

**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, 2013 to December 31, 2013



**FILED**  
02/11/2015



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Kimberly Anderson	01-01-13 to 01-03-14
	(Vacant)	01-04-14 to 01-05-14
	Valeriano Gomez	01-06-14 to 12-31-15
Mayor	Anthony Copeland	01-01-12 to 12-31-15
President of the Board of Public Works	Valeriano Gomez	01-01-13 to 12-31-15
President of the Common Council	Lenny Franciski	01-01-13 to 12-31-15
Director of Utilities	Pete Barnayai	01-01-13 to 03-28-13
	(Vacant)	03-29-13 to 09-04-13
	Greg Crowley	09-05-13 to 12-31-15



## 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, 2013, 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, 2013.

***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, 2013, 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 January 21, 2015, 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.

  
Paul D. Joyce, CPA  
State Examiner

January 21, 2015



**STATE OF INDIANA**  
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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, 2013, and the related notes to the financial statement, and have issued our report thereon dated January 21, 2015, 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*.

***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

January 21, 2015

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## FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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, 2013

Fund	Cash and Investments 01-01-13	Receipts	Disbursements	Cash and Investments 12-31-13
General	\$ 494,472	\$ 34,820,923	\$ 33,506,261	\$ 1,809,134
Motor Vehicle Highway	1,787,333	1,877,809	760,493	2,904,649
Local Road And Street	279,296	262,592	29,721	512,167
Park Nonreverting Operating	12,734	9,465	6,777	15,422
Health Maintenance	23,532	90,541	71,210	42,863
Economic Development Operating	5,654,904	1,246,899	3,325,311	3,576,492
Transportation	14,874	1,164,907	1,174,471	5,310
CDBG	43,690	1,470,011	1,764,293	(250,592)
Law Enforcement Continuing Ed	82,976	53,497	15,347	121,126
Clerk's Records Perpetuation	11,538	4,650	-	16,188
Unsafe Building	310,786	174,986	36,279	449,493
Riverboat	6,713,207	16,900,736	14,424,544	9,189,399
Parks And Recreation	168,686	2,726,428	2,424,399	470,715
Cumulative Capital Development	74,541	-	54,669	19,872
Park Nonreverting Capital	-	331,667	51,688	279,979
Fire Equipment (Not Debt Service)	21,962	-	-	21,962
Cumulative Capital Improvement	-	79,724	73,728	5,996
Self-Insurance	(1,894,542)	8,481,848	8,406,491	(1,819,185)
Police Pension	223,379	3,457,728	3,503,873	177,234
Fire Pension	(28,396)	2,801,925	2,762,832	10,697
City And Town Court Costs	4,813	37,613	37,547	4,879
Local Development Agreement	13,310,961	3,663,919	4,500,000	12,474,880
TIF US Gypsum	470,725	876,319	925,429	421,615
TIF Riley Plaza	47,985	92,174	94,072	46,087
Homeless Prevention	1,139	379	1,518	-
Community Dev Block Grant-Recovery	(1,455)	1,455	-	-
Local Police Forfeitures	4,982	-	-	4,982
Harborside Apartments	2,091,781	2,702,977	3,862,386	932,372
TIF Northtown Village Townhomes	95,258	186,058	95,258	186,058
Home Investment Partnership Program	(33,971)	472,291	388,061	50,259
General Adult Probation	156,888	24,566	16,378	165,076
Federal Grants	149	182,027	182,176	-
State Grant	(62,367)	446,146	496,085	(112,306)
Grant Misc	601,617	30,200	39,982	591,835
SSED Revolving Loan	312,039	590	827	311,802
Summer Youth Training Program	-	134,037	134,037	-
EC Property Improvement	6,000	-	-	6,000
Police Federal Forfeitures	88,556	21,561	45,963	64,154
Damage To City Property	84,165	16,482	-	100,647

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, 2013  
(Continued)

Fund	Cash and Investments 01-01-13	Receipts	Disbursements	Cash and Investments 12-31-13
Railroad Relocation	440,803	-	-	440,803
Vital Records	126,177	50,869	31,276	145,770
City Court Programs	80,160	27,724	24,108	83,776
Judgment Bonds Proceeds	133,137	-	-	133,137
EC Petty Cash Accts	1,589	1,078	917	1,750
EC/Gary/Hammond RLF	264,105	7,532	5,550	266,087
Redevelopment Rehab Escrow	13,709	116,360	125,102	4,967
Lease Rental Payment	782,146	2,210,013	2,223,000	769,159
Redevelopment Bond and Interest	630,209	1,222,613	1,222,550	630,272
Capital Projects - Other	24,064	-	24,064	-
Communications Revolving	(5,222)	130,360	130,004	(4,866)
Gasoline Revolving	(134,928)	990,413	984,418	(128,933)
EC Redevelopment	385,370	3,685,882	2,618,308	1,452,944
Payroll Withholding	323	60,649,600	60,649,923	-
Health Insurance	60,980	5,226,995	5,209,359	78,616
Misc Employee Ins	54,700	2,709	1,551	55,858
EC Property Tax Credit	225,034	-	-	225,034
NWI Health Dept Cooperative	48,498	753,430	801,928	-
Worker's Compensation	2,542	306,959	306,951	2,550
City Clerk	571,074	686,212	674,191	583,095
ECSDWW Petty Cash	5,005	2	7	5,000
Wastewater Utility-Operating	1,735,970	5,254,119	6,006,860	983,229
Wastewater Replacement Reserve	522,579	325,000	321,330	526,249
Storm Water Utility-Operating	-	1,085,070	854,998	230,072
Solid Waste-Operating	1,297,378	7,961,405	6,843,396	2,415,387
Solid Waste-Bond And Interest	646,772	852,604	844,710	654,666
Sanitary District Revolving	1,046,246	354,066	302,999	1,097,313
Utilities Revolving	-	652,022	652,022	-
Sanitary State Revolving	38,683	-	-	38,683
Water Utility Meter Deposit	277,530	14,560	13,765	278,325
Water Utility-Operating	379,509	5,943,214	5,915,451	407,272
Water Tank Refurbishment	488,878	316,560	300,000	505,438
Water Utility-Construction	558,154	54	260,613	297,595
Change Fund	500	-	-	500
Water Utility-Debt Reserve	1,388,040	-	-	1,388,040
Water Utility-Bond and Interest	3,390,091	3,280,086	3,242,553	3,427,624
EC Marina	11,543	1,052,493	940,036	124,000
EC Marina Petty Cash Accts	5,611	6,183	10,744	1,050
Totals	<u>\$ 46,671,196</u>	<u>\$ 188,011,317</u>	<u>\$ 184,754,790</u>	<u>\$ 49,927,723</u>

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. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

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.

CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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, 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.

CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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.

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



CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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.

**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.

CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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 Capitol Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

*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.

CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*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.

*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 Capitol 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. The reimbursements for expenditures made were not received by December 31, 2013. In addition, the Self-Insurance fund disbursements exceeded receipts.

