

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF EAST CHICAGO
LAKE COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
01/15/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Kimberly Anderson	01-01-12 to 12-31-13
Mayor	Anthony Copeland	01-01-12 to 12-31-15
President of the Board of Public Works	Val Gomez	01-01-12 to 12-31-13
President of the Common Council	Gilda Orange Lenny Franciski	01-01-12 to 12-31-12 01-01-13 to 12-31-13
President of the Redevelopment Commission	Ruby Powell-Flowers Maune Morgan	01-01-12 to 11-18-13 11-19-13 to 12-31-13
Executive Director of the Redevelopment Commission	John Artis (Vacant) Maria C. Becerra	01-01-12 to 06-01-12 06-02-12 to 06-10-12 06-11-12 to 12-31-13
President of the Park Board	Lilia Ramos	01-01-12 to 12-31-13
Director of Water Operations	Brian Marciniak	01-01-12 to 12-31-13
President of the Water Board	John Bakota	01-01-12 to 12-31-13
President of the Sanitary District Board of Commissioners	Miguel Rivera Anthony Galindo	01-01-12 to 12-31-12 01-01-13 to 12-31-13
President of Storm Water Board	Anthony Galindo Miguel Rivera	01-01-12 to 12-31-12 01-01-13 to 12-31-13
Director of the Port Authority	Ruben Ramos	01-01-12 to 12-31-13
President of the Port Authority Board of Directors	Milton Reed, Jr.	01-01-12 to 12-31-13



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF EAST CHICAGO, LAKE COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the City of East Chicago (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 19, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

Other Information

The City's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the City's response and, accordingly, we express no opinion on it.


Paul D. Joyce, CPA
State Examiner

November 19, 2013



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF EAST CHICAGO, LAKE COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the City of East Chicago (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated November 19, 2013, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

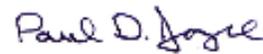
As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of East Chicago's Response to Findings

The City's response to our audit is described in the accompanying Official Response. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

November 19, 2013

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF EAST CHICAGO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
General	\$ 5,267	\$ 41,283,763	\$ 40,794,558	\$ 494,472
Motor Vehicle Highway	1,784,115	818,842	815,624	1,787,333
Local Road And Street	309,072	270,973	300,749	279,296
Park Nonreverting Operating	6,295	18,913	12,474	12,734
Health Maintenance	24,780	64,457	65,705	23,532
Economic Development Operating	5,740,948	3,374,119	3,460,163	5,654,904
Transportation	64,645	1,148,525	1,198,296	14,874
CDBG	(178,169)	1,559,196	1,337,337	43,690
Law Enforcement Continuing Ed	52,706	50,072	19,802	82,976
Clerk's Records Perpetuation	6,726	4,812	-	11,538
Unsafe Building	203,955	207,211	100,380	310,786
Riverboat	2,460,312	18,105,203	13,852,308	6,713,207
Parks And Recreation	461	2,696,472	2,528,247	168,686
Cumulative Capital Development	74,541	-	-	74,541
Fire Equipment (Not Debt Service)	21,962	-	-	21,962
Cumulative Capital Improvement	20,368	78,766	99,134	-
Self-Insurance	(1,279,955)	10,647,725	11,262,312	(1,894,542)
Police Pension	142,591	3,668,422	3,587,634	223,379
Fire Pension	21,537	2,781,692	2,831,625	(28,396)
City And Town Court Costs	5,639	39,812	40,638	4,813
Local Development Agreement	12,951,874	3,859,087	3,500,000	13,310,961
TIF US Gypsum	344,297	941,450	815,022	470,725
TIF Riley Plaza	71,600	95,970	119,585	47,985
Homeless Prevention	125	59,383	58,369	1,139
Community Development Block Grant - Recovery	(8,422)	128,448	121,481	(1,455)
Local Police Forfeitures	-	4,982	-	4,982
Harborside Apartments	1,394,774	3,116,617	2,419,610	2,091,781
TIF Northtown Village Townhomes	-	95,258	-	95,258
Home Investment Partnership Program	(9,880)	538,509	562,600	(33,971)
General Adult Probation	137,563	25,955	6,630	156,888
Federal Grants	15,031	480,522	495,404	149
State Grant	(59,468)	498,907	501,806	(62,367)
Grant Misc	609,528	44,300	52,211	601,617
Local Law Enforcement Grants	-	282,681	282,681	-
SSED Revolving Loan	311,433	678	72	312,039
Summer Youth Training Program	-	113,631	113,631	-
EC Property Improvement	6,000	-	-	6,000
Police Federal Forfeitures	67,343	37,676	16,463	88,556
Damage To City Property	75,161	9,004	-	84,165
Railroad Relocation	507,232	40,385	106,814	440,803
Vital Records	115,525	57,418	46,766	126,177

The notes to the financial statement are an integral part of this statement.

CITY OF EAST CHICAGO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012
(Continued)

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
City Court Programs	68,368	27,375	15,583	80,160
Judgment Bonds Proceeds	133,137	-	-	133,137
EC Petty Cash Accts	2,000	1,820	2,231	1,589
EC/Gary/Hammond RLF	257,877	6,264	36	264,105
Redevelopment Rehab Escrow	15,548	158,294	160,133	13,709
Lease Rental Payment	915,361	2,089,785	2,223,000	782,146
Redevelopment Bond and Interest	633,148	1,223,180	1,226,119	630,209
Capital Projects - Other	24,064	-	-	24,064
Communications Revolving	(8,182)	137,892	134,932	(5,222)
Gasoline Revolving	(309,378)	1,158,733	984,283	(134,928)
EC Redevelopment	399,145	885,327	899,102	385,370
Payroll Withholding	207	66,159,254	66,159,138	323
PERF	839,833	3,209,735	4,049,568	-
Health Insurance	57,538	7,537,770	7,534,328	60,980
Misc Employee Ins	53,372	3,923	2,595	54,700
EC Property Tax Credit	225,034	-	-	225,034
NWI Health Dept Cooperative	41,863	1,226,692	1,220,057	48,498
Worker's Compensation	1,933	379,232	378,623	2,542
City Clerk	585,490	716,945	731,361	571,074
ECSDWW Petty Cash	5,001	169	165	5,005
Wastewater Utility - Operating	1,822,722	5,438,952	5,525,704	1,735,970
Wastewater Replacement Reserve	339,686	300,000	117,107	522,579
Storm Water Utility - Operating	-	220,657	220,657	-
Solid Waste - Operating	175,316	8,323,235	7,201,173	1,297,378
Solid Waste - Bond And Interest	676,049	815,443	844,720	646,772
Sanitary District Revolving	1,186,498	604,066	744,318	1,046,246
Utilities Revolving	-	599,966	599,966	-
Sanitary State Revolving	38,683	-	-	38,683
Water Utility Meter Deposit	815	286,528	9,813	277,530
Water Utility - Operating	(114,123)	6,010,399	5,516,767	379,509
Water Tank Refurbishment	676,511	66,560	254,193	488,878
Water Utility - Customer Deposit	307,597	6,222	313,819	-
Water Utility - Construction	1,040,391	507	482,744	558,154
Change Fund	500	-	-	500
Water Utility - Debt Reserve	1,388,040	-	-	1,388,040
Water Utility - Bond and Interest	2,298,470	3,275,022	2,183,401	3,390,091
EC Marina	10,234	1,335,999	1,334,690	11,543
EC Marina Petty Cash Accts	10,147	14,216	18,752	5,611
Totals	\$ 39,816,407	\$ 209,469,998	\$ 202,615,209	\$ 46,671,196

The notes to the financial statement are an integral part of this statement.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, storm water, trash, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Penalties which include fees received for late payments.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The City may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

B. 1925 Police Officers' Pension Plan

Plan Description

The 1925 Police Officers' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

C. 1937 Firefighters' Pension Plan

Plan Description

The 1937 Firefighters' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

On Behalf Payments

The 1937 Firefighters' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

D. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting, and requirements for contributions by employers and by employees. Covered employees may retire at age 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

The contribution requirements of plan members and the City are established by the Board of Trustees of INPRS.

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of some of the funds being set up for reimbursable grants and as internal service funds. In addition, the Self-Insurance and Fire Pension Funds disbursements exceeded receipts.

Note 8. Subsequent Events

Short-Term Debt - Loans Between Funds

Due to a delay in collecting revenue from water customer billing and marina slip rentals, the City made temporary loans between funds during 2012. These loans were not repaid during 2012. As of December 31, 2012, two loans totaling \$450,000 were still outstanding. The repayment due date is June 30, 2013.

Short-Term Debt - Tax Anticipation Warrants

On January 3, 2013, the City issued tax anticipation warrants for 2013 totaling \$12,208,346 in the General, Parks and Recreation, and Solid Waste - Operating Funds. Principal and interest of \$2,345,528 and \$22,705 was paid on June 29, 2013, and \$9,862,818 is due on December 31, 2013. The interest rate on these tax anticipation warrants is 1.98 percent.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

Ameristar Property Tax Appeal Settlement

The City, as well as Lake County, has reached a settlement on property tax matters with Ameristar. The settlement provides for Ameristar to receive a refund of \$5,700,000. The refund shall be paid by credits applied on property tax bills for any of its real and personal property located in Lake County. The credit is applied at a rate of \$1,425,000 per installment for tax years' 2012 payable in 2013 through 2015 payable in 2016.

Note 9. Indiana Harbor Revitalization Project

The Community Builders, Inc. (TCB), Hispanic Housing Development Corp. (HHDC), and EDAW combined to form the Indiana Harbor Community Master Development Team, which was jointly selected by the East Chicago Board of Public Works, East Chicago Housing Authority, and the East Chicago Redevelopment Commission.

On March 1, 2006, a Master Development Agreement was entered into for a Master Developer to oversee and carry out the redevelopment (the Revitalization) of a certain portion of the City known as the Indiana Harbor Community. This area was designated by the City's Redevelopment Commission as a Tax Increment Financing (TIF) District in 2002. As part of the agreement, the Master Developer is to plan, coordinate, and implement all aspects of the Revitalization. The Revitalization contemplates a comprehensive redevelopment of the Revitalization Area, including the development or redevelopment of housing, commercial and retail space, public space, public facilities, and industrial facilities.

To achieve the revitalization, the City's Redevelopment Commission transferred ownership of 21 parcels of property to Northtown Village Townhomes Limited Partnership (Northtown) for the sum of \$10 in 2008. Northtown is a wholly owned subsidiary of The Community Builders, Inc., one of the three entities which comprise the Indiana Harbor Community Master Development Team.

The Commission also loaned Northtown \$3,000,000 to be used to finance construction of 75 unit townhomes consisting of two, three, and four bedroom rental units comprised of ten separate buildings. The loan was made in installments over a three year period. Northtown was loaned \$619,558 in October 2007 and \$1,380,442 in November 2008 from the Economic Development Commission Fund, which receipts the tax increment financing property tax revenues generated from the TIF District. The final installment was paid to Northtown on February 6, 2009, from grants awarded to the City in 2007 from the East Chicago Urban Enterprise Association, Inc., and the Gary/Hammond/East Chicago Empowerment Zone. The Phase I loan bears interest at 1.75 percent compounded annually. The unpaid principal as well as any accrued and unpaid interest will be due and payable no later than December 31, 2048.

Northtown completed the 75 unit development and all units were fully occupied as of March 30, 2010, with plans underway for a Phase II development. Phase II will consist of 50 additional units. To undertake this project the Northtown retained \$1,200,000 of funds available for repayment on the \$3,000,000 loan for Phase I, and the Commission provided an additional \$500,000 from the Economic Development Commission Fund. A new loan agreement was established to evidence the \$1,700,000 loan made by the Commission to Northtown as of June 30, 2010. This loan bears interest at 1.25 percent, compounding annually. The unpaid principal as well as any accrued and unpaid interest will be due and payable no later than December 31, 2050.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

On June 30, 2010, the Commission loaned Northtown \$953,000 also bearing interest at 1.25 percent, compounding annually. The unpaid principal as well as any accrued and unpaid interest will be due and payable no later than December 31, 2050. The Commission received the loan funds from the U.S. Department of Housing and Urban Development through the Neighborhood Stabilization Program (NSP).

The loan activity between the City's Redevelopment Commission and Northtown is as follows:

	Balance 01-01-12	New Loans	Repayments	Balance 12-31-12	Accrued and Unpaid Interest
Phase I	\$ 1,800,000	\$ -	\$ -	\$ 1,800,000	\$ 151,855
Phase II	<u>2,653,000</u>	-	-	<u>2,653,000</u>	<u>77,786</u>
Totals	<u>\$ 4,453,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,453,000</u>	<u>\$ 229,641</u>

Note 10. Harborside Apartments

The City, through its Redevelopment Commission, purchased the Harborside Apartments (the Project) on November 12, 2009, as part of the continued revitalization of the City's Lake Front Redevelopment Area. On September 1, 2009, the City issued \$6,300,000 of Tax Increment Revenue Bonds to finance the purchase of the Project.

The Project was previously an Illinois Limited Partnership formed pursuant to the laws of the State of Illinois. The Project was formed on October 12, 1989, to construct, own, and operate a 225-unit apartment community known as Harborside Apartments, located in East Chicago, Indiana. The apartment community is operated under the Section 8 Housing Assistance Payments Program of the U.S. Housing Act of 1937, as amended. The Project has entered into the standard regulatory agreement with the Federal Housing Administration (FHA) Section of the Department of Housing and Urban Development (HUD). The Project is managed by Residential Management Company and pays a management fee based on 5.77 percent of revenues collected.

Substantially all revenues of the Project are derived from the Section 8 Housing Assistance payments. The 2012 Housing Assistance payments totaled \$2,189,267, which represents approximately 86 percent of the total receipts. The rent subsidy with HUD has been renewed through November 12, 2013. The Project may not distribute any assets without the consent of HUD. Under the regulatory agreement with HUD, the Project may not increase rents charged to tenants without prior HUD approval.

The Harborside Apartments had a separate audit completed and the separate audit can be obtained from the City of East Chicago, Department of Redevelopment, at 400 E. Chicago Avenue, East Chicago, Indiana, 46312.

Note 11. Water Filtration Plant

In 2006, the City authorized the construction of a new water treatment plant and improvements to the intake system, water pumping station, pretreatment and filtration systems, and water storage system. To finance the estimated \$54,200,000 water filtration plant construction and improvements, the City has committed the following resources:

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

1. In 2006, the City entered into a \$16,600,000 loan with the State Revolving Loan Fund (SRF). Under the terms of the financial assistance agreement, waterworks revenue bonds issued by the City have been purchased by the Indiana Finance Authority. The proceeds are set aside to finance the water utility improvements. Funds are loaned to the City's water department as costs are incurred to the maximum allowed. The 2006 loan program funds have been completely drawn down as of 2012.

