

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF ARGOS

MARSHALL COUNTY, INDIANA

January 1, 2022 to December 31, 2022



**FILED**

09/22/2023



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Clerk-Treasurer:	
Audit Results and Comments:	
Internal Controls .....	6-7
Annual Financial Report - Other Information .....	7-8
Compensation and Benefits .....	9
Temporary Loan .....	9-10
Motor Vehicle Highway (MVH) - Restricted Fund .....	10
Official Response .....	11-12
Exit Conference .....	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Lisa Mullaney	01-01-22 to 12-31-23
President of the Town Council	Charles R. Snead	01-01-22 to 12-31-23
Utility Superintendent	James Lindstrom	01-01-22 to 12-31-23



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE TOWN OF ARGOS, MARSHALL COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Argos (Town), for the period from January 1, 2022 to December 31, 2022. 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 the Financial Statement Audit Report of the Town, which provides our opinions on the Town's financial statement. This report may be found at [www.in.gov/sboa/](http://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.

A handwritten signature in blue ink that reads "Beth Kelley".

Beth Kelley, CPA, CFE  
Deputy State Examiner

September 12, 2023

(This page intentionally left blank.)

CLERK-TREASURER  
TOWN OF ARGOS

CLERK-TREASURER  
TOWN OF ARGOS  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS**

*Condition and Context*

Internal control activities should be identified and developed at various levels to reduce risks of error and/or fraud of the financial statements. The failure to establish these internal controls could enable material misstatements to remain undetected.

*Financial Close and Reporting*

The Clerk-Treasurer entered and submitted the financial information for the Annual Financial Report, which was the source of the financial statement, into the Indiana Gateway for Government Units (Gateway) financial reporting system. The Deputy Clerk-Treasurer reviewed the information entered in Gateway by the Clerk-Treasurer prior to submission; however, the review was not documented.

*Cash and Investments*

The Town did not have a documented oversight or review process over investments. The Town relied on an outside consultant to maintain the Town's investment records. As such, the Town's investments were not recorded in its financial system, nor maintained in an investment register. Additionally, investments are not included as part of the monthly bank reconciliations. Although, the consultant provided an excel spreadsheet to the Town quarterly, the Town did not review the documentation to ensure the accuracy and completeness of investments.

*Receipts*

The Town did not have a documented oversight or review process over receipts to ensure the proper classification by fund. Although the Town had a process for review, the Town's process did not include adequate detail to review the classification of fund.

Also, for electronic fund transfers and credit card payments, one employee received the notices for amounts received and issued and posted the receipts without a documented oversight or review process to ensure the accuracy and completeness for these receipts.

*Payroll Disbursements*

Employee rate of pay is entered into the payroll system by one employee without a documented review or oversight to ensure the accuracy of the rate. Additionally, the Town did not have a documented oversight or review process over payroll disbursements to ensure the proper classification by fund.

*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 ARGOS  
AUDIT RESULTS AND COMMENTS  
(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. . . ."

## **ANNUAL FINANCIAL REPORT - OTHER INFORMATION**

### *Condition and Context*

Financial, supplemental, and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The Town had not established effective internal controls over the AFR information entered into Gateway, which resulted in the following:

#### *Capital Assets*

The Town prepared and submitted the capital asset information into Gateway. However, the Town did not maintain appropriate detailed capital asset records to determine the accuracy of the information. The Town approved the omission of the Schedule of Capital Assets from the Financial Statement Audit Report.

#### *Leases and Debt*

The Taxable Economic Development Bonds of 2019 was omitted from the debt information. The ending principal balance was understated by \$3,963,032, and the principal due within one year was understated by \$420,933.

Adjustments were proposed, accepted by the Town, and made to the Schedule of Leases and Debt presented as Other Information in the Financial Statement Audit Report.

#### *Grants*

The Town failed to properly review the federal grant information prepared and submitted in Gateway. Although the Municipal Advisor prepared and entered the federal award information into Gateway, and the Clerk-Treasurer reviewed and approved the information entered, the internal control was not effective and did not detect and allow correction of errors prior to submission.

Due to the lack of effective internal controls, the Schedule of Expenditures of Federal Awards (SEFA) presented for audit included the following errors:

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

1. Three grants, the COVID-19 - Coronavirus State and Local Fiscal Recovery Funds (21.027), the Outdoor Recreation Acquisition, Development and Planning (15.916), and the State & Private Forestry Cooperative Fire Assistance (10.698), were omitted from the SEFA, which understated expenditures for each grant by \$120,000, \$116,080, and \$5,000, respectively.
2. For the Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (14.228), the amount of federal awards provided to subrecipients was overstated by \$894,502.

Adjustments were proposed, accepted by the Town, and made to the Schedule of Expenditures of Federal Awards presented in the Federal Compliance Audit Report of the Town.

*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. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

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

**COMPENSATION AND BENEFITS**

*Condition and Context*

Testing of 15 payroll disbursements noted the following:

1. The allocation of the compensation for three individuals was not paid in accordance with the salary ordinance adopted by the Town Council as to which fund the compensation was paid from. The salary ordinance contained percentages allocating the compensation between multiple funds. For these three individuals, the compensation percentages in the payroll system did not agree to the salary ordinance. For one individual, the allocation in the salary ordinance totaled 90.3 percent and not 100 percent.
2. One individual's compensation did not agree to the supporting documentation provided. The compensation received by the individual was less than the supporting documentation by \$120. No other documentation was provided by the Town to support the underpayment.