**Note 8. 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 2013 totaled \$2,223,000.

CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**Note 9. 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 2013. These loans were not repaid during 2013. As of December 31, 2013, two loans totaling \$400,000 were still outstanding. They were repaid on June 30, 2014.

In addition, temporary loans between funds in the amount of \$1,175,000 were approved in 2014. They will be not repaid by December 31, 2014, rather they will be repaid on June 30, 2015.

*Short-Term Debt - Tax Anticipation Warrants*

On January 2, 2014, the City issued tax anticipation warrants for 2014 totaling \$8,953,140 in the General and Solid Waste Operating funds. Principal of \$8,953,140 and interest of \$149,102.11 was paid on December 30, 2014. Interest rate on these tax anticipation warrants was 1.67 percent.

On January 6, 2015, the City issued tax anticipation warrants for 2015 totaling \$7,706,798 in the General fund. Principal payments of \$1,506,798 and \$6,200,000 will be due on June 30, 2015, and December 31, 2015, respectively. Interest rate on these tax anticipation warrants is 2.01 percent.

*Long-Term Debt - Bond Anticipation Notes*

On August 22, 2014, the East Chicago Sanitary District issued Bond Anticipation Notes totaling \$6,000,000 for the 145<sup>th</sup> Street and Alder Street Pump Station Rehabilitation Projects. The notes will mature on August 22, 2016, and the interest rate on the notes is .85 percent.

*Long-Term Debt - Early Redemption*

The City, through its Redevelopment Commission, purchased the Harborside Apartments 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 Harborside Apartments. Pursuant to the Official Statement of the Bonds, the Bonds maturing on July 15, 2014, and thereafter, are subject to the optional redemption prior to maturity, at the option of the City at 100 percent of the face value amount of each Bond, plus accrued and unpaid interest to the redemption date, and without premium. On September 2, 2014, the East Chicago Redevelopment Commission approved the optional redemption action pursuant to the Official Statement in the amount of \$1,125,159.09.

*Capital Projects*

The City, through its Board of Public Works, approved \$2,065,230.29 in City wide Park Improvements in 2014. The improvements called for new Pavilions, Shelters, Playground Equipment, Fitness Equipment, Basketball Courts, Signage, Benches, Grills, Bike Racks, and Trash Bins. The City has paid invoices totaling \$1,987,757 through December 31, 2014, on the Park Capital Improvements.

CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

The Board of Public Works also approved numerous City wide street projects. The City's Department of Engineering paid \$3,207,043 in street resurfacing invoices and an additional \$3,178,219 in street reconstruction invoices through December 31, 2014. An estimated additional \$2,500,000 remains encumbered to complete the street projects.

**Note 10. 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 11. 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 12. 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 2013 were not enough to cover the 2013 payments due.

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 2013 were not enough to cover the 2013 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 2013 were enough to cover the 2013 payments due.

CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**Note 13. 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.

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).

CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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

	Balance 01-01-13	New	Repayments	Balance 12-31-13	Accrued and Unpaid Interest
Phase I	\$ 1,800,000	\$ -	\$ -	\$ 1,800,000	\$ 183,355
Phase II	<u>2,653,000</u>	<u>-</u>	<u>-</u>	<u>2,653,000</u>	<u>110,948</u>
Totals	<u>\$ 4,453,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,453,000</u>	<u>\$ 294,303</u>

**Note 14. 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:

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 initial \$16,600,000 in loan program funds was completely drawn down; however, as of December 31, 2013, an additional \$190,937 in accumulated interest is still available to be drawn on this program. 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. During 2010 and 2011, the City drew down the entire amount of the \$27,200,000 loan.

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.

CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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, 2013, the City has drawn \$5,704,967 which leaves \$45,033 plus an additional \$958 in accumulated interest 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 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 15. 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.



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 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.

*School City Bus Facility Lease*

The City has reached a settlement on the Bus Facility Lease with the School City of East Chicago (School City) in which both parties agreed to compromise and settle the amount of previously unpaid rent on the premises, claimed by the City to be \$1,050,000, for the sum of \$250,000. In addition, the School City agreed to pay the sum of \$29,029.75 in settlement and satisfaction of unpaid NIPSCO bills incurred by the City on behalf of the School City.

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## 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, 2013

	General	Motor Vehicle Highway	Local Road And Street	Park Nonreverting Operating	Health Maintenance	Economic Development Operating	Transportation	CDBG
Cash and investments - beginning	\$ 494,472	\$ 1,787,333	\$ 279,296	\$ 12,734	\$ 23,532	\$ 5,654,904	\$ 14,874	\$ 43,690
Receipts:								
Taxes	19,418,779	-	-	-	-	1,246,839	447,749	-
Licenses and permits	593,337	-	-	-	-	-	-	-
Intergovernmental	1,471,769	1,876,382	262,592	-	88,786	-	715,493	1,212,554
Charges for services	77,077	-	-	9,465	-	-	-	-
Fines and forfeits	153,825	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	13,106,136	1,427	-	-	1,755	60	1,665	257,457
Total receipts	34,820,923	1,877,809	262,592	9,465	90,541	1,246,899	1,164,907	1,470,011
Disbursements:								
Personal services	20,800,783	575,862	-	-	-	-	992,753	365,429
Supplies	468,372	112,588	14,801	-	14,595	-	115,847	7,871
Other services and charges	2,285,671	72,043	14,920	6,777	46,139	225,892	65,871	1,363,145
Debt service - principal and interest	9,940,569	-	-	-	-	-	-	-
Capital outlay	1,265	-	-	-	10,476	-	-	27,848
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	9,601	-	-	-	-	3,099,419	-	-
Total disbursements	33,506,261	760,493	29,721	6,777	71,210	3,325,311	1,174,471	1,764,293
Excess (deficiency) of receipts over disbursements	1,314,662	1,117,316	232,871	2,688	19,331	(2,078,412)	(9,564)	(294,282)
Cash and investments - ending	\$ 1,809,134	\$ 2,904,649	\$ 512,167	\$ 15,422	\$ 42,863	\$ 3,576,492	\$ 5,310	\$ (250,592)