The repayment of the loan is from the Water Utility Operating and Economic Development Operating Funds.

2. In 2009, the City entered into a \$27,200,000 loan with the State Revolving Loan Fund (SRF). Under the terms of the financial assistance agreement, waterworks revenue bonds issued by the City have been purchased by the Indiana Finance Authority. The proceeds are set aside to finance the water utility improvements. Funds are loaned to the City's water department as costs are incurred to the maximum allowed. In 2009, the project was increased by \$8,750,000 through a forgivable loan (see paragraph 3 below) and money from the Economic Development Commission Fund (see paragraph 4 below), making the total project \$35,950,000. As of December 31, 2012, the City has drawn \$35,904,967 which leaves \$45,033 remaining to be drawn.

The City approved Ordinance 06-0053 on January 9, 2007, to irrevocably pledge a maximum of \$3,000,000 annually of gaming revenue for the payment of principal and interest on the 2009 \$27,200,000 State Revolving Fund loan. Per the financial assistance agreement, the City is to deposit by January 16 of each year an annual amount equal to the principal and interest on all outstanding bonds payable during the next 12 month period. If gaming revenue is insufficient, the City would cause a levy of a special benefit tax upon all property of the Waterworks District in the amount necessary to meet and pay the principal and interest payments when due.

3. In 2009, the City entered into a \$3,000,000 forgivable loan with the State Revolving Loan Fund (SRF). Under the terms of the financial assistance agreement, waterworks bond anticipation notes (BAN) issued by the City have been purchased by the Indiana Finance Authority. The proceeds are set aside to finance the water utility improvements. Funds are loaned to the City's water department as costs are incurred to the maximum allowed. The 2009 BAN was subject to loan forgiveness and was deemed forgiven and discharged on November 12, 2010, for the entire amount of the loan, as permitted by the American Recovery and Reinvestment Act. During 2010, the City drew down the entire \$3,000,000 loan.
4. In 2009, the City disbursed \$5,750,000 from the Economic Development Commission Fund, in accordance with the financial assistance agreement with the Indiana Finance Authority, into a Project Fund for the water utility improvements. As of December 31, 2012, the City has drawn \$5,704,967 which leaves \$45,033 remaining to be drawn.
5. The U.S. Army Corp of Engineers contributed the construction of a water storage reservoir at an estimated value of \$1,650,000.

The water filtration plant construction was completed in the fall of 2011. However, the new state-of-the-art water filtration plant has yet to provide the rated 17 million gallons of clean water a day. Thus, the City has not been able to fully integrate the new water filtration plant online and has had to operate and maintain the old water filtration plant. The City expected to demolish the old water filtration

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

plant in January 2012 for the City's continued improvement to the lakefront. The City has been assessing a \$2,000 per day penalty against Siemens USA for failing to provide a water filtration plant that met specifications. The outcome and/or settlement of this matter is unknown at this time.

Note 12. Contingent Liabilities and Lawsuits

The City has been named as a defendant in several pending lawsuits of which the outcome and the amount of potential damages has not been estimated.

The City continues to litigate unpaid legal bills in the amount of \$3,000,000 to \$3,200,000 against a firm previously retained by the City to defend wrongful termination/political firing cases under prior administrations from 2005 through 2008. The likelihood of the claim succeeding against the City is unknown at this time.

Note 13. Settlements

Consent Decree

An Agreed Judgment resolving the case of the Indiana Department of Environment Management (IDEM) vs. The East Chicago Sanitary District (District) was approved and entered by the Judge of the Lake Circuit Court on October 1, 2007. The Consent Decree contains both specific and general tasks and obligations and goals which are to be accomplished within prescribed deadlines. The Consent Decree provides for the payment of stipulated penalties in the event of the District's failure to comply with specified wastewater treatment plant performance standards or to achieve facility improvement programs within the time limits imposed.

The major component of the Agreed Judgment is the District's obligation to revise and implement a long-term combined sewer overflow control plan (Long-Term Plan). The process includes submission of a Use Attainability Analysis which determines a financial capability assessment of the District user charge payers and the cost effectiveness of treatment plant and system improvements which would reduce Combined Sewer Overflows (CSO) into the Grand Calumet River. The Long-Term Plan has been submitted to the IDEM and review by the United States Environmental Protection Agency (EPA) is pending. The current plan proposes spending approximately \$4,000,000 on treatment plant and system improvements. IDEM has recently suggested that EPA approval may require an additional expenditure over years in order to reduce the number of CSO events. The District is currently negotiating with representatives of IDEM to determine whether to modify the terms of the Long-Term Plan so as to contain additional obligations of the District. The total cost of this project could be as much as \$10,000,000, to be completed over a time period negotiated.

Note 14. Tax Increment Receipts Pledged

The City has pledged a portion of tax incremental finance property tax receipts to repay \$9,065,040 in tax increment finance revenue bonds issued in 1999 to finance the acquisition of processing and production equipment for high capacity wallboard manufacturing facility (U.S. Gypsum Company). The bonds are payable solely from the incremental property tax generated by the allocation area. Incremental property taxes were projected to produce 100 percent of the debt service requirements over the life of the bonds. The tax incremental finance property taxes received in 2012 were not enough to cover the 2012 payments due or the payment due on January 1, 2013.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

The City has pledged a portion of tax incremental finance property tax receipts to repay \$1,750,000 in tax increment finance revenue bonds issued in 2007 to finance the costs of converting an existing retail structure located in Riley Plaza into a supermarket facility. The bonds are payable solely from the incremental property tax generated by the allocation area. Incremental property taxes were projected to produce 100 percent of the debt service requirements over the life of the bonds. The tax incremental finance property tax receipts received in 2012 were not enough to cover the 2012 payments due.

The City has pledged a portion of tax incremental finance property tax receipts to repay \$6,300,000 in tax increment finance revenue bonds issued in 2009 to finance the costs of acquiring certain property located within the Allocation Area, commonly known as the Harborside Apartments, pursuant to the Redevelopment Plan for the Allocation Area. The bonds are payable solely from the incremental property tax generated by the allocation area. Incremental property taxes were projected to produce 100 percent of the debt service requirements over the life of the bonds. The tax incremental finance property tax receipts received in 2012 were enough to cover the 2012 payments due.

Note 15. Holding Corporation

The City has entered into a capital lease with the East Chicago Municipal Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the City. The lessor has been determined to be a related party of the City. Lease payments during the year 2012 totaled \$2,223,000.

Note 16. Other Postemployment Benefits

The City provides to eligible retirees and their spouses health benefits. These benefits pose a liability to the City for this year and in future years. Information regarding the benefits can be obtained by contacting the City.

Note 17. Restatements

For the year ended December 31, 2012, certain changes have been made to the financial statement to more appropriately reflect the financial activity of the City as follows:

Fund	Cash and Investments January 1, 2012	Restatement	Cash and Investments January 1, 2012 Restated
CDBG	\$ 133,168	\$ (311,337)	\$ (178,169)
Home Investment Partnership Program	-	(9,880)	(9,880)
EC Redevelopment	77,928	321,217	399,145

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the City. It is presented as intended by the City.

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road And Street	Park Nonreverting Operating	Health Maintenance	Economic Development Operating
Cash and investments - beginning	\$ 5,267	\$ 1,784,115	\$ 309,072	\$ 6,295	\$ 24,780	\$ 5,740,948
Receipts:						
Taxes	18,775,655	-	-	-	-	3,203,916
Licenses and permits	623,808	-	-	-	-	-
Intergovernmental	956,996	818,842	270,973	-	63,969	-
Charges for services	972,050	-	-	11,244	-	-
Fines and forfeits	160,708	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	19,794,546	-	-	7,669	488	170,203
Total receipts	<u>41,283,763</u>	<u>818,842</u>	<u>270,973</u>	<u>18,913</u>	<u>64,457</u>	<u>3,374,119</u>
Disbursements:						
Personal services	24,435,138	473,823	-	-	-	-
Supplies	556,864	239,159	-	-	13,902	-
Other services and charges	2,124,373	102,642	300,749	12,474	49,741	362,304
Debt service - principal and interest	13,620,237	-	-	-	-	-
Capital outlay	847	-	-	-	2,062	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	57,099	-	-	-	-	3,097,859
Total disbursements	<u>40,794,558</u>	<u>815,624</u>	<u>300,749</u>	<u>12,474</u>	<u>65,705</u>	<u>3,460,163</u>
Excess (deficiency) of receipts over disbursements	<u>489,205</u>	<u>3,218</u>	<u>(29,776)</u>	<u>6,439</u>	<u>(1,248)</u>	<u>(86,044)</u>
Cash and investments - ending	<u>\$ 494,472</u>	<u>\$ 1,787,333</u>	<u>\$ 279,296</u>	<u>\$ 12,734</u>	<u>\$ 23,532</u>	<u>\$ 5,654,904</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Transportation	CDBG	Law Enforcement Continuing Ed	Clerk's Records Perpetuation	Unsafe Building	Riverboat
Cash and investments - beginning	\$ 64,645	\$ (178,169)	\$ 52,706	\$ 6,726	\$ 203,955	\$ 2,460,312
Receipts:						
Taxes	432,601	-	-	-	-	-
Licenses and permits	-	-	7,320	-	-	-
Intergovernmental	714,449	1,359,848	-	-	-	18,008,742
Charges for services	-	-	33,297	-	-	-
Fines and forfeits	-	-	9,425	4,812	197,870	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	1,475	199,348	30	-	9,341	96,461
Total receipts	<u>1,148,525</u>	<u>1,559,196</u>	<u>50,072</u>	<u>4,812</u>	<u>207,211</u>	<u>18,105,203</u>
Disbursements:						
Personal services	970,505	411,884	-	-	-	-
Supplies	160,220	9,686	-	-	-	221,013
Other services and charges	67,571	915,072	12,065	-	100,380	4,091,310
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	7,737	-	-	1,365,589
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	695	-	-	-	8,174,396
Total disbursements	<u>1,198,296</u>	<u>1,337,337</u>	<u>19,802</u>	<u>-</u>	<u>100,380</u>	<u>13,852,308</u>
Excess (deficiency) of receipts over disbursements	<u>(49,771)</u>	<u>221,859</u>	<u>30,270</u>	<u>4,812</u>	<u>106,831</u>	<u>4,252,895</u>
Cash and investments - ending	<u>\$ 14,874</u>	<u>\$ 43,690</u>	<u>\$ 82,976</u>	<u>\$ 11,538</u>	<u>\$ 310,786</u>	<u>\$ 6,713,207</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Parks And Recreation	Cumulative Capital Development	Fire Equipment (Not Debt Service)	Cumulative Capital Improvement	Self-Insurance	Police Pension
Cash and investments - beginning	\$ 461	\$ 74,541	\$ 21,962	\$ 20,368	\$ (1,279,955)	\$ 142,591
Receipts:						
Taxes	1,268,564	-	-	-	-	14,245
Licenses and permits	-	-	-	-	-	-
Intergovernmental	34,837	-	-	78,766	-	3,637,765
Charges for services	565,155	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	827,916	-	-	-	10,647,725	16,412
Total receipts	<u>2,696,472</u>	<u>-</u>	<u>-</u>	<u>78,766</u>	<u>10,647,725</u>	<u>3,668,422</u>
Disbursements:						
Personal services	1,351,716	-	-	-	-	-
Supplies	139,667	-	-	-	-	-
Other services and charges	211,809	-	-	-	22,823	8,181
Debt service - principal and interest	809,538	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	15,517	-	-	99,134	11,239,489	3,579,453
Total disbursements	<u>2,528,247</u>	<u>-</u>	<u>-</u>	<u>99,134</u>	<u>11,262,312</u>	<u>3,587,634</u>
Excess (deficiency) of receipts over disbursements	<u>168,225</u>	<u>-</u>	<u>-</u>	<u>(20,368)</u>	<u>(614,587)</u>	<u>80,788</u>
Cash and investments - ending	<u>\$ 168,686</u>	<u>\$ 74,541</u>	<u>\$ 21,962</u>	<u>\$ -</u>	<u>\$ (1,894,542)</u>	<u>\$ 223,379</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Fire Pension	City And Town Court Costs	Local Development Agreement	TIF US Gypsum	TIF Riley Plaza	Homeless Prevention
Cash and investments - beginning	\$ 21,537	\$ 5,639	\$ 12,951,874	\$ 344,297	\$ 71,600	\$ 125
Receipts:						
Taxes	14,245	-	-	941,450	95,970	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	2,767,025	-	-	-	-	59,383
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	422	39,812	3,859,087	-	-	-
Total receipts	<u>2,781,692</u>	<u>39,812</u>	<u>3,859,087</u>	<u>941,450</u>	<u>95,970</u>	<u>59,383</u>
Disbursements:						
Personal services	-	-	-	-	-	2,821
Supplies	-	-	-	-	-	-
Other services and charges	6,434	-	3,500,000	-	750	55,548
Debt service - principal and interest	-	-	-	815,022	118,835	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	2,825,191	40,638	-	-	-	-
Total disbursements	<u>2,831,625</u>	<u>40,638</u>	<u>3,500,000</u>	<u>815,022</u>	<u>119,585</u>	<u>58,369</u>
Excess (deficiency) of receipts over disbursements	<u>(49,933)</u>	<u>(826)</u>	<u>359,087</u>	<u>126,428</u>	<u>(23,615)</u>	<u>1,014</u>
Cash and investments - ending	<u>\$ (28,396)</u>	<u>\$ 4,813</u>	<u>\$ 13,310,961</u>	<u>\$ 470,725</u>	<u>\$ 47,985</u>	<u>\$ 1,139</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Community Development Block Grant - Recovery	Local Police Forfeitures	Harborside Apartments	TIF Northtown Village Townhomes	Home Investment Partnership Program	General Adult Probation
Cash and investments - beginning	\$ (8,422)	\$ -	\$ 1,394,774	\$ -	\$ (9,880)	\$ 137,563
Receipts:						
Taxes	-	-	-	95,258	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	128,448	-	-	-	516,581	-
Charges for services	-	-	2,474,907	-	14,004	-
Fines and forfeits	-	-	-	-	-	25,955
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	4,982	641,710	-	7,924	-
Total receipts	<u>128,448</u>	<u>4,982</u>	<u>3,116,617</u>	<u>95,258</u>	<u>538,509</u>	<u>25,955</u>
Disbursements:						
Personal services	12,335	-	-	-	17,594	-
Supplies	-	-	181,285	-	-	4,428
Other services and charges	109,146	-	1,652,201	-	545,006	2,048
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	154
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	586,124	-	-	-
Total disbursements	<u>121,481</u>	<u>-</u>	<u>2,419,610</u>	<u>-</u>	<u>562,600</u>	<u>6,630</u>
Excess (deficiency) of receipts over disbursements	<u>6,967</u>	<u>4,982</u>	<u>697,007</u>	<u>95,258</u>	<u>(24,091)</u>	<u>19,325</u>
Cash and investments - ending	<u>\$ (1,455)</u>	<u>\$ 4,982</u>	<u>\$ 2,091,781</u>	<u>\$ 95,258</u>	<u>\$ (33,971)</u>	<u>\$ 156,888</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Federal Grants	State Grant	Grant Misc	Local Law Enforcement Grants	SSED Revolving Loan	Summer Youth Training Program
Cash and investments - beginning	\$ 15,031	\$ (59,468)	\$ 609,528	\$ -	\$ 311,433	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	312,870	448,807	-	219,303	-	93,631
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	167,652	50,100	44,300	63,378	678	20,000
Total receipts	<u>480,522</u>	<u>498,907</u>	<u>44,300</u>	<u>282,681</u>	<u>678</u>	<u>113,631</u>
Disbursements:						
Personal services	-	268,832	-	219,303	-	113,631
Supplies	67,646	26,106	20,396	-	-	-
Other services and charges	130,824	198,905	20,355	63,378	72	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	296,934	7,963	3,791	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	7,669	-	-	-
Total disbursements	<u>495,404</u>	<u>501,806</u>	<u>52,211</u>	<u>282,681</u>	<u>72</u>	<u>113,631</u>
Excess (deficiency) of receipts over disbursements	<u>(14,882)</u>	<u>(2,899)</u>	<u>(7,911)</u>	<u>-</u>	<u>606</u>	<u>-</u>
Cash and investments - ending	<u>\$ 149</u>	<u>\$ (62,367)</u>	<u>\$ 601,617</u>	<u>\$ -</u>	<u>\$ 312,039</u>	<u>\$ -</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	EC Property Improvement	Police Federal Forfeitures	Damage To City Property	Railroad Relocation	Vital Records	City Court Programs
Cash and investments - beginning	\$ 6,000	\$ 67,343	\$ 75,161	\$ 507,232	\$ 115,525	\$ 68,368
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	37,528	-	40,385	-	-
Charges for services	-	-	-	-	52,340	-
Fines and forfeits	-	-	-	-	-	27,375
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	148	9,004	-	5,078	-
Total receipts	-	37,676	9,004	40,385	57,418	27,375
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	6,137	-	-	24,159	247
Other services and charges	-	10,326	-	106,814	22,607	13,602
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	1,734
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	-	16,463	-	106,814	46,766	15,583
Excess (deficiency) of receipts over disbursements	-	21,213	9,004	(66,429)	10,652	11,792
Cash and investments - ending	\$ 6,000	\$ 88,556	\$ 84,165	\$ 440,803	\$ 126,177	\$ 80,160