*Criteria*

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)

**TEMPORARY LOAN**

*Condition and Context*

A five-year loan was authorized by Town Council Ordinance 2022-13 to the Town's Redevelopment Commission. The loan was made from the Electric Utility's cash reserve fund to the TIF District fund for infrastructure costs. The Utility loan to a Town fund did not meet either of the requirements of the statute for a Utility to make a loan.

*Criteria*

Indiana Code 8-1.5-3-12 states:

"(a) A municipality may, by ordinance of its legislative body, borrow money from a utility owned by the municipality for any of the following purposes:

- (1) Current purposes in anticipation of taxes levied and to be collected during the current or following year.
  - (2) Carrying out an eligible efficiency project (as defined in [IC 36-9-41-1.5](#)) within the municipality.
- (b) The board may by resolution lend money to the municipality if the utility has on hand:

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

- (1) a surplus of cash exceeding by at least the amount loaned the sum of all amounts required to pay the indebtedness of the utility falling due during the current calendar year and the following year;
  - (2) the amount necessary to meet current expenses during the year; and
  - (3) the amount necessary to pay for improvements contemplated to be made during the current calendar year minus the estimated receipts during the calendar year.
- (c) A loan made under subsection (a)(1) may not be made for a sum in excess of fifty percent (50%) of the amount estimated to be collected from anticipated taxes.
- (d) A loan under this section:
- (1) must be evidenced by an obligation of the municipality;
  - (2) must be signed by the executive;
  - (3) is due:
    - (A) on or before thirty (30) days after the last day for the payment of anticipated taxes, in the case of a loan made under subsection (a)(1); and
    - (B) on a date determined by the board (but not more than six (6) years after the date of the loan), in the case of a loan made under subsection (a)(2); and
  - (4) may bear interest at any rate as determined by the board, payable at maturity."

**MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND**

*Condition and Context*

The Town created a Motor Vehicle Highway (MVH) - Restricted sub-fund within the Motor Vehicle Highway fund and posted 50 percent of the state motor vehicle highway distributions to the sub-fund as required. However, the Town disbursed \$9,376 for a lawn tractor, drug screening, chain saw sharpening, Amazon, and BMV charges from the MVH Restricted fund. These disbursements were not for the construction, reconstruction, and preservation of the Town's highways.

*Criteria*

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."



## OFFICIAL RESPONSE

Date: 09/18/2023

Indiana State Board of Accounts  
302 West Washington St. Room E418  
Indianapolis, IN 46204-2765

Re: Audit Period 1/1/2022 – 12/31/2022

To Whom It May Concern,

After receiving the results and comments of our current audit for the Town of Argos, I would like to respond to the following.

### **INTERNAL CONTROLS**

After reviewing the comments, we have found that there is room for improvement. We are relying on our hired consultants and will be implementing new policies to meet the acceptable minimum level of internal control standards. We are working on our segregation of duties and will be working to correct any issues we have had.

### **ANNUAL FINANCIAL REPORT-OTHER INFORMATION**




This has been covered with our policy changes according to SBOA Internal Control Guidelines. We also take full responsibility of the issue that was given for the grants. This is the first time we have dealt with these types of grants.

### **COMPENSATION AND BENEFITS**

Upon further review of the context, we agree with the report. We will be implementing new policies to cover these issues.

### **TOWN OF ARGOS**

201 West Walnut Street, Argos, Indiana 46501

 574-892-5717  574-892-4758  TownOfArgos



#### TEMPORARY LOAN

Upon further review of the complaint brought against the Municipality loaning electric cash reserve funds we feel we have met the criteria of IC 8-1.5-3. The Town Legislative Body serves in the capacity as the Utility Service Board. According to IC 8-1.5-3-12(b) the board may by resolution lend money to the municipality if the utility has on had a surplus of cash.

Secondly bonding the money would have resulted in fees of thousands of dollars. Borrowing the money from the Electric Utility with interest saves the taxpayers of Argos money. The money borrowed is being repaid with tax dollars collected from the development which we felt is what the legislators intended when they implemented residential TIF's as a tool for growth in communities.

#### MOTOR VEHICLE HIGHWAY(MVH) – RESTRICTED FUND

This complaint has been corrected with the oversight changes of the policies.

Charles R. Snead  
Argos Town Council President

Lisa Mullaney  
Clerk-Treasurer

#### TOWN OF ARGOS

201 West Walnut Street, Argos, Indiana 46501

☎ 574-892-5717 ☎ 574-892-4758 📌 TownOfArgos

CLERK-TREASURER  
TOWN OF ARGOS  
EXIT CONFERENCE

The contents of this report were discussed on September 12, 2023, with Lisa Mullaney, Clerk-Treasurer; Charles R. Snead, President of the Town Council; James Lindstrom, Utility Superintendent; Erica Partin, Town Council member; and Candi Weller, 1<sup>st</sup> Deputy Clerk-Treasurer.