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Law Enforcement Continuing Ed	Clerk's Records Perpetuation	Unsafe Building	Riverboat	Parks And Recreation	Cumulative Capital Development	Park Nonreverting Capital
Cash and investments - beginning	\$ 82,976	\$ 11,538	\$ 310,786	\$ 6,713,207	\$ 168,686	\$ 74,541	\$ -
Receipts:							
Taxes	-	-	-	-	1,313,513	-	-
Licenses and permits	6,910	-	-	-	-	-	-
Intergovernmental	-	-	-	16,726,972	38,657	-	-
Charges for services	-	-	-	-	564,557	-	-
Fines and forfeits	46,587	4,650	130,330	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	44,656	173,764	809,701	-	331,667
Total receipts	<u>53,497</u>	<u>4,650</u>	<u>174,986</u>	<u>16,900,736</u>	<u>2,726,428</u>	<u>-</u>	<u>331,667</u>
Disbursements:							
Personal services	-	-	-	206,675	1,257,537	-	-
Supplies	5,330	-	908	219,192	140,758	-	-
Other services and charges	5,808	-	35,371	4,873,684	218,345	-	-
Debt service - principal and interest	-	-	-	142,026	792,520	-	-
Capital outlay	4,209	-	-	4,137,606	-	54,669	51,688
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	4,845,361	15,239	-	-
Total disbursements	<u>15,347</u>	<u>-</u>	<u>36,279</u>	<u>14,424,544</u>	<u>2,424,399</u>	<u>54,669</u>	<u>51,688</u>
Excess (deficiency) of receipts over disbursements	<u>38,150</u>	<u>4,650</u>	<u>138,707</u>	<u>2,476,192</u>	<u>302,029</u>	<u>(54,669)</u>	<u>279,979</u>
Cash and investments - ending	<u>\$ 121,126</u>	<u>\$ 16,188</u>	<u>\$ 449,493</u>	<u>\$ 9,189,399</u>	<u>\$ 470,715</u>	<u>\$ 19,872</u>	<u>\$ 279,979</u>

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Fire Equipment (Not Debt Service)	Cumulative Capital Improvement	Self-Insurance	Police Pension	Fire Pension	City And Town Court Costs	Local Development Agreement
Cash and investments - beginning	\$ 21,962	\$ -	\$ (1,894,542)	\$ 223,379	\$ (28,396)	\$ 4,813	\$ 13,310,961
Receipts:							
Taxes	-	-	-	14,867	14,867	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	79,724	-	3,440,929	2,785,755	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	8,481,848	1,932	1,303	37,613	3,663,919
Total receipts	-	79,724	8,481,848	3,457,728	2,801,925	37,613	3,663,919
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	8,838	8,214	6,460	-	3,500,000
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	1,000,000
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	73,728	8,397,653	3,495,659	2,756,372	37,547	-
Total disbursements	-	73,728	8,406,491	3,503,873	2,762,832	37,547	4,500,000
Excess (deficiency) of receipts over disbursements	-	5,996	75,357	(46,145)	39,093	66	(836,081)
Cash and investments - ending	\$ 21,962	\$ 5,996	\$ (1,819,185)	\$ 177,234	\$ 10,697	\$ 4,879	\$ 12,474,880

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	TIF US Gypsum	TIF Riley Plaza	Homeless Prevention	Community Dev Block Grant-Recovery	Local Police Forfeitures	Harborside Apartments	TIF Northtown Village Townhomes
Cash and investments - beginning	\$ 470,725	\$ 47,985	\$ 1,139	\$ (1,455)	\$ 4,982	\$ 2,091,781	\$ 95,258
Receipts:							
Taxes	876,319	92,174	-	-	-	-	186,058
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	2,186,861	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	379	1,455	-	516,116	-
Total receipts	<u>876,319</u>	<u>92,174</u>	<u>379</u>	<u>1,455</u>	<u>-</u>	<u>2,702,977</u>	<u>186,058</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	135,603	-
Other services and charges	-	-	63	-	-	1,615,734	95,258
Debt service - principal and interest	925,429	94,072	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	1,455	-	-	2,111,049	-
Total disbursements	<u>925,429</u>	<u>94,072</u>	<u>1,518</u>	<u>-</u>	<u>-</u>	<u>3,862,386</u>	<u>95,258</u>
Excess (deficiency) of receipts over disbursements	<u>(49,110)</u>	<u>(1,898)</u>	<u>(1,139)</u>	<u>1,455</u>	<u>-</u>	<u>(1,159,409)</u>	<u>90,800</u>
Cash and investments - ending	<u>\$ 421,615</u>	<u>\$ 46,087</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,982</u>	<u>\$ 932,372</u>	<u>\$ 186,058</u>

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Home Investment Partnership Program	General Adult Probation	Federal Grants	State Grant	Grant Misc	SSED Revolving Loan	Summer Youth Training Program
Cash and investments - beginning	\$ (33,971)	\$ 156,888	\$ 149	\$ (62,367)	\$ 601,617	\$ 312,039	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	334,390	-	125,140	395,248	-	-	25,000
Charges for services	42,969	-	-	-	-	-	-
Fines and forfeits	-	24,566	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	94,932	-	56,887	50,898	30,200	590	109,037
Total receipts	<u>472,291</u>	<u>24,566</u>	<u>182,027</u>	<u>446,146</u>	<u>30,200</u>	<u>590</u>	<u>134,037</u>
Disbursements:							
Personal services	17,429	-	-	268,234	-	-	134,037
Supplies	-	4,497	92,045	14,529	13,852	-	-
Other services and charges	370,182	10,595	15,072	212,572	7,950	827	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	1,286	75,059	750	18,180	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	450	-	-	-	-	-	-
Total disbursements	<u>388,061</u>	<u>16,378</u>	<u>182,176</u>	<u>496,085</u>	<u>39,982</u>	<u>827</u>	<u>134,037</u>
Excess (deficiency) of receipts over disbursements	<u>84,230</u>	<u>8,188</u>	<u>(149)</u>	<u>(49,939)</u>	<u>(9,782)</u>	<u>(237)</u>	<u>-</u>
Cash and investments - ending	<u>\$ 50,259</u>	<u>\$ 165,076</u>	<u>\$ -</u>	<u>\$ (112,306)</u>	<u>\$ 591,835</u>	<u>\$ 311,802</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, 2013  
 (Continued)

	EC Property Improvement	Police Federal Forfeitures	Damage To City Property	Railroad Relocation	Vital Records	City Court Programs	Judgment Bonds Proceeds
Cash and investments - beginning	\$ 6,000	\$ 88,556	\$ 84,165	\$ 440,803	\$ 126,177	\$ 80,160	\$ 133,137
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	19,720	-	-	-	-	-
Charges for services	-	-	-	-	46,888	-	-
Fines and forfeits	-	-	-	-	-	27,574	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	1,841	16,482	-	3,981	150	-
Total receipts	-	21,561	16,482	-	50,869	27,724	-
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	14,444	1,908	-
Other services and charges	-	26,791	-	-	13,563	21,862	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	19,172	-	-	42	338	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	3,227	-	-
Total disbursements	-	45,963	-	-	31,276	24,108	-
Excess (deficiency) of receipts over disbursements	-	(24,402)	16,482	-	19,593	3,616	-
Cash and investments - ending	\$ 6,000	\$ 64,154	\$ 100,647	\$ 440,803	\$ 145,770	\$ 83,776	\$ 133,137