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Judgment Bonds Proceeds	EC Petty Cash Accts	EC/Gary/ Hammond RLF	Redevelopment Rehab Escrow	Lease Rental Payment	Redevelopment Bond and Interest
Cash and investments - beginning	\$ 133,137	\$ 2,000	\$ 257,877	\$ 15,548	\$ 915,361	\$ 633,148
Receipts:						
Taxes	-	-	-	-	2,052,045	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	37,740	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	1,820	6,264	158,294	-	1,223,180
Total receipts	-	1,820	6,264	158,294	2,089,785	1,223,180
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	36	160,133	-	-
Debt service - principal and interest	-	-	-	-	2,223,000	1,226,119
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	2,231	-	-	-	-
Total disbursements	-	2,231	36	160,133	2,223,000	1,226,119
Excess (deficiency) of receipts over disbursements	-	(411)	6,228	(1,839)	(133,215)	(2,939)
Cash and investments - ending	\$ 133,137	\$ 1,589	\$ 264,105	\$ 13,709	\$ 782,146	\$ 630,209

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Capital Projects - Other	Communications Revolving	Gasoline Revolving	EC Redevelopment	Payroll Withholding	PERF
Cash and investments - beginning	\$ 24,064	\$ (8,182)	\$ (309,378)	\$ 399,145	\$ 207	\$ 839,833
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	395,573	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	137,892	1,158,733	489,754	66,159,254	3,209,735
Total receipts	-	137,892	1,158,733	885,327	66,159,254	3,209,735
Disbursements:						
Personal services	-	-	-	5,940	-	-
Supplies	-	-	984,283	170	-	-
Other services and charges	-	134,932	-	892,992	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	66,159,138	4,049,568
Total disbursements	-	134,932	984,283	899,102	66,159,138	4,049,568
Excess (deficiency) of receipts over disbursements	-	2,960	174,450	(13,775)	116	(839,833)
Cash and investments - ending	\$ 24,064	\$ (5,222)	\$ (134,928)	\$ 385,370	\$ 323	\$ -

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Health Insurance	Misc Employee Ins	EC Property Tax Credit	NWI Health Dept Cooperative	Worker's Compensation	City Clerk
Cash and investments - beginning	\$ 57,538	\$ 53,372	\$ 225,034	\$ 41,863	\$ 1,933	\$ 585,490
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	1,221,298	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	7,537,770	3,923	-	5,394	379,232	716,945
Total receipts	<u>7,537,770</u>	<u>3,923</u>	<u>-</u>	<u>1,226,692</u>	<u>379,232</u>	<u>716,945</u>
Disbursements:						
Personal services	-	-	-	888,519	-	-
Supplies	-	-	-	11,908	-	-
Other services and charges	250,621	2,595	-	268,421	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	51,209	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	7,283,707	-	-	-	378,623	731,361
Total disbursements	<u>7,534,328</u>	<u>2,595</u>	<u>-</u>	<u>1,220,057</u>	<u>378,623</u>	<u>731,361</u>
Excess (deficiency) of receipts over disbursements	<u>3,442</u>	<u>1,328</u>	<u>-</u>	<u>6,635</u>	<u>609</u>	<u>(14,416)</u>
Cash and investments - ending	<u>\$ 60,980</u>	<u>\$ 54,700</u>	<u>\$ 225,034</u>	<u>\$ 48,498</u>	<u>\$ 2,542</u>	<u>\$ 571,074</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	ECSDWW Petty Cash	Wastewater Utility - Operating	Wastewater Replacement Reserve	Storm Water Utility - Operating	Solid Waste - Operating
Cash and investments - beginning	\$ 5,001	\$ 1,822,722	\$ 339,686	\$ -	\$ 175,316
Receipts:					
Taxes	-	-	-	-	5,710,787
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	173,016
Charges for services	-	5,076,754	-	-	119,252
Fines and forfeits	-	171,336	-	-	36,634
Utility fees	-	-	-	-	-
Penalties	-	-	-	-	-
Other receipts	169	190,862	300,000	220,657	2,283,546
Total receipts	<u>169</u>	<u>5,438,952</u>	<u>300,000</u>	<u>220,657</u>	<u>8,323,235</u>
Disbursements:					
Personal services	-	2,916,358	-	209,072	3,237,873
Supplies	-	202,838	-	4,030	176,009
Other services and charges	165	1,667,560	-	7,555	1,136,638
Debt service - principal and interest	-	-	-	-	2,323,153
Capital outlay	-	39,599	117,107	-	94,508
Utility operating expenses	-	-	-	-	-
Other disbursements	-	699,349	-	-	232,992
Total disbursements	<u>165</u>	<u>5,525,704</u>	<u>117,107</u>	<u>220,657</u>	<u>7,201,173</u>
Excess (deficiency) of receipts over disbursements	<u>4</u>	<u>(86,752)</u>	<u>182,893</u>	<u>-</u>	<u>1,122,062</u>
Cash and investments - ending	<u>\$ 5,005</u>	<u>\$ 1,735,970</u>	<u>\$ 522,579</u>	<u>\$ -</u>	<u>\$ 1,297,378</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Solid Waste - Bond And Interest	Sanitary District Revolving	Utilities Revolving	Sanitary State Revolving	Water Utility Meter Deposit
Cash and investments - beginning	\$ 676,049	\$ 1,186,498	\$ -	\$ 38,683	\$ 815
Receipts:					
Taxes	799,225	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental	16,218	-	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Utility fees	-	-	-	-	-
Penalties	-	-	-	-	-
Other receipts	-	604,066	599,966	-	286,528
Total receipts	<u>815,443</u>	<u>604,066</u>	<u>599,966</u>	<u>-</u>	<u>286,528</u>
Disbursements:					
Personal services	-	444,318	599,966	-	-
Supplies	-	-	-	-	-
Other services and charges	-	-	-	-	-
Debt service - principal and interest	844,720	-	-	-	-
Capital outlay	-	-	-	-	-
Utility operating expenses	-	-	-	-	-
Other disbursements	-	300,000	-	-	9,813
Total disbursements	<u>844,720</u>	<u>744,318</u>	<u>599,966</u>	<u>-</u>	<u>9,813</u>
Excess (deficiency) of receipts over disbursements	<u>(29,277)</u>	<u>(140,252)</u>	<u>-</u>	<u>-</u>	<u>276,715</u>
Cash and investments - ending	<u>\$ 646,772</u>	<u>\$ 1,046,246</u>	<u>\$ -</u>	<u>\$ 38,683</u>	<u>\$ 277,530</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Water Utility - Operating	Water Tank Refurbishment	Water Utility - Customer Deposit	Water Utility - Construction	Change Fund
Cash and investments - beginning	\$ (114,123)	\$ 676,511	\$ 307,597	\$ 1,040,391	\$ 500
Receipts:					
Taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Utility fees	5,389,088	-	-	-	-
Penalties	46,948	-	-	-	-
Other receipts	574,363	66,560	6,222	507	-
Total receipts	<u>6,010,399</u>	<u>66,560</u>	<u>6,222</u>	<u>507</u>	<u>-</u>
Disbursements:					
Personal services	-	-	-	-	-
Supplies	-	-	-	-	-
Other services and charges	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-
Capital outlay	93,340	4,193	-	452,568	-
Utility operating expenses	3,355,264	-	-	-	-
Other disbursements	2,068,163	250,000	313,819	30,176	-
Total disbursements	<u>5,516,767</u>	<u>254,193</u>	<u>313,819</u>	<u>482,744</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>493,632</u>	<u>(187,633)</u>	<u>(307,597)</u>	<u>(482,237)</u>	<u>-</u>
Cash and investments - ending	<u>\$ 379,509</u>	<u>\$ 488,878</u>	<u>\$ -</u>	<u>\$ 558,154</u>	<u>\$ 500</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Water Utility - Debt Reserve	Water Utility - Bond and Interest	EC Marina	EC Marina Petty Cash Accts	Totals
Cash and investments - beginning	\$ 1,388,040	\$ 2,298,470	\$ 10,234	\$ 10,147	\$ 39,816,407
Receipts:					
Taxes	-	-	-	-	33,403,961
Licenses and permits	-	-	-	-	631,128
Intergovernmental	-	-	-	-	32,412,993
Charges for services	-	-	1,000,787	-	10,319,790
Fines and forfeits	-	-	-	-	634,115
Utility fees	-	-	-	-	5,389,088
Penalties	-	-	-	-	46,948
Other receipts	-	3,275,022	335,212	14,216	126,631,975
Total receipts	-	3,275,022	1,335,999	14,216	209,469,998
Disbursements:					
Personal services	-	-	476,520	-	37,056,148
Supplies	-	-	120,217	-	3,170,370
Other services and charges	-	-	271,905	-	19,613,063
Debt service - principal and interest	-	-	-	-	21,980,624
Capital outlay	-	-	-	-	2,539,335
Utility operating expenses	-	-	-	-	3,355,264
Other disbursements	-	2,183,401	466,048	18,752	114,900,405
Total disbursements	-	2,183,401	1,334,690	18,752	202,615,209
Excess (deficiency) of receipts over disbursements	-	1,091,621	1,309	(4,536)	6,854,789
Cash and investments - ending	\$ 1,388,040	\$ 3,390,091	\$ 11,543	\$ 5,611	\$ 46,671,196

CITY OF EAST CHICAGO
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2012

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Sanitary District	\$ 293,750	\$ 973,211
Water	52,856	1,272,375
Marina	42,274	-
Governmental activities	<u>2,434,802</u>	<u>2,431,429</u>
Totals	<u>\$ 2,823,682</u>	<u>\$ 4,677,015</u>

CITY OF EAST CHICAGO
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
East Chicago Municipal Building Corporation	Public Safety Facility	\$ 2,223,000	07-05-07	01-05-24
Panasonic Finance Solutions	Laptop Computers	<u>50,600</u>	03-31-11	03-31-14
Total governmental activities		<u>2,273,600</u>		
Total of annual lease payments		<u>\$ 2,273,600</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
Revenue bonds	Redevelopment Tax Increment Financing Bonds 1999 USG Project	\$ 5,576,226	\$ 5,401,923
Revenue bonds	Taxable Economic Development Revenue Bond Series 2007A Riley Plaza Project	1,645,000	292,765
Revenue bonds	EC TIF Revenue Bonds Series 2009A Harborside Redevelopment Project	3,870,000	1,222,550
Revenue bonds	EC Truck Loan 2012	<u>620,470</u>	<u>142,026</u>
Total governmental activities		<u>11,711,696</u>	<u>7,059,264</u>
Sanitary District:			
General obligation bonds	State Revolving Fund (SRF) Loan 1996 Pump Station Improvements & WWTF Modifications	<u>5,340,000</u>	<u>844,710</u>
Water:			
Revenue bonds	State Revolving Fund (SRF) Loan 2002 Water Utility Improvements	1,245,000	129,728
Revenue bonds	State Revolving Fund (SRF) Loan 2006 New Water Filtration Plant	13,720,000	1,254,516
Revenue bonds	State Revolving Fund (SRF) Loan 2009 New Water Filtration Plant	<u>25,080,000</u>	<u>1,858,310</u>
Total Water		<u>40,045,000</u>	<u>3,242,554</u>
Totals		<u>\$ 57,096,696</u>	<u>\$ 11,146,528</u>

CITY OF EAST CHICAGO
SCHEDULE OF CAPITAL ASSETS
December 31, 2012

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	Ending Balance
Governmental activities:	
Land	\$ 5,176,882
Infrastructure	31,071,705
Buildings	35,766,663
Improvements other than buildings	5,703,699
Machinery, equipment, and vehicles	3,755,578
Construction in progress	1,775,344
Total governmental activities	83,249,871
Sanitary District:	
Land	885,268
Buildings	15,349,092
Improvements other than buildings	2,225,818
Machinery, equipment, and vehicles	2,208,749
Construction in progress	145,317
Total Sanitary District	20,814,244
Water:	
Land	249,859
Buildings	293,512
Improvements other than buildings	2,524,686
Machinery, equipment, and vehicles	30,193
Construction in progress	53,688,235
Total Water	56,786,485
Marina:	
Land	1,020,000
Buildings	6,468,515
Improvements other than buildings	400,064
Machinery, equipment, and vehicles	18,846
Total Marina	7,907,425
Total capital assets	\$ 168,758,025

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER PAYROLL DISBURSEMENTS

Internal controls over the supporting documentation and approvals for payroll disbursements were insufficient:

1. The City did not prepare the prescribed Payroll Schedule and Voucher (General Form No. 99) or use an approved alternate form for all payrolls. The Payroll Schedule and Voucher is to be certified by each department to certify that the appropriate level of management (department heads) has examined the time record of each employee for each payroll, and that each employee has performed the services for which the salaries or compensation is paid.

