is made available, and at annual report time.

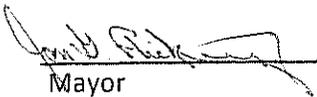
**Plan:**

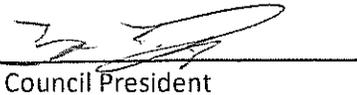
1. In 2014 the assistant clerk has started verifying utility bills, and collections on a monthly basis. This gives us internal control over the utility billing and collections.
2. We will work with the Council and Board of Works to make sure they have a good understanding of the City's financials.
3. We will review activities in place for the preparation of the Schedule of Federal Awards (SEFA). And will consult with office personnel that all grants are included in the report.

Respectfully,

*Rebecca McGlone*

Rebecca McGlone

  
Mayor

  
Council President

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# *City of Bicknell*

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Rebecca McGlone  
Clerk - Treasurer  
P.O. Box 127  
Bicknell, IN 47512  
(812) 735-4636 Office

## CORRECTIVE ACTION PLAN

October 9, 2014

FINDING 2013-002 – INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM

Auditee Contact Person: Rebecca McGlone

Title of Contact Person: Clerk-Treasurer

Phone Number of Contact Person: 812-735-4636

Date of Completion : As information is made available, and at annual report time.

Plan:

We are going to monitor all program administrators to ensure they comply with the requirements of the federal grants.

Respectfully,

*Rebecca McGlone*

Rebecca McGlone

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# City of Bicknell

---

Rebecca McGlone  
Clerk - Treasurer  
P.O. Box 127  
Bicknell, IN 47512  
(812) 735-4636 Office  
CORRECTIVE ACTION PLAN

October 9, 2014

## FINDING 2013-003 – CASH MANAGEMENT

Auditee Contact Person: Rebecca McGlone

Title of Contact Person: Clerk-Treasurer

Phone Number of Contact Person: 812-735-4636

Date of Completion : As information is made available, and at annual report time.

### Plan:

1. We will require all program administrators to provide us with a federal cash control register to document the transactions of grant funds.
2. And we will develop procedures to ensure compliance requirements related to cash management are followed.

Respectfully,

*Rebecca McGlone*

Rebecca McGlone

CLERK-TREASURER  
CITY OF BICKNELL  
AUDIT RESULT AND COMMENT

**APPROPRIATIONS**

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Excess Amount Expended</u>
General	\$ 65,797
Police Pension	31,046
CCI	3,207

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

CLERK-TREASURER  
CITY OF BICKNELL  
EXIT CONFERENCE

The contents of this report were discussed on October 9, 2014, with Jon G. Flickinger, Mayor; Rebecca McGlone, Clerk-Treasurer; and Terry Stremming, President Pro Tempore of the Common Council.

COMMON COUNCIL  
CITY OF BICKNELL

COMMON COUNCIL  
CITY OF BICKNELL  
FEDERAL FINDING

***FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

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FEDERAL FINDING  
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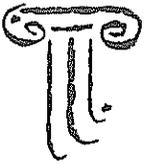
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**CORRECTIVE ACTION PLAN**

October 09, 2014

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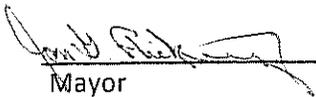
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Respectfully,

*Rebecca McGlone*

Rebecca McGlone

  
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COMMON COUNCIL  
CITY OF BICKNELL  
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BOARD OF PUBLIC WORKS  
CITY OF BICKNELL

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FEDERAL FINDING

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BOARD OF PUBLIC WORKS  
CITY OF BICKNELL  
FEDERAL FINDING  
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**CORRECTIVE ACTION PLAN**

October 09, 2014

**FINDING 2013-1- INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

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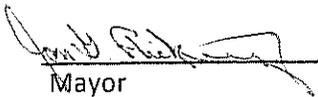
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Respectfully,

*Rebecca McGlone*

Rebecca McGlone

  
Mayor

  
Council President

BOARD OF PUBLIC WORKS  
CITY OF BICKNELL  
EXIT CONFERENCE

The contents of this report were discussed on October 9, 2014, with Jon G. Flickinger, Mayor; Rebecca McGlone, Clerk-Treasurer; and Terry Stremming, President Pro Tempore of the Common Council.