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	EC Petty Cash Accts	EC/Gary/Hammond RLF	Redevelopment Rehab Escrow	Lease Rental Payment	Redevelopment Bond and Interest	Capital Projects - Other	Communications Revolving
Cash and investments - beginning	\$ 1,589	\$ 264,105	\$ 13,709	\$ 782,146	\$ 630,209	\$ 24,064	\$ (5,222)
Receipts:							
Taxes	-	-	-	2,165,746	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	44,267	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	1,078	7,532	116,360	-	1,222,613	-	130,360
Total receipts	1,078	7,532	116,360	2,210,013	1,222,613	-	130,360
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	469	57	-	-	24,064	130,004
Debt service - principal and interest	-	-	-	2,223,000	1,222,550	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	917	5,081	125,045	-	-	-	-
Total disbursements	917	5,550	125,102	2,223,000	1,222,550	24,064	130,004
Excess (deficiency) of receipts over disbursements	161	1,982	(8,742)	(12,987)	63	(24,064)	356
Cash and investments - ending	\$ 1,750	\$ 266,087	\$ 4,967	\$ 769,159	\$ 630,272	\$ -	\$ (4,866)

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Gasoline Revolving	EC Redevelopment	Payroll Withholding	Health Insurance	Misc Employee Ins	EC Property Tax Credit	NWI Health Dept Cooperative
Cash and investments - beginning	\$ (134,928)	\$ 385,370	\$ 323	\$ 60,980	\$ 54,700	\$ 225,034	\$ 48,498
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	727,000	-	-	-	-	752,530
Charges for services	-	25,667	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	990,413	2,933,215	60,649,600	5,226,995	2,709	-	900
Total receipts	990,413	3,685,882	60,649,600	5,226,995	2,709	-	753,430
Disbursements:							
Personal services	-	88,289	-	-	-	-	573,361
Supplies	984,418	-	-	-	-	-	5,256
Other services and charges	-	2,246,468	-	222,442	1,551	-	163,223
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	10,836
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	283,551	60,649,923	4,986,917	-	-	49,252
Total disbursements	984,418	2,618,308	60,649,923	5,209,359	1,551	-	801,928
Excess (deficiency) of receipts over disbursements	5,995	1,067,574	(323)	17,636	1,158	-	(48,498)
Cash and investments - ending	\$ (128,933)	\$ 1,452,944	\$ -	\$ 78,616	\$ 55,858	\$ 225,034	\$ -

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Worker's Compensation	City Clerk	ECSDWW Petty Cash	Wastewater Utility-Operating	Wastewater Replacement Reserve	Storm Water Utility-Operating	Solid Waste-Operating
Cash and investments - beginning	\$ 2,542	\$ 571,074	\$ 5,005	\$ 1,735,970	\$ 522,579	\$ -	\$ 1,297,378
Receipts:							
Taxes	-	-	-	-	-	-	6,040,866
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	59,134
Charges for services	-	-	-	5,151,916	-	1,085,070	173,880
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	64,349	-	-	-
Other receipts	306,959	686,212	2	37,854	325,000	-	1,687,525
Total receipts	<u>306,959</u>	<u>686,212</u>	<u>2</u>	<u>5,254,119</u>	<u>325,000</u>	<u>1,085,070</u>	<u>7,961,405</u>
Disbursements:							
Personal services	-	-	-	2,209,319	-	846,960	3,155,583
Supplies	-	-	-	182,163	-	3,701	194,621
Other services and charges	-	-	-	2,405,285	-	4,337	1,312,628
Debt service - principal and interest	-	-	-	-	-	-	1,692,703
Capital outlay	-	-	-	4,847	321,330	-	253,914
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	306,951	674,191	7	1,205,246	-	-	233,947
Total disbursements	<u>306,951</u>	<u>674,191</u>	<u>7</u>	<u>6,006,860</u>	<u>321,330</u>	<u>854,998</u>	<u>6,843,396</u>
Excess (deficiency) of receipts over disbursements	<u>8</u>	<u>12,021</u>	<u>(5)</u>	<u>(752,741)</u>	<u>3,670</u>	<u>230,072</u>	<u>1,118,009</u>
Cash and investments - ending	<u>\$ 2,550</u>	<u>\$ 583,095</u>	<u>\$ 5,000</u>	<u>\$ 983,229</u>	<u>\$ 526,249</u>	<u>\$ 230,072</u>	<u>\$ 2,415,387</u>

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Solid Waste-Bond And Interest	Sanitary District Revolving	Utilities Revolving	Sanitary State Revolving	Water Utility Meter Deposit	Water Utility-Operating	Water Tank Refurbishment
Cash and investments - beginning	\$ 646,772	\$ 1,046,246	\$ -	\$ 38,683	\$ 277,530	\$ 379,509	\$ 488,878
Receipts:							
Taxes	846,811	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	5,793	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	5,325,044	-
Penalties	-	-	-	-	-	25,109	-
Other receipts	-	354,066	652,022	-	14,560	593,061	316,560
Total receipts	<u>852,604</u>	<u>354,066</u>	<u>652,022</u>	<u>-</u>	<u>14,560</u>	<u>5,943,214</u>	<u>316,560</u>
Disbursements:							
Personal services	-	202,999	652,022	-	-	1,302,627	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	51,884	-
Debt service - principal and interest	844,710	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	105,781	-
Utility operating expenses	-	-	-	-	-	2,061,926	-
Other disbursements	-	100,000	-	-	13,765	2,393,233	300,000
Total disbursements	<u>844,710</u>	<u>302,999</u>	<u>652,022</u>	<u>-</u>	<u>13,765</u>	<u>5,915,451</u>	<u>300,000</u>
Excess (deficiency) of receipts over disbursements	<u>7,894</u>	<u>51,067</u>	<u>-</u>	<u>-</u>	<u>795</u>	<u>27,763</u>	<u>16,560</u>
Cash and investments - ending	<u>\$ 654,666</u>	<u>\$ 1,097,313</u>	<u>\$ -</u>	<u>\$ 38,683</u>	<u>\$ 278,325</u>	<u>\$ 407,272</u>	<u>\$ 505,438</u>

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Water Utility-Construction	Change Fund	Water Utility-Debt Reserve	Water Utility-Bond and Interest	EC Marina	EC Marina Petty Cash Accts	Totals
Cash and investments - beginning	\$ 558,154	\$ 500	\$ 1,388,040	\$ 3,390,091	\$ 11,543	\$ 5,611	\$ 46,671,196
Receipts:							
Taxes	-	-	-	-	-	-	32,664,588
Licenses and permits	-	-	-	-	-	-	600,247
Intergovernmental	-	-	-	-	-	-	31,187,835
Charges for services	-	-	-	-	920,056	-	10,284,406
Fines and forfeits	-	-	-	-	-	-	387,532
Utility fees	-	-	-	-	-	-	5,325,044
Penalties	-	-	-	-	-	-	89,458
Other receipts	54	-	-	3,280,086	132,437	6,183	107,472,207
Total receipts	54	-	-	3,280,086	1,052,493	6,183	188,011,317
Disbursements:							
Personal services	-	-	-	-	399,238	-	34,049,137
Supplies	-	-	-	-	97,368	-	2,844,667
Other services and charges	-	-	-	-	231,717	-	21,921,776
Debt service - principal and interest	-	-	-	3,242,553	-	-	21,120,132
Capital outlay	-	-	-	-	-	-	6,099,296
Utility operating expenses	-	-	-	-	-	-	2,061,926
Other disbursements	260,613	-	-	-	211,713	10,744	96,657,856
Total disbursements	260,613	-	-	3,242,553	940,036	10,744	184,754,790
Excess (deficiency) of receipts over disbursements	(260,559)	-	-	37,533	112,457	(4,561)	3,256,527
Cash and investments - ending	\$ 297,595	\$ 500	\$ 1,388,040	\$ 3,427,624	\$ 124,000	\$ 1,050	\$ 49,927,723