The City relies upon departments to submit timesheets to the Controller's Office with the signatures of an immediate supervisor to certify the time. A review of the effectiveness of the internal controls over the supervisory approval of the actual time worked determined that the control is ineffective since not all of the time sheets remitted included a signature of an immediate supervisor. For the four pay dates reviewed in 2012, the proper immediate supervisor's approvals on all the submitted timesheets were missing. Due to the lack of proper approvals, there is insufficient evidence that employees actually performed the services for which they were paid; therefore, the validity of payroll disbursements could not always be determined. Compensating controls were tested to alleviate the risk of material misstatement of the financial statement.

2. The City's bi-weekly pay period ends on a Friday. The Controller's Office receives departmental timesheets on the following Monday and Tuesday. Some departments' timesheets are submitted for processing to the Controller's Office prior to the actual supervisor review. Signed timesheets were subsequently submitted to the Controller's Office. Furthermore, some departments' timesheets are received, processed, and then returned to the department for employee and supervisor signatures.

As the Controller's Office receives and processes a department's timesheets to determine the bi-weekly gross payroll amounts, the departments are then sent an Earnings & Deductions Detailed Proof Report to review. The departments are to review and ensure that the timesheet information had been processed properly by the Controller's Office. However, evidence that each department had reviewed the Earnings & Deductions Detailed Proof Report was not available.

3. After the bi-weekly payroll has been finalized, the Controller's Office sends an Earnings and Deductions Condensed Proof Report to the Common Council of the total Gross Payroll for all departments and to the departments that have a separate governing board. The departments are to have the appropriate governing board ratify the payments of the payrolls through the signing of a payroll voucher register. The payroll voucher registers were ratified by the appropriate boards and Common Council; however, they were not certified by the fiscal officer as required by Indiana Code.

Indiana Code 5-11-10-1.6 states in part:

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and . . ."

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS - WATER UTILITY AND SANITARY DISTRICT

As stated in prior audit reports, the Water Utility employees are responsible for the utility billing for both the Water Utility and the Sanitary District. These employees handle the billing, customer meter deposits, meter readings, final bills, and collections of utility bills.

(A) The Water Utility aging accounts receivable report balance was less than the City ledger accounts receivable balance by \$404,365 at December 31, 2012. The Sanitary District's Wastewater (Sewer) and garbage aging accounts receivable report balances were less than the City ledger accounts receivable balance by \$356,435 and \$3,379, respectively, at December 31, 2012. One possible explanation for the continued difference in the detail customer accounts receivable report and the general ledger is how the penalties and nonsufficient funds (NSF) charges and collections are posted to the MUNIS system. The Auditor determined that the water and wastewater penalties and NSF collections were posted directly to revenue accounts in the general ledger even though the penalties and NSF fees were posted to the customer accounts and included in the aging accounts receivable report. Reconciliations between the aging reports and the City accounts receivable ledger balance were not performed at the Water Department or City Controller's office.

(B) The Water Utility assesses and collects sales tax for the sale of water. The amount of sales tax collected in one month is remitted to the State of Indiana by the 20 of the following month. The sales tax payable account on the City's general ledger accounts for the amounts of sales tax assessed and the amount collected and remitted to the State of Indiana. Thus, the difference between the sales tax payable account and the accounts receivable related to sales tax should agree to the payable amount at each month end. The amount remitted in January 2013 for December 2012 was \$18,437; however, the City's general ledger sales tax payable account had a negative \$87,417 balance at year end and the accounts receivable balance related to sales tax was \$40,423, resulting in a negative \$127,839 payable balance. This results in a difference of \$146,277. Reconciliations between the monthly sales tax remitted and the City's sales tax payable general ledger account were not performed by personnel at the Water Department or the City Controller's office.

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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

OVERDRAWN CASH BALANCES

The financial statement presented in this report included the following funds with overdrawn cash balances at December 31, 2012. Cash balances of some of the City's funds were overdrawn due to grant funds or internal service funds operating on the reimbursement basis. Reimbursement basis of operations requires the City to expend funds and subsequently request reimbursement. Only those City funds with overdrawn cash balances at December 31, 2012, which were not due to the timing of reimbursements, are listed below. A similar audit result and comment appeared in the prior audit report.

Fund	Amount
Self-Insurance	\$ 1,894,542
Fire Pension	28,396
Community Development Block Grant - Recovery	1,455

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 governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COLLECTION OF AMOUNTS DUE - REDEVELOPMENT

Healthy East Chicago, Inc., an Indiana nonprofit corporation, had entered into two loan agreements for the purchase of property from the City's Department of Redevelopment for \$3,724,271. The deferred loan of \$1,915,000 has the following loan repayment schedule:

1. November 1, 1998 through October 31, 2008, principal and interest payments were deferred.
2. November 1, 2008 through October 31, 2013, principal bears a 1 percent annual interest rate, with the interest only to be paid semiannually.
3. November 1, 2013 through October 31, 2018, principal bears a 3 percent annual interest rate, with the interest only to be paid semiannually.
4. November 1, 2018 through October 31, 2038, principal bears a 6 percent annual interest rate with principal and interest to be paid over 240 equal monthly installments.

The interest-only payments which were due on October 1, 2011, April 1, 2012, and October 1, 2012, were not received until March, September, and December, 2012, respectively. The Department of Redevelopment did not calculate or collect additional interest which was due for the late payments.

The second loan of \$1,809,271 has an annual interest rate of 7.05 percent payable over 240 equal monthly installments (\$14,081.61) per the amortization schedule prepared by the Department of Redevelopment. A copy of the promissory note or loan agreement that detailed the loan criteria was not provided for audit.

Healthy East Chicago, Inc., had not paid the required monthly payment of \$14,081.61 since November 9, 2010, for the amounts due October 1, 2010, due to financial constraints. The remaining unpaid principal balance was \$1,138,515.79 as of October 1, 2010. Beginning in April 2011, the Department of Redevelopment did receive interest only payments from Healthy East Chicago, Inc., for the November 2010 through August 15, 2013 monthly payments; however, additional interest was not calculated or collected for the late payments.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

DORMANT ACCOUNT BALANCES - REDEVELOPMENT

The Indiana State Budget Committee approved \$500,000 for the North Lake County Children's Museum from the Build Indiana Fund on November 4, 1999. In February 2000, the East Chicago Department of Redevelopment received the \$500,000. Based on the grant application, the project was to be completed in 2001. As of December 31, 2012, the Department of Redevelopment has a \$305,210.62 remaining balance from the Build Indiana funds.

In addition, the Department of Redevelopment has been carrying \$7,000 in Fannie Mae and \$15,972.66 in UPS Program account balances. The account balances have remained unchanged since January 1, 2009. Redevelopment officials indicated that the \$7,000 was a grant from Fannie Mae and the \$15,972.66 is the remaining balance from an Empowerment Zone grant for the UPS Program when it was discontinued.

Indiana Code 4-30-17-11 states in part:

"(a) Each eligible recipient that is approved to receive money from the build Indiana fund under section 10 of this chapter must, as a condition of receiving money from the build Indiana fund, enter into a funding agreement with the budget agency.

(b) The agreement required under subsection (a) must obligate the eligible recipient to do the following:

- (1) Complete the project in conformity with the information in the project statement reviewed and approved under section 10 of this chapter and any subsequent agreements reviewed by the budget committee and approved by the governor, upon recommendation of the budget agency. . . .
- (7) If a project is not completed by the anticipated completion date specified in the documents described in subdivision (1), submit to the budget agency, on a form prescribed by the budget agency, information as to the reason the project is not complete and the revised completion date of the project. The form must be submitted before the anticipated completion date specified in the documents described in subdivision (1). . . .

(d) In addition to any other remedy provided by law, if the eligible recipient fails to comply with a condition of the agreement required under subsection (a), the budget agency may, under the procedures set forth in IC 4-21.5, require the entity to repay all the funds distributed to the eligible recipient under this chapter. The budget agency shall give notice of the order under IC 4-21.5-3-4. Money repaid under this section shall be deposited in the build Indiana fund."

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PARK BOARD MINUTES NOT PROVIDED

The minutes of the meetings of the Park Board were not presented for all meetings. Minutes or cancellation notices for two regular and five special meetings in 2012 were not presented for review. In addition, Park officials indicated that special meetings are not tape recorded, thus, minutes are not prepared for the special meetings held.

Indiana Code 5-14-1.5-4(b) states:

"As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken by individual members if there is a roll call.
- (5) Any additional information required under section 3.5 or 3.6 of this chapter or any other statute that authorizes a governing body to conduct a meeting using an electronic means of communication."

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE CITY OF EAST CHICAGO, LAKE COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the City of East Chicago's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Adverse Opinion on CDBG - Entitlement Grants Cluster

As described in items 2012-01 through 2012-07 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Allowable Costs; Earmarking; Period of Availability; Equipment and Real Property Management; Procurement, Suspension, and Debarment; Program Income; Real Property Acquisition and Relocation Assistance; Reporting; and Subrecipient Monitoring that are applicable to its CDBG - Entitlement Grants Cluster. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Adverse Opinion on CDBG - Entitlement Grants Cluster

In our opinion, because of the significance of the noncompliance described in the *Basis for Adverse Opinion* paragraph, the City did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on the CDBG - Entitlement Grants Cluster.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-10. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-01 through 2012-08 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-09 and 2012-10 to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

November 19, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards was prepared by management of the City, and the accompanying notes presented were approved by management of the City. The schedule and notes are presented as intended by the City.

CITY OF EAST CHICAGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2012

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (Or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Indiana State Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	MWSSNP-2-6: WC1-2 FY11-12 21N700012: FY12-13	\$ 252,089 <u>61,713</u>
Total for federal grantor agency			<u>313,802</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Grants			
CDBG - Entitlement Grants Cluster Community Development Block Grants/Entitlement Grants	14.218	B-09-MC-180004 B-10-MC-180004	365,659 <u>1,018,702</u>
Total for program			<u>1,384,361</u>
ARRA - Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)	14.253	B-09-MY-180004	<u>128,448</u>
Total for cluster			<u>1,512,809</u>
Pass-Through Indiana Housing and Community Development Authority CDBG - State Administered CDBG Cluster Community Development Block Grants/State's Program and Non-Entitlements Grants in Hawaii (State-Administered Small Cities Program)	14.228	NSP1-0009-016	<u>500,002</u>
Direct Grants			
HOME Investment Partnerships Program	14.239	M-07-MC-18210 M-08-MC-18210 M-09-MC-18210 M-10-MC-18210 M-11-MC-18210	26,695 18,539 188,007 219,679 <u>38,769</u>
Total for program			<u>491,689</u>
ARRA - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.257	S-09-MY-180004	<u>58,370</u>
Total for federal grantor agency			<u>2,562,870</u>
<u>U.S. DEPARTMENT OF INTERIOR</u>			
Direct Grants			
ARRA - Save America's Treasures Recovery	15.929	18-06-MC-0414	<u>39,411</u>
Total for federal grantor agency			<u>39,411</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grants			
Bulletproof Vest Partnership Program	16.607	FY 2011	<u>7,555</u>
ARRA - Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0343	<u>219,303</u>
Equitable Sharing Program	16.922	Federal Forfeitures FY12	<u>16,463</u>
Total for federal grantor agency			<u>243,321</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction Congestion Mitigation and Air Quality Funds - Alternative Fuel	20.205	DES#0200188 A29-12-320704 (Des#1173711)	85,451 <u>33,574</u>
Total for cluster			<u>119,025</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF EAST CHICAGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2012

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (Or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF TRANSPORTATION (continued)</u>			
Pass-Through Northwestern Indiana Regional Planning Commission Federal Transit Cluster			
Federal Transit - Formula Grants	20.507	IN-90-X609 FY11-12 IN-90-X636 FY12-13	163,974 <u>147,530</u>
Total for program			<u>311,504</u>
ARRA - Federal Transit - Formula Grants	20.507	IN-96-X017	<u>61,170</u>
Total for cluster			<u>372,674</u>
Pass-Through Indiana Department of Transportation Surface Transportation - Discretionary Grants for Capital Investment	20.932	DES#0900061 DES#0900062 DES#0900063 DES#0900064	34,979 65,712 47,074 <u>1,946</u>
Total for program			<u>149,711</u>
Total for federal grantor agency			<u>641,410</u>
<u>EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</u>			
Direct Grant Employment Discrimination - Title VII of the Civil Rights Act of 1964	30.001	EECCN110057	<u>3,346</u>
Total for federal grantor agency			<u>3,346</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Department of Environmental Management Beach Monitoring and Notification Program Implementation Grants	66.472	A305-2-60	<u>10,841</u>
Total for federal grantor agency			<u>10,841</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana State Department of Health Immunization Cluster Immunization Cooperative Agreements	93.268	6H23IP522522-10	<u>24,556</u>
Total for cluster			<u>24,556</u>
Pass-Through Indiana State Department of Health Public Health Emergency Preparedness	93.069	5U90TP517024-11 (BPRS 193-70) 2U90TP517024-11 (CRI)	1,375 <u>6,860</u>
Total for program			<u>8,235</u>
Total for federal grantor agency			<u>32,791</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct Grants Assistance to Firefighters Grant	97.044	EMW-2010-FO-04462 EMW-2010-FP-01586	267,240 <u>22,642</u>
Total for program			<u>289,882</u>
Total for federal grantor agency			<u>289,882</u>
Total federal awards expended			<u>\$ 4,137,674</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF EAST CHICAGO
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of East Chicago (City) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows for the year ended December 31, 2012:

Program Title	Federal CFDA Number	2012
Community Development Block Grants/Entitlement Grants	14.218	\$ 265,313
HOME Investment Partnerships Program	14.239	18,412

Note 3. Section 8 Project-Based Cluster

The City's Department of Redevelopment obtained a separate, independent audit in compliance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations for the Harborside Apartments. The Harborside Apartments are operated under the Section 8 Housing Assistance Payments Program, U.S. Department of Housing and Urban Development Contract No. IN36L000278. The federal transactions of the Harborside Apartments totaled \$2,189,267 and were not reflected in this schedule. The OMB Circular A-133 audit of the Harborside Apartments including any related findings and questioned costs, if any, with management's corrective action plan can be obtained from the City's Department of Redevelopment, 400 E. Chicago Avenue, East Chicago, Indiana, 46312.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	yes

Type of auditor's report issued on compliance for major programs:

Unmodified for all programs, except CDBG-Entitlement Grants Cluster, which was adverse

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes
------------------------------------------------------------------------------------------------------------------------	-----

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) CDBG - Entitlement Grants Cluster Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	no
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Section II – Financial Statement Findings

No matters are reportable.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-01 - INTERNAL CONTROLS AND COMPLIANCE OVER ALLOWABLE COSTS, EARMARKING, AND PERIOD OF AVAILABILITY REQUIREMENTS RELATED TO THE COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS CLUSTER

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program: Community Development Block Grants/Entitlement Grants (CDBG) and

ARRA - Community Development Block Grant ARRA Entitlement Grants (CDBG-R)

CFDA Number: 14.218, 14.253

Federal Award Numbers: B-09-MC-180004, B-10-MC-180004, B-09-MY-180004

Controls

Management of the City had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Allowable Costs, Earmarking, and Period of Availability compliance requirements. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the Allowable Cost, Earmarking, and Period of Availability compliance requirements. A lack of segregation of duties within an internal control system could also allow material 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 grant.

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 Redevelopment Commission (Commission), a department of the City, administers the Community Development Block Grants/Entitlement Grants (CDBG), the ARRA - Community Development Block Grant ARRA Entitlement Grants (CDBG-R), the Community Development Block Grants/State's Program (NSP), the HOME Investment Partnerships Program Grants (HOME), as well as some local grants. The Commission employs program managers to oversee the day to day operation of the Commission and the grant activities. Each program manager, who is knowledgeable in the grant activities for the programs he or she oversees, is responsible for reviewing vendor disbursements. The program managers' initials on vendor invoices indicate they have reviewed the invoice and that the invoice is allowable to a specific program. However, invoices from consultants, as well as other vendors in which the costs may be allocated to multiple programs and/or grants were not initialed by a program manager or any other Commission personnel as allowable costs.

For payroll costs, each employee of the Commission is responsible for preparing a "Time Sheet" and an "Allocation of Time" report. On the Time Sheet, the employee indicates the number of hours worked or any leave time used during the two week pay period. The Time Sheet is used by the City Controller's Office to record the payroll expenditures in the City's records.

On the Allocation of Time Report, the employee denotes the number of hours in each two week pay period that the employee devotes to a particular grant and/or project, as well as hours spent on general administrative activities which are to be paid from local funds.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Both the Time Sheet and the Allocation of Time reports are to be signed by the employee and the Executive Director of the Commission.

The Commission accounting staff summarizes the Allocation of Time reports to determine the total dollar amounts of payroll that should be allocated to each grant and/or project as well as local funds. It is based upon the Allocation of Time reports, that the Commission prepared the drawdowns from the respective grant funds.

After the payroll and fringe benefits were recorded in the City's records, no one at the Commission reviewed the financial records to ensure that the amounts recorded for payroll agreed to the Allocation of Time reports.

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."

Allowable Costs

Gross Payroll and Employer Federal Taxes

Disbursements recorded in the ledgers for CDBG and CDBG-R, for payroll and employer federal taxes, were not always supported by the Allocation of Time Reports. Changes were made to the classification of the project allocations without explanation or documentation of why the classifications were changed. Based on review of the pay dates from August to December 2012, the allocation of the gross salary and federal employer taxes resulted in the CDBG and CDBG-R grants being over allocated \$7,544 and \$765, respectively. This resulted in the HOME Investment Partnership Program and local funds to be under charged by \$4,777 and \$3,532, respectively. The total \$8,309 that was determined to be over allocated to the CDBG grants was determined to be questioned costs.

Employer Benefit Costs

The employer benefit costs (health/life insurance and pension costs) were not allocated to grants or projects in the same manner as gross payroll. Employer benefit costs were recorded entirely as CDBG costs, which is inconsistent with the Allocation of Time Reports. The Allocation of Time reports allocate payroll costs to various federal and local funds based upon the actual time worked on specific projects related to a specific fund. An allocation plan describing the basis for the employer benefit costs to be 100 percent allocated to the CDBG entitlement grant was not provided. The total amount recorded and claimed for reimbursement for employer benefits of \$48,265.57 is considered a questioned cost of the CDBG grant.

Payments to Vendors

Examples of payments to vendors that were allocated between grants or projects within the same grant without an underlying basis for the allocation were as follows:

- a. The office space lease payment, monthly copier rental charge, quarterly postage machine rental, the purchase of office supplies and computer equipment for the accountant and the compliance administrator were allocated evenly between the CDBG - General Administration and Rehab Administration projects. The General Administrative costs are not allowed to exceed 20

CITY OF EAST CHICAGO
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

percent of the entitlement grant plus program income received for a program year. The Rehab Administration is considered a project cost and is not included in the calculation of the program administrative cap. In addition, the Rehab Administration budget was only approximately 5 percent of the entitlement grant.

b. An allocation plan, to define how the following disbursements for accounting and copier services were allocated, was not presented:

Crowe Horwath: Accounting Services		
Fund	Amount	%
Homeless Prevention	\$ 4,646.25	30%
EC Redevelopment	4,646.25	30%
CDBG	3,097.50	20%
HOME Investment Partnership Program	3,097.50	20%
 Total	 \$15,487.50	

Ricoh/Ikon Office Solutions: Monthly Copier		
Fund	Amount	%
Homeless Prevention	\$ 253.33	10%
EC Redevelopment	253.33	10%
CDBG	1,013.34	40%
HOME Investment Partnership Program	1,013.34	40%
 Total	 \$ 2,533.34	

Velma Butler & Company: Accounting Services		
Fund	Amount	%
CDBG - General Administration	\$ 4,679.15	33%
CDBG - Residential Repair Admin/Rehab Admin	4,679.15	33%
HOME Investment Partnership Program	4,679.14	33%
 Total	 \$14,037.44	

c. When the City moved the Redevelopment Offices to a new location, the movers invoice was split with \$960 (80 percent) paid from CDBG and \$240 (20 percent) from HOME Investment Partnership Program without explanation for the determination of the allocation.

d. The \$1,465 payment for the official bond renewal on the employees of the Redevelopment Department was posted to CDBG - Calumet Neighborhood Redevelopment Plan project without explanation as to how this administrative function applied to the project.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

e. The contract with Urban Design Venture for the completion and submission of the FY 2012 Annual Action Plan for \$15,000 was split evenly between CDBG and HOME Investment Partnership Program without explanation for the determination of the allocation.

Testing of the CDBG grant determined that \$13,948 of costs could not be verified as allowable since a cost allocation plan was not provided. Thus, the \$13,948 was determined to be questioned costs.

Earmarking

The City's Redevelopment Department does not have written policies and procedures over the monitoring of the earmarking requirements. Evidence of periodic reviews of the amounts posted in the project classifications that have earmarking requirements was not evidenced. In addition, since the City does not have a written allocation plan in place to uniformly allocate direct costs of the department to the several funding sources available to fund the department, verification of allowable costs to the CDBG grants and to the projects within the grants could not be verified. Moreover, since the costs associated with each project of the CDBG grants could not be verified, the administrative earmarking requirement could not be verified either.

Period of Availability and Allowable Costs

While the grant period begins when the U.S. Department of Housing and Urban Development (HUD) authorizes and accepts the request for release of funds, the grant period remains opened until all funds for the specified projects have been exhausted. The Commission does not have controls and procedures to ensure that funds are being requested for reimbursement in a timely fashion.

An expenditure authorization form is attached to each invoice submitted for payment to the City Controller by the Commission. The Executive Director's signature approving the payment is documented on that form, as well as documentation as to the funding source. The funding source could be: CDBG, CDBG-R, HOME, or miscellaneous. All of those funding sources are federal grant funds, except for miscellaneous, which would indicate local funds are being used.

During 2012, the City Controller informed the Commission that the CDBG Grant Fund had a significant deficit cash balance. The Commission began examining invoices from prior periods to determine if some amounts could be claimed for reimbursement which had not already been claimed.

The Commission noted that a payment was made to a Title Company for a property acquisition on March 5, 2010, in the amount of \$66,950. This payment was being carried on the bank reconciliation as a reconciling item of amounts due from CDBG, but not yet received. This amount was claimed for reimbursement on December 18, 2012, from the B-10-MC-180004 award. The Authority to Use Grant Funds for this grant from HUD was not dated until September 12, 2010; thus, the invoice was dated and paid prior to the date of the period of availability.

The Commission also located invoices for two consultants from June 12, 2009 through May 27, 2011, with costs totaling \$90,678.94, which had not been claimed for reimbursement from CDBG funds. Some of the invoices, when requested for the audit, could not be located. Other invoices which were located for audit and reviewed either did not designate that the services provided were for CDBG activities, or the invoices and expenditure authorization forms already indicated the services were allocated among CDBG, CDBG-R, HOME, and miscellaneous.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

For each of the invoices, only the dollar amounts designated as miscellaneous on the disbursement authorization sheet were claimed for reimbursement of CDBG funds in 2012. These amounts were previously charged to and paid from local funding. Information regarding how the Commission determined that all of these miscellaneous costs were allocable only to CDBG could not be validated based upon the invoices and other supporting documents. Because these expenditures were not adequately documented as CDBG related services, \$90,678.94 is considered questioned costs of the CDBG/Entitlement Program grant.

Furthermore, invoices totaling \$40,140.54 of the \$90,678.94, dated from June 12, 2009 through September 3, 2010, were claimed for reimbursement from the B-10-MC-180004 award. This was prior to the date HUD authorized the use of these funds.

OMB Circular A-87, Attachment A, Part C. Basic Guidelines states in part:

"1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular.
- c. Be authorized or not prohibited under State or local laws or regulations.
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.
- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
- i. Be the net of all applicable credits.
- j. Be adequately documented . . .

3. Allocable costs.

- a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

24 CFR § 570.200(g) *Limitation on planning and administrative costs.* states:

"No more than 20 percent of the sum of any grant, plus program income, shall be expended for planning and program administrative costs, as defined in §§570.205 and 507.206, respectively. Recipients of entitlement grants under subpart D of this part shall conform with this requirement by limiting the amount of CDBG funds obligated for planning plus administration during each program year to an amount no greater than 20 percent of the sum of its entitlement grant made for that program year (if any) plus the program income received by the recipient and its sub-recipients (if any) during that program year."

24 CFR §570.206 *Program administrative costs.* states in part:

"Payment of reasonable administrative costs and carrying charges related to the planning and execution of community development activities assisted in whole or in part with funds provided under this part and, where applicable, housing activities (described in paragraph (g) of this section) covered in the recipient's housing assistance plan. This does not include staff and overhead costs directly related to carrying out activities eligible under §570.201 through §570.204, since those costs are eligible as part of such activities.

(a) *General management, oversight, and coordination.* Reasonable costs of overall program management, coordination, monitoring, and evaluation. Such costs include, but are not necessarily limited to, necessary expenditures for the following:

- (1) Salaries, wages, and related costs of the recipient's staff, the staff of local public , or other staff engaged in program administration. In charging costs to this category the recipient may either include the entire salary, wages, and related costs allocable to the program of each person whose *primary* responsibilities with regard to the program involve program administration assignments, or the pro rata share of the salary, wages, and related costs of each person whose job includes *any* program administration assignments. The recipient may use only one of these methods during the program year (or the grant period for grants under subpart F)."

CFR 24 § 85.23 states in part:

"(a) *General.* Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period."

The failure to establish effective internal controls allowed material noncompliance related to allowable costs, earmarking, and period of availability to go undetected. Noncompliance of the grant agreement for the allowable costs, earmarking, and the period of availability compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish effective controls, including segregation of duties to ensure compliance with and comply with the grant agreement and the allowable costs, earmarking, and period of availability compliance requirements.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2012-02 - INTERNAL CONTROLS AND COMPLIANCE OVER EQUIPMENT AND REAL PROPERTY MANAGEMENT REQUIREMENTS RELATED TO THE COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS CLUSTER

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants (CDBG) and ARRA -
Community Development Block Grant ARRA Entitlement Grants (CDBG-R)
CFDA Numbers: 14.218, 14.253
Federal Award Numbers: B-09-MC-180004, B-10-MC-180004, B-09-MY-180004

The Redevelopment Commission (Commission) has not established controls, including establishing a capitalization policy, to ensure compliance with equipment and real property management requirements. While the Commission leases most of their equipment, they have acquired a significant number of real properties. Most of the properties have been donated to the Commission through the County, but some have been purchased with federal funds. For some of the donated properties, title work associated with the acquisitions has been financed with federal funds. The Commission has not established policies, procedures or controls to ensure property acquisitions and equipment purchases are summarized and maintained in a listing to adequately identify the funding sources, improvements made to the properties, and the funding sources of the improvements being made. As a result, the Commission has not maintained capital asset records which comply with federal compliance requirements over equipment and real property management.

A resolution adopted by the Common Council, establishing a capital asset policy, sets the threshold for machinery, equipment and motor vehicles at \$10,000 for financial reporting purposes. The resolution also states the following: "Capital assets below the capitalization threshold of \$10,000 on a unit basis but warranting 'control' shall be inventoried at the department level and an appropriate list will be maintained. Data elements are to include asset description, location, make, model, serial number, and other information that assists in control or deemed relevant."