CITY OF EAST CHICAGO  
 SCHEDULE OF PAYABLES AND RECEIVABLES  
 December 31, 2013

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Sanitary District	\$ 155,312	\$ 741,810
Water	166,886	738,316
Marina	5,486	-
Governmental activities	<u>1,935,031</u>	<u>2,865,510</u>
Totals	<u>\$ 2,262,715</u>	<u>\$ 4,345,636</u>

CITY OF EAST CHICAGO  
SCHEDULE OF LEASES AND DEBT  
December 31, 2013

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities: East Chicago Municipal Building Corporation	Public Safety Facility	\$ 2,223,000	7/5/2007	1/5/2024
Total of annual lease payments		<u>\$ 2,223,000</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	\$ 3,918,935	\$ 2,455,000
Revenue bonds	Taxable Economic Development Revenue Bond	Series 2007A Riley Plaza Project	1,570,000	139,200
Revenue bonds	EC TIF Revenue Bonds Series 2009A Harborside Redevelopment Project		2,830,000	1,223,838
Revenue bonds	EC Truck Loan 2012		<u>508,389</u>	<u>142,025</u>
Total governmental activities			<u>8,827,324</u>	<u>3,960,063</u>
Sanitary District:				
General obligation bonds	State Revolving Fund (SRF) Loan	1996 Pump Station Improvements & WWTF Modifications	<u>4,640,000</u>	<u>844,120</u>
Water:				
Revenue bonds	State Revolving Fund (SRF) Loan	2002 Water Utility Improvements	1,150,000	131,900
Revenue bonds	State Revolving Fund (SRF) Loan	2006 New Water Filtration Plant	13,060,000	1,254,546
Revenue bonds	State Revolving Fund (SRF) Loan	2009 New Water Filtration Plant	<u>23,910,000</u>	<u>1,859,941</u>
Total Water			<u>38,120,000</u>	<u>3,246,387</u>
Totals			<u>\$ 51,587,324</u>	<u>\$ 8,050,570</u>



CITY OF EAST CHICAGO  
SCHEDULE OF CAPITAL ASSETS  
December 31, 2013

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	\$ 5,176,883
Infrastructure	35,571,378
Buildings	34,824,092
Improvements other than buildings	5,370,999
Machinery, equipment, and vehicles	3,750,211
Construction in progress	4,970,046
Total governmental activities	89,663,609
Sanitary District:	
Land	885,268
Buildings	14,847,780
Improvements other than buildings	2,542,888
Machinery, equipment, and vehicles	2,161,913
Construction in progress	578,017
Total Sanitary District	21,015,866
Water:	
Land	249,859
Buildings	179,975
Improvements other than buildings	2,433,189
Machinery, equipment, and vehicles	23,326
Construction in progress	53,688,235
Total Water	56,574,584
Marina:	
Land	1,020,000
Buildings	6,198,993
Improvements other than buildings	375,328
Machinery, equipment, and vehicles	7,707
Total Marina	7,602,028
Total capital assets	\$ 174,856,087

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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, 2013. 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 2013-003 to 2013-007 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Real Property Acquisition and Relocation Assistance, Period of Availability, Equipment and Real Property Management, 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 on CDBG - Entitlement Cluster Grants* 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 for the year ended December 31, 2013.

***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, 2013.

***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 2013-006. 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 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.

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 2013-001, 2013-002, and 2013-008 to be material weaknesses.

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

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying 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

January 21, 2015

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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, 2013

Federal Grantor Agency 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	10.557	21N700012: FY12-13 21N700013: FY12-13 2IN700002: FY13-14 2IN700012: FY13-14	\$ 223,945 11,753 54,344 <u>720</u>
Total for program			<u>290,762</u>
Pass-Through Indiana State Department of Natural Resources Urban and Community Forestry Program	10.675	EDS#E9-12-TIOT2	<u>14,960</u>
Total for federal grantor agency			<u>305,722</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Grants			
Section 8 Project-Based Cluster Section 8 Housing Assistance Payments Program	14.195	IN36L000278 & IN36M000280	<u>1,995,334</u>
Direct Grants			
CDBG - Entitlement Grants Cluster Community Development Block Grants/Entitlement Grants	14.218	B-10-MC-180004 B-11-MC-180004	459,434 <u>1,056,620</u>
Total for cluster			<u>1,516,054</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	14.228	NSP1-0009-016	<u>316,400</u>
Direct Grants			
Home Investment Partnerships Program	14.239	M-07-MC-18210 M-11-MC-18210 M-12-MC-18210	7,113 270,635 <u>56,642</u>
Total for program			<u>334,390</u>
Total for federal grantor agency			<u>4,162,178</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grants			
Bulletproof Vest Partnership Program	16.607	FY 2012	<u>6,405</u>
Equitable Sharing Program	16.922	FY 2011 FY 2012 FY 2013	5,179 21,065 <u>19,719</u>
Total for program			<u>45,963</u>
Total for federal grantor agency			<u>52,368</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	A29-12-320704 (Des#1173711)	<u>72,823</u>
Pass-Through Northwestern Indiana Regional Planning Commission Federal Transit Cluster Federal Transit Formula Grants	20.507	IN-90-X636-00 FY12-13 IN-90-X653-00 FY13-14	168,391 <u>210,024</u>
Total for program			<u>378,415</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, 2013  
(Continued)

Federal Grantor Agency 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 Indiana Department of Transportation			
Surface Transportation Discretionary Grants for Capital Investment	20.932	DES#0900061 DES#0900062 DES#0900063	24,866 97,041 <u>55,023</u>
Total for program			<u>176,930</u>
Total for federal grantor agency			<u>628,168</u>
<u>EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</u>			
Direct Grant			
Employment Discrimination - Title VII of the Civil Rights Acts of 1964	30.001	EECCN110057	<u>3,278</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Department of Environmental Management			
Beach Monitoring and Notification Program Implementation Grants	66.472	A-305-3-92	<u>16,632</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana State Department of Health			
Public Health Emergency Preparedness	93.069	2U90TP517024-11 (BPRS 193-75)	<u>16,963</u>
Hospital Preparedness Program (HIPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	1U90TP000521-01 (BPRS 193-70) 1U90TP000521-01 (BPRS 193-71)	11,800 <u>4,793</u>
Total for program			<u>16,593</u>
Pass-Through Indiana State Department of Health			
Immunization Cooperative Agreements	93.268	6H23IP522522-10 1H23IP000723-1	2,971 <u>22,409</u>
Total for program			<u>25,380</u>
Total for federal grantor agency			<u>58,936</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct Grants			
Assistance to Firefighters Grant	97.044	EMW-2010-FO-04462 EMW-2010-FO-04834	7,879 <u>59,673</u>
Total for program			<u>67,552</u>
Total for federal grantor agency			<u>67,552</u>
Total federal awards expended			<u>\$ 5,294,834</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 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 except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