The City employed a consultant to accumulate a record of all capital assets maintained by the City, including the Commission, based upon the threshold of \$10,000. The Commission has not reviewed or compared the record prepared by the City to any of their property and asset listings to determine if the listing is complete and accurate.

Also in accordance with the resolution, each department remained responsible for maintaining records on "control" items which fell below the \$10,000 threshold. The Commission has not maintained such a listing. The Commission has purchased furniture and electronic equipment which would most likely fall into the "control" items requiring an inventory and listing by department.

24 CFR § 85.3 states: "*Equipment* means tangible, nonexpendable, personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. A grantee may use its own definition of equipment provided that such definition would at least include all equipment defined above."

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."

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

24 CFR § 85.31 states in part:

"(a) *Title*. Subject to the obligations and conditions set forth in this section, title to real property acquired under a grant or subgrant will vest upon acquisition in the grantee or subgrantee, respectively."

(b) *Use*. Except as otherwise provided by Federal statutes, real property will be used for the originally authorized purposes as long as needed for that purposes, and the grantee or subgrantee shall not dispose of or encumber its title or other interests. . . ."

24 CFR § 85.32 states in part:

"(d) *Management requirements*. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. . . ."

By not establishing policies, procedures, and controls to ensure compliance with equipment and real property management requirements, the Commission failed to comply with those federal requirements. As such, the Commission may be at risk of not receiving future grant awards.

We recommended that the Commission establish policies, procedures, and controls to ensure compliance with federal compliance guidelines related to equipment and real property management.

FINDING 2012-03 - INTERNAL CONTROLS AND COMPLIANCE RELATED TO PROCUREMENT AND SUSPENSION AND DEBARMENT REQUIREMENTS RELATED TO THE COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS CLUSTER

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants (CDBG) and ARRA -
Community Development Block Grant ARRA Entitlement Grants (CDBG-R)
CFDA Number: 14.218, 14.253
Federal Award Number: B-09-MC-180004, B-10-MC-180004, B-09-MY-180004

Management of the Redevelopment Commission (Commission) has not established effective internal controls, which would include segregation of duties, related to Procurement, Suspension, and Debarment compliance requirements, which have a direct and material effect on the Community Development Block Grants/Entitlement Grants Programs.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Management has not adopted a procurement policy. Such a policy would assist employees in implementing and carrying out duties related to procurements in accordance with management objectives. Currently, one employee is responsible for procurements. This employee refers to federal and state laws and guidelines for direction. Furthermore, this employee developed a checklist for reviewing and evaluating quotes, proposals, and bids without any oversight or review to ensure the checklist contains essential criteria for ensuring compliance with federal requirements over procurement, suspension, and debarment. This employee also developed the contract, which is presented to the successful bidder for signature. The contract has not been reviewed to ensure all required certifications are addressed, including certifications to be made by contractors that they have not been suspended or debarred from doing business with the federal government.

Just as controls have not been established to ensure contractors are certifying that they have not been suspended or debarred, controls have not been established to ensure that Commission employees have confirmed that the vendors paid from the CDBG and CDBG-R program grant funds have not been suspended or debarred. This confirmation can be performed using the System for Award Management (SAM), formerly the Excluded Parties Listing System (EPLS). Because such a control has not been established, the Commission could provide verification that only one of the four contractors awarded a contract paid from CDBG program grant funds had not been suspended or debarred based upon the SAM.

Controls have not been established to ensure that the minutes of the board meetings include the justification that the award of a quote, proposal, or bid was made in accordance with federal and state compliance requirements. Furthermore, the minutes do not identify the source of funding for the project being bid. Identifying the funding source would assist management and employees in ensuring appropriate purchasing guidelines are being followed.

The Redevelopment Commission awarded a bid for demolition in the amount of \$151,980 to a bidder who was not the lowest bidder. The bid was awarded to a contractor who qualified as a Section 3 contractor. This basis of selection was documented in the bid documents, but it was not documented in the minutes of the Board as required by state statute.

Indiana Code 36-1-12-4 (a)(9) states:

"If the board awards the contract to a bidder other than the lowest bidder, the board must state in the minutes or memoranda, at the time the award is made, the factors used to determine which bidder is the lowest responsible and responsive bidder and to justify the award. The board shall keep a copy of the minutes or memoranda available for public inspection."

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."

24 CFR § 85.36 states in part:

"(a) *States*. When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations. Other grantees and subgrantees will follow paragraphs (b) through (i) in this section.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

(b) *Procurement standards.* (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. . . . "

24 CFR § 85.35 states:

"Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs subject to 2 CFR part 2424."

The failure to establish effective controls over procurement, suspension, and debarment allowed material noncompliance to occur without detection by program management.

We recommended that the Commission comply with Procurement, Suspension, and Debarment requirements by establishing effective controls over procurement, suspension, and debarment. Such controls should include establishing a procurement policy, procedures for ensuring compliance with the policy, and review of contracts to ensure appropriate criteria is included.

FINDING 2012-04 - INTERNAL CONTROLS AND COMPLIANCE OVER PROGRAM INCOME REQUIREMENTS RELATED TO THE COMMUNITY DEVELOPMENT BLOCK GRANTS/ ENTITLEMENT GRANTS CLUSTER

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants (CDBG) and ARRA - Community Development Block Grant ARRA Entitlement Grants (CDBG-R)
CFDA Numbers: 14.218, 14.253
Federal Award Numbers: B-09-MC-180004, B-10-MC-180004, B-09-MY-180004

The Commission has not established effective controls, including segregation of duties, to ensure that items recorded as program income comply with the federal guidelines defining program income. Controls have not been developed to ensure the financial transactions recorded in the U.S. Department of Housing and Urban Development's (HUD) Integrated Disbursement and Information System (IDIS) agree to the financial transactions recorded in the City's financial records, and that any reconciling items are corrected timely. Furthermore, controls have not been established to provide for adequate and timely monitoring of the cash balances of the grant funds.

Currently, one employee of the Commission oversees grant awards and the classification of the grant awards received by the Commission. This same employee is also responsible for assisting with the reconciliation activities of the IDIS financial transactions to the financial transactions recorded in the City's records. This includes preparing any adjustments to correct any errors as a result of the reconcilements.

Because effective controls have not been established, the Commission failed to materially comply with the compliance requirements related to program income.

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."

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The Commission received a grant in the amount of \$197,058 from the U.S. Department of Interior for the preservation of a historical building. Renovations on this building were also being paid from the Community Development Block Grants (CDBG)/Entitlement grant funds. In accordance with the grant agreement with the U.S. Department of Interior, claims for reimbursement of grant funds were required to be submitted subsequent to the disbursement of the funds. To fund the costs of the preservation activities, the Commission used CDBG/Entitlement Grant funds. Upon receipt of the reimbursements from the U.S. Department of Interior, the Commission recorded the reimbursements as program income. In 2012, federal grant funds in the amount of \$39,411 were erroneously recorded as program income.

By recording the federal grant funds as program income, the Commission did not comply with federal compliance requirements related to program income. Additionally, this lack of compliance resulted in the City misrepresenting the amounts reported as federal expenditures in the Schedule of Expenditures of Federal Awards (SEFA). An audit adjustment was presented to the City Controller, who agreed to have the \$39,411 reported as federal expenditures in the SEFA.

24 CFR § 85.25 states:

"(a) *General.* Grantees are encouraged to earn income to defray program costs. Program income includes income from fees for services performed, from the use or rental of real or personal property acquired with grant funds, from the sale of commodities or items fabricated under a grant agreement, and from payments of principal and interest on loans made with grant funds. Except as otherwise provided in regulations of the Federal agency, program income does not include interest on grant funds, rebates, credits, discounts, refunds, etc., and interest earned on any of them.

(b) *Definition of program income.* Program income means gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period. *During the grant period* is the time between the effective date of the award and the ending date of the award reflected in the final financial report.

(c) *Cost of generating program income.* If authorized by Federal regulations or the grant agreement, costs incident to the generation of program income may be deducted from gross income to determine program income.

(d) *Governmental revenues.* Taxes, special assessments, levies, fines, and other such revenues raised by a grantee or subgrantee are not program income unless the revenues are specifically identified in the grant agreement or Federal agency regulations as program income."

24 CFR § 570.500 states in part:

"For the purposes of this subpart, the following terms shall apply:

(a) *Program income* means gross income received by the recipient or a subrecipient directly generated from the use of CDBG funds, except as provided in paragraph (a)(4) of this section.

(1) Program income includes, but is not limited to, the following:

- (i) Proceeds from the disposition by sale or long-term lease of real property purchased or improved with CDBG funds;
- (ii) Proceeds from the disposition of equipment purchased with CDBG funds;

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (iii) Gross income from the use or rental of real or personal property acquired by the recipient or by a subrecipient with CDBG funds, less costs incidental to generation of the income;
- (iv) Gross income from the use or rental of real property, owned by the recipient or by a subrecipient, that was constructed or improved with CDBG funds, less costs incidental to generation of the income;
- (v) Payments of principal and interest on loans made using CDBG funds, except as provided in paragraph (a)(3) of this section;
- (vi) Proceeds from the sale of loans made with CDBG funds;
- (vii) Proceeds from sale of obligations secured by loans made with CDBG funds;
- (viii) [Reserved]
- (ix) Interest earned on program income pending its disposition; and
- (x) Funds collected through special assessments made against properties owned and occupied by households *not* of low and moderate income, where the assessments are used to recover all or part of the CDBG portion of a public improvement."

Circular No. A-87, Attachment A states in part:

"C. Basic Guidelines 1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: . . . h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation."

The failure to establish effective controls over program income allowed material noncompliance to occur without detection by program management.

We recommended that the Commission establish policies, procedures and controls to ensure compliance with and comply with federal compliance guidelines related to program income.

FINDING 2012-05 - INTERNAL CONTROLS AND COMPLIANCE OVER REAL PROPERTY ACQUISITION AND RELOCATION ASSISTANCE REQUIREMENTS RELATED TO THE COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS CLUSTER

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program: Community Development Block Grants/Entitlement Grants (CDBG) and ARRA -
Community Development Block Grant ARRA Entitlement Grants (CDBG-R)

CFDA Numbers: 14.218, 14.253

Federal Award Numbers: B-09-MC-180004, B-10-MC-180004, B-09-MY-180004

The Commission has not established effective controls over real property acquisition and relocation assistance. The Commission has not established controls to effectively ensure that property acquisition requirements are followed. Such controls would include segregation of duties to ensure federal compliance guidelines over property acquisitions are followed.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

For relocation assistance, the Commission relies upon a consultant to determine the relocation assistance and ensure compliance with relocation assistance guidelines. No one from the Commission has been designated to oversee the relocation assistance work performed by the consultant to ensure compliance with federal guidelines for the payment of relocation assistance.

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."

By not establishing or implementing effective controls over property acquisition and relocation assistance, the Commission failed to materially comply with federal guidelines which are necessary for compliance with real property acquisitions and relocation assistance as follows:

Real Property Acquisition

The Commission paid \$42,834.99 for a property acquisition from the CDBG-R funds. The property acquired was vacant, and placed for sale through a realtor. The documentation for the acquisition was only supported by a vendor invoice. Appraisals were not performed as required by federal compliance guidelines over property acquisitions.

24 CFR § 42.1 states: "(a) *URA*. HUD-assisted programs and projects are subject to the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, 42 U.S.C. 4601 (*URA*) (42 U.S.C. 4601), and implementing regulations issued by the Department of Transportation at 49 CFR part 24."

49 CFR § 24.102 (c) *Appraisal, waiver thereof, and invitation to owner* states:

"(1) Before the initiation of negotiations the real property to be acquired shall be appraised, except as provided in § 24.102 (c)(2), and the owner, or the owner's designated representative, shall be given an opportunity to accompany the appraiser during the appraiser's inspection of the property.

(2) An appraisal is not required if:

(i) The owner is donating the property and releases the Agency from its obligation to appraise the property; or

(ii) The Agency determines that an appraisal is unnecessary because the valuation problem is uncomplicated and the anticipated value of the proposed acquisition is estimated at \$10,000 or less, based on a review of available data.

(A) When an appraisal is determined to be unnecessary, the Agency shall prepare a waiver valuation.

(B) The person performing the waiver valuation must have sufficient understanding of the local real estate market to be qualified to make the waiver valuation.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

(C) The Federal Agency funding the project may approve exceeding the \$10,000 threshold, up to a maximum of \$25,000, if the Agency acquiring the real property offers the property owner the option of having the Agency appraise the property. If the property owner elects to have the Agency appraise the property, the Agency shall obtain an appraisal and not use procedures described in this paragraph. (See appendix A, § 24.102(c)(2).)"

Relocation Assistance

Replacement housing payments were made to an individual in the amount of \$40,875.32. This was based upon completion of HUD Form 400057 - Claim for Replacement Housing Payment for 180-Day Homeowner Occupant by a paid consultant. The purchase price of a comparable replacement dwelling was listed as \$59,000, and the purchase price of the dwelling the client moved to was \$287,756. No documentation was provided to support the dollar amounts presented on the Form. Furthermore, a written justification of the assistance provided was not provided as required by the compliance guidelines when the amount requested exceeds \$22,500.

49 CFR § 24.401 states in part:

"(b) Amount of payment. The replacement housing payment for an eligible 180-day homeowner-occupant may not exceed \$22,500. (See also § 24.404.) The payment under this subpart is limited to the amount necessary to relocate to a comparable replacement dwelling within one year from the date the displaced homeowner-occupant is paid for the displacement dwelling, or the date a comparable replacement dwelling is made available to such person, whichever is later. . . ."

49 CFR § 24.404 states in part:

"(a) Determination to provide replacement housing of last resort. Whenever a program or project cannot proceed on a timely basis because comparable replacement dwellings are not available within the monetary limits for owners or tenants, as specified in § 24.401 or § 24.402, as appropriate, the Agency shall provide additional or alternative assistance under the provisions of this subpart. Any decision to provide last resort housing assistance must be adequately justified either:

- (1) On a case-by-case basis, for good cause, which means that appropriate consideration has been given to:
 - (i) The availability of comparable replacement housing in the program or project area;
 - (ii) The resources available to provide comparable replacement housing; and
 - (iii) The individual circumstances of the displaced person, or
- (2) By a determination that:
 - (i) There is little, if any, comparable replacement housing available to displaced persons within an entire program or project area; and, therefore, last resort housing assistance is necessary for the area as a whole;
 - (ii) A program or project cannot be advanced to completion in a timely manner without last resort housing assistance; and

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (iii) The method selected for providing last resort housing assistance is cost effective, considering all elements, which contribute to total program or project costs."