**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, 2013:

Program Title	Federal CFDA Number	2013
Community Development Block Grants/Entitlement Grants	14.218	\$ <u>110,368</u>

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?	none reported

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
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Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.239	Section 8 Project-Based Cluster CDBG - Entitlement Grants Cluster Home Investment Partnerships Program 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 2013-001 - INTERNAL CONTROLS OVER SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM***

Federal Agency: U.S. Department of Housing and Urban Development  
Federal Program: Section 8 Housing Assistance Payments Program  
CFDA Number: 14.195  
Federal Award Numbers: IN36L000278 & IN36M000280

Management of the City's Department of Redevelopment (Department) has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect on the program. This includes the following compliance requirements: Cash Management, Eligibility, Reporting, and Special Tests and Provisions. The failure to establish an effective internal control system places the Department 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 program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and having 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.

*Cash Management, Eligibility, Reporting, Special Tests and Provisions*

The Department contracted with a management company to administer the Section 8 Housing Assistance Payments Program. The management company completed all reimbursement vouchers, the necessary eligibility calculations, the required reports, and activities related to the applicable Special Tests and Provisions. The management company performed all of these activities without the necessary oversight by the Department. The Department failed to establish the proper internal control structure to ensure compliance with requirements associated with the Section 8 Housing Assistance Payments Program.

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 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.

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

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

**FINDING 2013-002 - INTERNAL CONTROLS OVER COMMUNITY  
DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS**

Federal Agency: U.S. Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/Entitlement Grants  
CFDA Number: 14.218  
Federal Award Number: B-10-MC-180004, B-11-MC-180004

Management of the City's Department of Redevelopment (Department) and the Redevelopment Commission (Commission) have not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Activities Allowed, Allowable Cost, Equipment and Real Property Management, Earmarking, Period of Availability, Procurement and Suspension and Debarment, Program Income, Real Property Acquisition and Relocation Assistance, Reporting, Subrecipient Monitoring, and Special Tests and Provisions compliance requirements that have a direct and material effect on the program. The failure to establish an effective internal control system places the Department and 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.

*Activities Allowed/Allowable Costs*

Each Program Manager, 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 for 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. The employee indicates the number of hours worked or any leave time used during the pay period on the Time Sheet. These are used by the City Controller's Office to record the payroll expenditures in the City's records. The number of hours in each pay period devoted to a particular grant and/or project, as well as hours spent on general administrative activities which are to be paid from local funds are recorded on the Allocation of Time report. Both the Timesheet and the Allocation of Time report 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. Based upon the Allocation of Time reports, the Commission prepares 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.

*Equipment and Real Property Management*

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 or the City, but some have been purchased with federal funds. For some of the donated properties, title work associated

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

with the acquisitions have been financed with federal funds. The Commission has not established policies, procedures, or controls to ensure property acquisitions and equipment purchases are being 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.

*Earmarking*

The City's Department and Commission do not have written policies and procedures over the monitoring of the Earmarking requirements. Evidence of periodic reviews of amounts recorded in the project classifications that require earmarking throughout the program was not presented. Also, a separate individual has not been designated to review the activities related to the Earmarking requirements. The Department and Commission do 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.

*Period of Availability*

Written policies and procedures over the monitoring of the Period of Availability have not been adopted by the Commission. Evidence of a review of the timing of program expenditures or of the timeliness of reporting throughout the year was not presented for audit. A separate individual has not been designated to review the activities related to Period of Availability.

*Procurement and Suspension and Debarment*

A written procurement policy had not been adopted by the Commission. One employee is responsible for procurements. The employee developed a checklist for reviewing and evaluating quotes, proposals, and bids; however, a separate employee does not review or perform some type of oversight to ensure the checklist contains essential criteria for ensuring compliance with federal requirements over Procurement and Suspension and Debarment. The same employee also developed the contracts for the successful bidders to sign; however, no evidence was presented of a review of the contracts to ensure that all required certifications were addressed, including certifications made by the contractors that they have not been suspended or debarred from doing business with the federal government.

Controls have not been established to ensure that the minutes of the board meetings of the Redevelopment Commission include items related to Procurement and Suspension and Debarment. The minutes do not always include a justification for an award to a bidder other than the lowest. The minutes do not always identify the funding source, nor do they always contain accurate information in regards to bid amounts. Some of the redevelopment projects are federally funded, some state funded, and some locally funded. There were no controls to accurately identify the source of the funding or to ensure that the Procurement and Suspension and Debarment requirements are followed, when applicable.

*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.

The City's Department and Commission do not have written policies and procedures over the monitoring of the Program Income requirements. Evidence of periodic reviews of the amounts recorded as program income throughout the year was not presented. Also, a separate individual has not been designated

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

to review the activities related to Program Income requirements. One employee oversees grant awards and the classification of the grant awards received by the Commission. The Department and Commission do 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, including program income.

*Real Property Acquisition and Relocation Assistance*

The Commission has not established effective controls over Real Property Acquisition and Relocation Assistance requirements. The Commission has not established controls to effectively ensure that Real Property Acquisition requirements are followed. There was no segregation of duties, such as an oversight or review process, to ensure compliance with federal guidelines over Real Property Acquisition.

The Commission relies upon a consultant to determine the relocation assistance and to ensure compliance with Relocation Assistance guidelines. An oversight, review, or approval process has not been established to ensure compliance with federal guidelines for the payment of Relocation Assistance.

*Reporting*

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 evidence to indicate a review or verification by the Executive Director or anyone other than the person who prepared the report.

*Subrecipient Monitoring*

A checklist is provided to applicants for information they must provide with the application for federal funding. One of the items required 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.

The Program Manager is to ensure that the subrecipients are properly monitored. Each year the Program Manager and the accountant are to perform on-site monitoring activities. Evidence was not obtained that these on-site monitoring activities were performed or that either the Executive Director or the Board received reports on findings of any subrecipient monitoring performed.

The invoices attached to the Requests for Reimbursements are to be initialed by either one of the Program Managers indicating that the invoice is approved to pay. Several invoices attached to various subrecipients' requests for reimbursements were paid without the initials of either Program Manager.