Furthermore, the Commission paid \$19,962.50 for business moving and related expenses. The recipient chose the fixed cost, which is based upon the business operating income of the prior two years. Tax returns supporting the computations were not attached or retained by the Commission. The Consultant provided the tax returns upon request. The move was completed on December 17, 2011, but the owner was advised of his options in September 2010. The tax returns used to establish the moving and related moving expenses were from 2007 and 2009. Per the compliance guidelines the tax returns for 2008 and 2009 should have been the basis for the computations unless the Commission has determined a different time period to be more equitable. Upon inquiry, the Commission contacted the Consultant who provided a copy of a memo addressed to "File" indicating that the returns chosen provided for a more equitable computation basis, because there were construction issues in 2008 which affected the business. The memo addressed to "File" meant that the memo was placed in the file of the Consultant.

Due to the lack of information retained at the Commission for relocation assistance, it is unclear how involved the Commission is in the decision-making process.

49 CFR § 24.305 states in part:

"(a) Business. A displaced business may be eligible to choose a fixed payment in lieu of the payments for actual moving and related expenses, and actual reasonable reestablishment expenses provided by §§ 24.301, 24.303 and 24.304. Such fixed payment, except for payment to a nonprofit organization, shall equal the average annual net earnings of the business, as computed in accordance with paragraph (e) of this section, but not less than \$1,000 nor more than \$20,000. . . .

(e) Average annual net earnings of a business or farm operation. The average annual net earnings of a business or farm operation are one-half of its net earnings before Federal, State, and local income taxes during the 2 taxable years immediately prior to the taxable year in which it was displaced. If the business or farm was not in operation for the full 2 taxable years prior to displacement, net earnings shall be based on the actual period of operation at the displacement site during the 2 taxable years prior to displacement, projected to an annual rate. Average annual net earnings may be based upon a different period of time when the Agency determines it to be more equitable. Net earnings include any compensation obtained from the business or farm operation by its owner, the owner's spouse, and dependents. The displaced person shall furnish the Agency proof of net earnings through income tax returns, certified financial statements, or other reasonable evidence, which the Agency determines is satisfactory. (See Appendix A, § 24.305(e).)"

The Commission's failure to materially comply with federal guidelines over real property acquisitions and relocation assistance places the Commission at risk of not receiving additional federal funding.

We recommended that the Commission establish controls for ensuring property appraisals are performed prior to initiating a purchase of real property and comply with these requirements. Furthermore, the Commission should establish controls to ensure work performed by consultants conforms to and complies with the federal guidelines related to relocation assistance.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2012-06 - INTERNAL CONTROLS AND COMPLIANCE OVER REPORTING REQUIREMENTS RELATED TO THE COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS CLUSTER

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants (CDBG) and ARRA -
Community Development Block Grant ARRA Entitlement Grants (CDBG-R)
CFDA Numbers: 14.218, 14.253
Federal Award Numbers: B-09-MC-180004, B-10-MC-180004, B-09-MY-180004

Management of the Redevelopment Commission (Commission) has not established an effective internal control system, which would include segregation of duties, related to the reporting compliance requirements that have a direct and material effect on the Community Development Block Grants/Entitlement Grants programs.

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 SF 425 Federal Financial Report is prepared by the Commission staff accountant. It is provided to the Executive Director along with the source documents for the report, as the Executive Director is required to sign the report prior to submission to the U.S. Department of Housing and Urban Development (HUD). The reports were signed; however, neither the reports nor the supporting documentation had any type of markings to indicate review or verification by anyone other than the person who prepared the report.

Reports generated from the Integrated Disbursement and Information System (IDIS) system, which is a HUD software program, have not been printed. They are retained electronically by the individual who generated the report.

The Commission prepares and submits the Section 3 Summary Report electronically in lieu of filing the handwritten HUD 60002, Section 3 Summary Report. The Section 3 Summary Report, which is a performance report, is prepared by a program manager.

The Commission also prepared and submitted the ARRA 1512 report electronically as prepared by a program manager.

None of these reports were provided to any other employee or member of management for review or verification.

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."

CITY OF EAST CHICAGO
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

Federal Financial Reports (SF425):

The Federal Financial Reports (SF425) were to be filed quarterly per the instructions for completing the reports. For the first three quarters of 2012, a "Federal Cash Transactions Report (SF 272) was prepared and submitted in lieu of the Federal Financial Reports (SF425). The Federal Cash Transaction Report (SF 272) form was replaced by the Federal Financial Report (SF425) in 2009.

In accordance with the Notice that the Office of Management and Budget published in the Federal Register on August 13, 2008, as of October 1, 2009, the Federal Financial Report (FFR), Standard Form 425 (SF-425), replaced the Federal Cash Transactions Report (HUD-272-I and SF-272) and the Financial Status Report (SF-269 and SF-269A).

The Federal Cash Transactions Reports (SF 272), filed for the first three quarters, reported cash balances as of the end of each quarter which were significantly different than the cash balances maintained by the City for the federal grant funds as follows:

Quarter	01-01-12 to 03-31-12	04-01-12 to 06-30-12	07-01-12 to 09-30-12
Federal Award Number	<u>B-09-MC-180004</u>	<u>B-09-MC-180004</u>	<u>B-10-MC-180004</u>
City Ending Cash Balance	\$ 326,713.36	\$ (10,338.13)	\$ 43,690.09
Reported Cash Balances	<u>(13,672.21)</u>	<u>(35,638.72)</u>	<u>(14,133.52)</u>
Variances	<u>\$ 340,385.57</u>	<u>\$ 25,300.59</u>	<u>\$ 57,823.61</u>

The Federal Financial Report (SF425) filed for the fourth quarter was not prepared in accordance with the instructions for completing the report. Furthermore, the amounts reported for receipts, disbursements, and the cash balance at the end of the quarter could not be verified to the records maintained by the City for the grant activity. Adequate supporting documentation as to how the amounts reported were determined was not maintained. The cash balance reported as of the end of the fourth quarter was negative \$14,133.52. The cash balance per the City's records was positive \$43,690.09. One reason for the discrepancy was that the beginning cash balance was not reported with the receipts per the instructions.

Section 3 Summary Report:

The Office of Fair Housing and Equal Opportunity Section 3 Summary Report User Manual states:

"The Department of Housing and Urban Development requires that all grantees receiving Section 3 grants are obligated to submit compliance reports using Form HUD-60002 or by completing the Section 3 Recipient Detail Form online. Effective fiscal year 2003, HUD recommends for all Section 3 grantees to submit compliance reports on a quarterly basis."

The Commission filed the reports online annually to coincide with the filing of their Comprehensive Annual Performance and Evaluation Report (CAPER).

The Section 3 report filed on September 28, 2012, for the 2011 fiscal year, only included financial activity for contracts related to residential rehabilitations. The Section 3 report was not based upon financial records maintained by the City Controller, as the Commission's financial transactions were not recorded in the City Controller's recordkeeping system until January 1, 2012. The program manager who prepared the report relied upon the financial records he had maintained which included only the residential rehabilitation activities. Contracts for accounting services, legal services, and amounts provided to subrecipients were excluded.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The Section 3 report filed on September 30, 2013, for the 2012 fiscal year, was based upon the financial records recorded in the City's financial system. Reports were generated to document all disbursements for contractual services included accounting services, and amounts provided to subrecipients, but excluded legal services, because these amounts were recorded in the City's records as legal services (not contractual services). Furthermore, payroll totaling \$39,976.50 was recorded as contractual services and reported as Section 3. Based upon the records provided, it could not be determined how the contractual services reported related to housing rehabilitation, housing construction, or other public construction.

24 CFR § 135.3 states in part

- "(2) *Housing and community development assistance.* Section 3 applies to training, employment, contracting and other economic opportunities arising in connection with the expenditure of housing assistance (including section 8 assistance, and including other housing assistance not administered by the Assistant Secretary of Housing) and community development assistance that is used for the following projects;
- (i) Housing rehabilitation (including reduction and abatement of lead-based paint hazards, but excluding routine maintenance, repair and replacement);
 - (ii) Housing construction; and
 - (iii) Other public construction."

24 CFR § 85.20 Standards for financial management systems states in part:

- "(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—
- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
 - (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- (b) The financial management systems of other grantees and subgrantees must meet the following standards:
- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
 - (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

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

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and reporting requirements.

FINDING 2012-07 - INTERNAL CONTROLS AND COMPLIANCE OVER SUBRECIPIENT MONITORING REQUIREMENTS RELATED TO THE COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants (CDBG)
CFDA Number: 14.218
Federal Award Numbers: B-09-MC-180004, B-10-MC-180004

The Commission has not established effective controls or policies for monitoring subrecipients in compliance with federal guidelines. Some of the issues that should be addressed in policies and procedures include:

- a. Procedures for following up on findings reported in subrecipient audit reports.
- b. Ensuring that the Subrecipient Agreement adequately addresses how the funding is to be used and resource materials to use, such as the Catalog of Federal Domestic Assistance (CFDA) Number.
- c. Assuring services provided comply with activities allowed under the grant award.

A checklist has been formulated and is provided to applicants for information they must provide with the application for federal funding. One of the items required from the applicant is a copy of their most current audit report; however, neither the governing board nor the executive director had addressed how the audit reports and other documents will be used. Formal guidance has not been provided regarding the type or frequency of monitoring activities.

Also, as an appendix to the Subrecipient Agreement, the Commission indicated that the subrecipient is to provide demographic information based upon HUD's income limits on each client served. Generally, the demographic information is being provided by the subrecipients to the Commission. Formal guidelines however, have not been established by the Commission to address how this demographic information is to be used and/or verified by those responsible for monitoring the Subrecipients. As such, verifications of the information or evidence of the verification of the demographic information could not be provided for audit.

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."

Failure to establish and maintain effective controls over monitoring of subrecipients affected the Commission's ability to materially comply with federal requirements for monitoring subrecipients.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Five subrecipients received funding through the City's Community Development Block/Entitlement Grant Funds in 2012. None of the Subrecipient Agreements included the Catalog of Federal Assistance (CFDA) Number as required. Audit reports for two of the more significant subrecipients contained federal findings for which follow up action was not performed as required. One of the subrecipients provided a profit and loss statement in lieu of an audit report. Documentation was not available to document if the Commission staff determined whether or not the subrecipient expended \$500,000 or more in Federal Awards to necessitate an audit in compliance with Circular A-133.

Circular A-133, Subpart D, section .400 states in part:

"(d) A pass-through entity shall perform the following for the Federal awards it makes:

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R & D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part."

The failure to materially comply with federal requirements for monitoring subrecipients could affect future grant awards.

We recommended that the Commission comply with subrecipient monitoring requirements by establishing controls to provide adequate monitoring of subrecipients including addressing policies and procedures for ensuring grant information and compliance guidelines are properly communicated to the subrecipients. Furthermore, policies and procedures should be established for the form and frequency of monitoring processes and procedures.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2012-08 - INTERNAL CONTROLS OVER SPECIAL TESTS AND PROVISIONS RELATED TO THE COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS CLUSTER

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants (CDBG) and ARRA -
Community Development Block Grant ARRA Entitlement Grants (CDBG-R)
CFDA Numbers: 14.218, 14.253
Federal Award Number: B-09-MC-180004, B-10-MC-180004, B-09-MY-180004

Management of the Redevelopment Commission (Commission) 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 related to the special tests and provisions that have a direct and material effect on the program. The failure to establish an effective internal control system places the Commission at risk of noncompliance with the grant agreement and the 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 grant.

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.

Special Tests and Provisions: Citizen Participation

The Commission has placed two employees in charge of ensuring compliance with citizen participation. A consultant has been hired to assist with citizen participation. The consultant provided a schedule of events with dates for performing such events, but no one monitored the schedule. Additionally, the Commission has not addressed controls to ensure that the two employees are meeting the requirements necessary to ensure citizen participation.

Special Tests and Provisions: Environmental Reviews

The Commission employed a consultant to prepare their environmental review (Tier I). The Commission placed their complete trust and faith in the paid consultant. Controls have not been established to ensure the work performed by the consultant is complete and addresses all factors that could affect the environmental review.

In the report the consultant lists the projects and attaches a checklist which references 24 CFR Section 58.5. 24 CFR Section 58.5 addresses all of the factors to be considered for a Tier I Environmental Review. At a minimum, the Commission should develop controls to ensure all projects included in their Annual Action Plan have been addressed. Additionally, controls should be developed to ensure compliance with 24 CFR Section 58.5.

Special Tests and Provisions: Rehabilitation

The City has placed one employee in charge of ensuring compliance with rehabilitation. This employee must determine which projects required pre-rehabilitation and post-rehabilitation inspections, perform the inspections, and ensure the inspections have been completed in compliance with the grant requirements.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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

We recommended that the Commission's management establish controls, including segregation of duties, related to the grant agreement and the special tests and provisions requirements listed above.

FINDING 2012-09 - INTERNAL CONTROLS OVER REPORTING REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO FEDERAL TRANSIT FORMULA GRANTS

Federal Agency: U.S. Department of Transportation
Federal Program: Federal Transit Formula Grants; ARRA - Federal Transit Formula Grants
CFDA Number: 20.507
Federal Award Number: IN-90-X609 FY 11-12, IN-90-X636 FY 12-13, IN-96-X017
Pass-Through Entity: Northwestern Indiana Regional Planning Commission

Management of the City of East Chicago has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the reporting compliance requirements that has a direct and material effect on the Federal Transit Formula Grants. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirement. 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 grant.

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.

As part of the grant agreement with Northwestern Indiana Regional Planning Commission (NIRPC), the City was required to submit quarterly reimbursement reports. The reports were to be based on actual expenditures from that quarter. The City failed to establish proper segregation of duties in regards to preparation of the quarterly reports. The reports were prepared and submitted by one employee and were not reviewed by any other employee of the City prior to submission to NIRPC.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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 could enable material noncompliance to go undetected. Noncompliance of 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 the reporting compliance requirements.