*Special Tests and Provisions*

*Special Tests and Provisions: Citizen Participation*

The Commission has placed two employees in charge of ensuring compliance with citizen participation requirements. 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. The Commission has not designed controls to ensure compliance with citizen participation requirements.

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

*Special Tests and Provisions: Environmental Reviews*

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

*Special Tests and Provisions: Rehabilitation*

The Commission has placed one employee in charge of ensuring compliance with rehabilitation requirements. This employee must determine which projects require pre-rehabilitation and post-rehabilitation inspections, perform the inspections, and ensure that the inspections have been completed in compliance with grant requirements. There is no oversight or review process.

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.

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 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.

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

***FINDING 2013-003 - REAL PROPERTY ACQUISITIONS AND RELOCATION ASSISTANCE - COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS***

Federal Agency: U.S. Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/Entitlement Grants  
CFDA Number: 14.218  
Federal Award Numbers: B-10-MC-180004, B-11-MC-180004

The City's Redevelopment Commission paid \$55,430 for a property acquisition from Community Development Block Grants funds. The acquisition was documented by only a vendor invoice. The written compensation offered to the property owners was not determined by an appraisal process as required by federal compliance guidelines over property acquisitions. The final purchase price exceeded the original offer by \$5,430 without the required written justification to indicate that the additional amount was reasonable, prudent, and in the public interest. The entire disbursement for \$55,430 is considered a questioned cost.



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

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.
    - (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).)"

49 CFR 24.102(d) *Establishment and offer of just compensation* states:

"Before the initiation of negotiations, the Agency shall establish an amount which it believes is just compensation for the real property. The amount shall not be less than the approved appraisal of the fair market value of the property, taking into account the value of allowable damages or benefits to any remaining property. An Agency official must establish the amount believed to be just compensation. (See §24.104.) Promptly thereafter, the Agency shall make a written offer to the owner to acquire the property for the full amount believed to be just compensation. (See appendix A, §24.102(d).)"

49 CFR 24.102(e) *Summary statement* states:

"Along with the initial written purchase offer, the owner shall be given a written statement of the basis for the offer of just compensation, which shall include:

- (1) A statement of the amount offered as just compensation. In the case of a partial acquisition, the compensation for the real property to be acquired and the compensation for damages, if any, to the remaining real property shall be separately stated.

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

- (2) A description and location identification of the real property and the interest in the real property to be acquired.
- (3) An identification of the buildings, structures, and other improvements (including removable building equipment and trade fixtures) which are included as part of the offer of just compensation. Where appropriate, the statement shall identify any other separately held ownership interest in the property, e.g., a tenant-owned improvement, and indicate that such interest is not covered by this offer."

The failure to materially comply with federal guidelines over Real Property Acquisition places the City at risk of not receiving additional federal funding.

We recommended that the officials comply with the grant agreement and the requirements for Real Property Acquisition.

***FINDING 2013-004 - PERIOD OF AVAILABILITY - COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS***

Federal Agency: U.S. Department of Housing and Urban Development  
Federal Programs: Community Development Block Grants/Entitlement Grants  
CFDA Numbers: 14.218  
Federal Award Number: B-11-MC-180004

The Community Development Block Grants/Entitlement Grants B-11-MC-180004 Authority to Use Grant Funds form was approved on November 30, 2011, which was the beginning of the period of availability. On March 25, 2013, a voucher for grant B-11-MC-180004 was completed to request reimbursement for checks and payrolls originally disbursed in February 2011 through July 2011 totaling \$49,961.70. These disbursements had not previously been claimed for reimbursement. Because these disbursements were prior to the authority to spend date of November 30, 2011, and therefore, not within the period of availability, \$49,961.70 is considered questioned costs.

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 materially comply with federal guidelines over the Period of Availability places the City at risk of not receiving additional federal funding.

We recommended that the officials comply with the grant agreement and the requirements for the Period of Availability.

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

**FINDING 2013-005 - EQUIPMENT AND REAL PROPERTY MANAGEMENT -  
COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS**

Federal Agency: U.S. Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/Entitlement Grants  
CFDA Number: 14.218  
Federal Award Numbers: B-10-MC-180004, B-11-MC-180004

The Commission has acquired a significant number of real properties. Most have been donated to the Commission through the County or the City, but some have been purchased with federal funds. For some of the donated properties, title work associated with the acquisitions have been financed with federal funds. 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, which established a capital asset policy, set 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." Although the Commission has purchased equipment, they have not maintained the required list.

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.

24 CFR 85.3 states in part:

*"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."*

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:

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

- (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. . . ."

The failure to materially comply with federal guidelines over Equipment and Real Property Management places the City at risk of not receiving additional federal funding.

We recommended that the officials comply with the grant agreement and the requirements for Equipment and Real Property Management.

***FINDING 2013-006 - REPORTING - COMMUNITY DEVELOPMENT BLOCK GRANTS/  
ENTITLEMENT GRANTS AND HOME INVESTMENT PARTNERSHIPS PROGRAM***

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

Federal Programs: Community Development Block Grants/Entitlement Grants  
and Home Investment Partnerships Program

CFDA Numbers: 14.218, 14.239

Federal Award Numbers: B-10-MC-180004, B-11-MC-180004, M-07-MC-18210, M-11-MC-18210,  
M-12-MC-18210

*Community Development Block Grant (CDBG) - Federal Financial Report (SF 425)*

The Federal Financial Reports (SF 425) filed for the third and fourth quarters were not prepared in accordance with the instructions. The sections "Federal Expenditures and Unobligated Balance," "Recipient Share," and "Program Income" were not completed. Furthermore, the cash balance reported as of the end of the fourth quarter was negative \$529.80. The cash balance per the City's records was negative \$250,591.58.

*HOME Investment Partnerships Program (HOME) and CDBG - Section 3 Summary Report*

The Section 3 report filed on September 30, 2013, for the 2012 fiscal year, was based upon the amounts 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 for CDBG and \$9,771.89 for HOME was recorded as contractual services and reported as Section 3.

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

24 CFR 135.90 states:

"Each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for the purpose of determining the effectiveness of section 3. Where the program providing the section 3 covered assistance requires submission of an annual performance report, the section 3 report will be submitted with that annual performance report. If the program providing the section 3 covered assistance does not require an annual performance report, the section 3 report is to be submitted by January 10 of each year or within 10 days of project completion, whichever is earlier. All reports submitted to HUD in accordance with the requirements of this part will be made available to the public."

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, . . .

(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 materially comply with federal guidelines over Reporting places the City at risk of not receiving additional federal funding.

We recommended that the officials comply with the grant agreement and the requirements for Reporting.

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

**FINDING 2013-007 - SUBRECIPIENT MONITORING - COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS**

Federal Agency: U.S. Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/Entitlement Grants  
CFDA Number: 14.218  
Federal Award Numbers: B-10-MC-180004, B-11-MC-180004

Six subrecipients received funding through the City's Community Development Block Grants/Entitlement Grants funds for 2013. The audit report for one subrecipient 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 verify if the Commission staff determined whether or not the subrecipient was subject to 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:

- (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 is part."