FINDING 2012-10 - INTERNAL CONTROLS AND COMPLIANCE RELATED TO FEDERAL TRANSIT FORMULA GRANTS ARRA SPECIAL TESTS AND PROVISIONS – R1 & R2

Federal Agency: U.S. Department of Transportation
Federal Program: ARRA - Federal Transit-Formula Grants
CFDA Number: 20.507
Federal Award Number: IN-96-X017
Pass-Through Entity: Northwestern Indiana Regional Planning Commission

Management of the City of East Chicago has not established an effective internal control system related to the grant agreement and the special tests and provisions compliance requirements that have a direct and material effect on the ARRA - Federal Transit-Formula Grants program. This includes the American Recovery and Reinvestment Act (ARRA) Special Tests and Provisions – R1 & R2 compliance requirements. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements.

An internal control system 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.

The City received grant reimbursements from the pass-through entity that were greater than the City's quarterly reimbursement report. The City could not provide an explanation why the reimbursements were greater. Our inquiry of the pass-through entity determined that the reimbursements were from an ARRA grant and were reimbursed at 100 percent instead of the 80 percent federal portion.

As part of the ARRA Special Tests and Provisions – R1, the City is required to account for ARRA expenditures separately from non-ARRA expenditures. The City did not establish controls to ensure proper accountability of ARRA funds. As a result, the City did not create a new fund or new account within an existing fund to account for ARRA expenditures separately as required.

Furthermore, the ARRA Special Tests and Provisions – R2 requires the City to separately identify ARRA funds on the Schedule of Expenditures of Federal Awards (SEFA). The City did not establish controls to ensure proper identification of ARRA funds on the SEFA. As a result, the City failed to properly identify ARRA Transit funds on the SEFA. The City approved adjustments to the SEFA so the ARRA grants were properly identified.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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."

2 CFR 176.210 states in part:

"(a) To maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) (Recovery Act) as required by Congress and in accordance with 2 CFR 215.21 "Uniform Administrative Requirements for Grants and Agreements" and OMB Circular A-102 Common Rules provisions, recipients agree to maintain records that identify adequately the source and application of Recovery Act funds . . .

(b) For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, 'Audits of States, Local Governments, and Non-Profit Organizations,' recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133 . . . This shall be accomplished by identifying expenditures for Federal awards made under the Recovery Act separately on the SEFA, and as separate rows under Item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the prefix 'ARRA-' in identifying the name of the Federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC."

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

We recommended that the City's management establish controls related to the grant agreement and special tests and provisions compliance requirements. We recommended that the City's management comply with the ARRA special tests and provisions.



City of East Chicago

Administrative Services Division

4525 Indianapolis Blvd. East Chicago, Indiana 46312

Phone: (219) 391-8220

Facsimile: (219) 391-8223

Anthony Copeland
Mayor

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2011-02 ALLOWABLE COSTS

Federal Agency: U.S. Department of Justice
Federal Program: ARRA – Public Safety Partnership and Community Policing Grants
CFDA Number: 16.710
Award Number: 2009RKWX0343

Original SBA Audit Report Number:	B41029
Fiscal Year	2011
Auditee Contact Person	Kimberly Anderson
Title of Contact Person	City Controller
Phone Number	(219) 391-8220

Status of Finding: This finding has been corrected.

FINDING 2011-03 CASH MANAGEMENT

Federal Agency: US Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Award Number: DES#0200188
Pass-through Entity: Indiana Department of Transportation

Original SBA Audit Report Number:	B41029
Fiscal Year	2011
Auditee Contact Person	Kimberly Anderson
Title of Contact Person	City Controller
Phone Number	(219) 391-8220

Status of Finding: This finding has been corrected.

Signed: _____

Kimberly Anderson

Dated: _____

8/29/13



Corrective Action Plan - Audit 2012

Maria Becerra – Contact Person 11/27/2013

Finding 2012-01 **Corrective Action:** The Commission will establish effective controls, including segregation of duties, related to the grant agreement and the allowable costs, earmarking, and period of availability compliance requirements.

Finding 2012-02 **Corrective Action:** The Commission will establish policies, procedures and controls to ensure compliance with federal compliance guidelines related to equipment and real property management.

Finding 2012-03 **Corrective Action:** The Commission will establish effective controls over procurement, suspension, and debarment. The Commission will adopt a procurement policy and procedures to ensure compliance of the policy and review of contracts to ensure appropriate criteria is included.

Finding 2012-04 **Corrective Action:** The Commission will establish policies, procedures and controls to ensure compliance with federal compliance guidelines related to program income.

Finding 2012-05 **Corrective Action:** The Commission will establish controls for ensuring property appraisals are performed prior to initiating a purchase of real property. The commission will establish controls to ensure work performed by consultants conform to and comply with the federal guidelines related to relocation assistance.

Finding 2012-06 **Corrective Action:** The Commission will establish controls, including segregation of duties, related to the grant agreement and reporting requirements.

Finding 2012-07 **Corrective Action:** The Commission will establish controls to provide for adequate monitoring of subrecipients including addressing policies and procedures to ensure grant information and compliance guidelines are properly communicated to the subrecipients. Policies and procedures will include the form and frequency of monitoring process and procedure.

Finding 2012-08 **Corrective Action:** The Commission will establish internal controls, including segregation of duties, related to Federal grant agreements to ensure compliance with laws, regulations and the provisions of contracts or grant requirements.

In addition, please find attached an September 3, 2013 letter from the HUD-funded OneCPD **Technical Assistance** consultants. They have provided our agency, with several Plans, Checklists, Guides and Handbooks our agency can begin to review, adopt and set in place for the upcoming 2014 calendar year.

Anticipated Completion Time for all Corrective Action:

March 28, 2014

Maria Becerra, Exec. Director - City of East Chicago – Dept. of Redevelopment



NALCAB

National Association
for Latino Community
Asset Builders

September 3, 2013

Maria Becerra, Executive Director
City of East Chicago
Department of Redevelopment
400 East Chicago Avenue
East Chicago, IN 46312

Dear Ms. Becerra,

It has been a pleasure to work with the City of East Chicago Department of Redevelopment (ECCR) and its community partners over the last several months. The HUD-funded OneCPD Technical Assistance (TA) that has been performed in relation to this scope of work will enable ECCR and its staff to utilize the new policies and procedures as tools to ensure proper compliance with HUD regulations for its HOME and CDBG programs. In addition, the changes to the organization and staffing that were proposed as part of the TA engagement will lead to a stronger and more efficient grant management system.

The period of performance for this TA assignment has come to an end and all deliverables indicated in the scope of work have been completed. The following key areas were addressed:

- Organizational assessment and staffing plan recommendations
- Financial and Federal Grant Policies and Procedures Manual, HOME Program Desk Guide, CDBG Subrecipient Manual, Uniform Relocation Act Manual, Procurement Policies and Procedures Manual
- Training of ECCR staff, board members, contractors and CHDO around the Uniform Relocation Act, CHDO Program Management, Procurement and Section 3
- Training on CHDO certification process and underwriting, market analysis and developer capacity assessment tools for HOME with ECCR staff and key partners
- Recommendations around asset management and planning and coordination efforts
- TA around the homeowner rehabilitation program, homebuyer assistance program, rental program, HOME program management, CDBG program management and the establishment of a new CHDO
- Onsite and remote TA around implementation of new policies & procedures
- Closing HOME and CDBG findings

1313 Guadalupe St. Ste. 203 • San Antonio, TX • 78207
(ph) 210-227-1010 • (fx) 210-227-1014

Although, this TA assignment has come to a close, we remain committed to your success. As noted during our TA interactions, we would welcome the opportunity to continue as your TA resource for future needs. The following were identified as recommendations for additional capacity development:

- Additional assistance with rehabilitation program design and management tools
- Potential underwriting assistance for future projects
- Continuation of staff development, training and TA for HOME- and CHDO-related issues.
- Training and TA for Board – to ensure that future policy decisions are consistent with CDBG / HOME Rules & Regulations
- As the new CHDO hires staff and implements programs, additional policy work and staff training will be beneficial
- Staff succession planning and cross-training for all program areas

NALCAB has compiled a list of the most critical deliverables that were produced under this TA scope of work. I have attached the list for future reference. I believe all of the listed deliverables have been shared with you and/or your staff during the course of our engagement. However, they have also been placed in a Dropbox and will remain there for 30 days to allow sufficient time to ensure that you have downloaded the newest versions of all of these files.

Again, it has been a pleasure to work with you and your staff over the last several months. NALCAB will inform the Indianapolis HUD Field Office that this TA engagement is completed. Thank you for the opportunity to be of service.

Kind Regards,

Christopher W. Sanchez
NALCAB, Program Director

cc: John Dorgan, HUD CPD Field Office Director
Michelle Kincaid, HUD CPD Field Office Representative
Lawrence Reyes, HUD Headquarters, GTM
Marie Nahikian, HUD Headquarters, GTR

1313 Guadalupe St. Ste. 203 • San Antonio, TX • 78207
(ph) 210-227-1010 • (fx) 210-227-1014

Work Deliverables
One CPD Technical Assistance Assignment
East Chicago, Indiana
Finalized August 30, 2013

- Organization Chart (Reorganized)
- Management Analysis
- Job Descriptions
 - Compliance Officer
 - Executive Assistant
 - Finance Manager
 - Finance Assistant
 - Inspector
 - Program Assistant
 - Real Estate Planning and Community Development Manager
 - Rehabilitation Coordinator
- Fiscal Impact Analysis of Proposed Reorganization
- Annual Performance Plan
- Performance Evaluation Form
- Performance Management System
- Asset/Property Management Guidance
 - Harborside Apartments Financial Analysis Memorandum
 - Asset Management Plan Memorandum
 - Management Plan Outline
 - HUD's Playing by the Rules Handbook
- HOME Program Desk Guide
- HOME Developer Capacity Assessment Tool
- HOME Underwriting Workbook (Includes Market Assessment Tool)
- HOME Project Approval Checklist
- Updated CHDO Certification Process
 - CHDO Certification Application Workbook
 - CHDO Certification Board Affidavits
 - Census Block Group Verification Chart (for Low-Income Board Members)
 - CHDO Certification Checklist
- Procurement Policy
- Procurement Flow Chart
- Subrecipient Management and Monitoring Policies and Procedures Manual
 - Application Packet
 - Subrecipient Handbook
 - Request for Reimbursement Form
 - Quarterly Outcome Performance Measurement Report
 - Monitoring Checklist
 - Subrecipient Agreement
- Planning and Coordination Process Guidance
 - Planning and Coordination Memo
 - Application Process Best Practices



City of East Chicago

Administrative Services Division

4525 Indianapolis Blvd. East Chicago, Indiana 46312

Phone: (219) 391-8220

Fax: (219) 391-8223

Anthony Copeland
Mayor

CITY OF EAST CHICAGO CORRECTIVE ACTION PLAN

FINDING 2012-09 – INTERNAL CONTROLS OVER REPORTING REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO FEDERAL TRANSIT FORMULA GRANTS

Federal Agency: U.S. Department of Transportation

Federal Program: Federal Transit Formula Grants; ARRA–Federal Transit Formula Grants

CFDA Number: 20.507

Federal Award Number: IN-90-X609 FY 11-12, IN-90-X636 FY 12-13, IN-96-X017

Pass-Through Entity: Northwestern Indiana Regional Planning Commission

The City of East Chicago has established an internal control system, including segregation of duties, to ensure compliance with the grant agreement requirements. The City's Public Transportation Director and staff will review the grant agreements, prepare the claims, and financial reports. The City's Controller's Office will then review grant agreements, claims, financial reporting, and quarterly reimbursement reports prior to submission to NIRPC and Federal Transit Administration.

FINDING 2012-10 – INTERNAL CONTROLS AND COMPLIANCE RELATED TO FEDERAL TRANSIT FORMULA GRANTS ARRA SPECIAL TESTS AND PROVISIONS – R1 & R2

Federal Agency: U.S. Department of Transportation

Federal Program: ARRA – Federal Transit Formula Grants

CFDA Number: 20.507

Award Number: IN-96-X017

Pass-through Entity: Northwestern Indiana Regional Planning Commission

The City of East Chicago has established controls and policies to ensure full compliance with the grant agreement requirements. The City's Controller's Office will review the grant agreements to ensure compliance with all requirements that have a direct and material effect to the program.

Kimberly K Anderson

City Controller

November 27, 2013

CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on November 27, 2013, with Anthony Copeland, Mayor; Lenny Franciski, President of the Common Council; Kimberly Anderson, Controller; Val Gomez, Chief of Staff and President of the Board of Public Works; Maria C. Becerra, Executive Director of the Redevelopment Commission; Maune Morgan, President of the Redevelopment Commission; Alfredo Estrada, Redevelopment Commission member; Trent McCain, Attorney for Redevelopment Commission; and Jim Bennett, Financial Advisor. The Official Response has been made a part of this report and may be found on page 87.

City of East Chicago
Audit Responses
For the Year Ended December 31, 2012

INTERNAL CONTROLS OVER PAYROLL DISBURSEMENTS

The City of East Chicago will implement tighter controls over payroll disbursements.

INTERNAL CONTROLS – WATER UTILITY AND SANITARY DISTRICT

The Water Board of Directors held a special meeting in August 2013 to address these issues. A reconciliation between the billing system and the general ledger has been performed and will continue on a regular basis.

OVERDRAWN CASH BALANCES

The City of East Chicago is working to resolve the overdrawn cash balance of the Self-Insurance Fund. The insurance plan is in the process of being re-evaluated and adjustments are being made in an effort to balance this fund. The overdrawn balance in the Community Development Block Grant – Recovery will be corrected by the end of the year. The overdrawn Fire Pension balance is being analyzed.

COLLECTION OF AMOUNTS DUE-REDEVELOPMENT

The Department of Redevelopment has brought a mortgage foreclosure action against Healthy East Chicago, Inc. The litigation is pending in Lake County Circuit Court under Cause No. 45C01-1208-MF-00297.

DORMANT ACCOUNT BALANCES-REDEVELOPMENT

A letter was sent to the State of Indiana in May 2013 and a response was received that the funds may still be used for the original purpose. The Department of Redevelopment plans to use the funds as part of the Carnegie Library to include a Children’s Museum. The \$7,000 balance of the Fannie Mae account will be used for consultant fees for existing programs. The Empowerment Zone balance will be considered program income and will be used for eligible program costs within our CDBG programs once the department traces the receipt of the funds and documents that the funds are a reimbursement to a federal program.

PARK BOARD MINUTES NOT PROVIDED

The Park Board has been instructed that it needs to make available the minutes of all meetings held in 2012 and beyond.