The failure to materially comply with federal guidelines over Subrecipient Monitoring places the City at risk of not receiving additional federal funding.

We recommended that the officials comply with the grant agreement and the requirements for Subrecipient Monitoring.

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

***FINDING 2013-008 - INTERNAL CONTROLS OVER HOME INVESTMENT PARTNERSHIPS PROGRAMS***

Federal Agency: U.S. Department of Housing and Urban Development  
Federal Program: Home Investment Partnerships Program  
CFDA Number: 14.239  
Federal Award Numbers: M-07-MC-18210, M-11-MC-18210, M-12-MC-18210

Management of the City's Department of Redevelopment (Department) and the Redevelopment Commission (Commission) have not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Activities Allowed/Allowable Costs, Eligibility, Earmarking, Period of Availability, Procurement and Suspension and Debarment, Reporting, and Special Tests and Provisions compliance requirements that have a direct and material effect to the program. The failure to establish an effective internal control system places the Department and 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 program.

*Activities Allowed/Allowable Costs*

Each Program Manager, 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 for 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. The employee indicates the number of hours worked or any leave time used during the pay period on the Time Sheet. These are used by the City Controller's Office to record the payroll expenditures in the City's records. The number of hours in each pay period devoted to a particular grant and/or project, as well as hours spent on general administrative activities which are to be paid from local funds are recorded on the Allocation of Time report. Both the Time Sheet and the Allocation of Time report 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. Based upon the Allocation of Time reports, the Commission prepares 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.

*Eligibility*

The Department and Commission do not have policies and procedures over monitoring of the Eligibility requirements. The verification of income and eligibility for the program is performed by one employee whose work is not reviewed by another employee. There is a lack of segregation of duties, such as an oversight, review, or approval process.

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

*Earmarking*

The Department and Commission do not have written policies and procedures over the monitoring of the Earmarking requirements. Evidence of periodic reviews of amounts recorded in the project classifications that require earmarking throughout the program was not presented. Also, a separate individual has not been designated to review the activities related to the Earmarking requirements. The Department and Commission do 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.

*Period of Availability*

Written policies and procedures over the monitoring of the Period of Availability have not been adopted by the Commission. Evidence of a review of the timing of program expenditures or of the timeliness of reporting throughout the year was not presented for audit. A separate individual has not been designated to review the activities related to Period of Availability.

*Procurement and Suspension and Debarment*

A written procurement policy had not been adopted by the Commission. One employee is responsible for procurements. The employee developed a checklist for reviewing and evaluating quotes, proposals, and bids; however, a separate employee does not review or perform some type of oversight to ensure the checklist contains essential criteria for ensuring compliance with federal requirements over Procurement and Suspension and Debarment. The same employee also developed the contracts for the successful bidders to sign; however, no evidence was presented of a review of the contracts to ensure that all required certifications were addressed, including certifications made by the contractors that they have not been suspended or debarred from doing business with the federal government.

Controls have not been established to ensure that the minutes of the Board meetings of the Commission include items related to Procurement and Suspension and Debarment. The minutes do not always include a justification for an award to a bidder other than the lowest. The minutes do not always identify the funding source, nor do they always contain accurate information in regards to bid amounts. Some of the redevelopment projects are federally funded, some state funded, and some locally funded. There were no controls to accurately identify the source of the funding or to ensure that the Procurement and Suspension and Debarment requirements are followed, when applicable.

*Reporting*

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 is prepared by the Program Manager. There is no evidence that any other employee or member of management reviewed or verified the report before submission.

*Special Tests and Provisions*

*Maximum Per Unit Subsidy*

The City did not establish procedures or controls to ensure that construction project costs were under the approved maximum per unit subsidy amount.



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

*Housing Quality Standards*

The City did not establish procedures or controls to ensure that inspections of Rental Home Assisted Units and Tenant Based Rental Assisted Units occurred in the required time frame.

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 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.

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 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.

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

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#### AUDITEE PREPARED DOCUMENTS

The subsequent documents were provided by management of the City. The documents are presented as intended by the City.



**Statement the process of correcting the Section III findings**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**FINDING 2012-01**

Original Assigned SBA Audit Report Number: B43130

Report Period: January 1, 2012 – December 31, 2012

Pass-Through Entity or Federal Grantor Agency: U.S. Dept. of Housing & Urban Development

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number: 219-391-8513

Corrective Action: The Commission established effective controls, including segregation of duties, related to the grant agreement and the allowable costs, earmarking, and period of availability compliance requirements.

The East Chicago Department of Redevelopment developed and a Procurement Policy.

The East Chicago Department of Redevelopment developed Financial Policies & Procedures Manual.

Payroll and Benefit Allocation Procedure, Period Availability Procedure, and a General Administration Costs Procedures were developed.

Accounting Staff have been professionally trained on the Federal Grant requirements

Status of Audit Finding: Ongoing development for compliance

**FINDING 2012-02**

Original Assigned SBA Audit Report Number:

Report Period: January 1, 2012 – December 31, 2012

Pass-Through Entity or Federal Grantor Agency: U.S. Dept. of Housing & Urban Development

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number: 219-391-8513

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

The East Chicago Department of Redevelopment developed a Real Property – Asset Management Plan which includes a Property and Equipment Capitalization Procedure.

Status of Audit Finding: Ongoing development for compliance

**FINDING 2012-03**

Original Assigned SBA Audit Report Number:

Report Period: January 1, 2012 – December 31, 2012

Pass-Through Entity or Federal Grantor Agency: U.S. Dept. of Housing & Urban Development

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number: 219-391-8513

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

Status of Audit Finding: Ongoing development for compliance

**FINDING 2012-04**

Original Assigned SBA Audit Report Number:

Report Period: January 1, 2012 – December 31, 2012

Pass-Through Entity or Federal Grantor Agency: U.S. Dept. of Housing & Urban Development

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number: 219-391-8513

Finding 2012-04 Corrective Action: The Commission established Program Income procedures to ensure compliance with federal compliance guidelines related to program income.

The East Chicago Department of Redevelopment developed a HOME Program Desk Guide

Status of Audit Finding: Ongoing development for compliance

**FINDING 2012-05**

Original Assigned SBA Audit Report Number:

Report Period: January 1, 2012 – December 31, 2012

Pass-Through Entity or Federal Grantor Agency: U.S. Dept. of Housing & Urban Development

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number: 219-391-8513

Finding 2012-05 Corrective Action: The East Chicago Department of Redevelopment developed a Real Property – Asset Management Plan for controls and ensuring real property appraisals are performed prior to initiating a purchase of real property. A procedure was developed with controls to ensure work performed by consultants conform to and comply with the federal guidelines related to relocation assistance.

Status of Audit Finding: Ongoing development for compliance

**FINDING 2012-06**

Original Assigned SBA Audit Report Number:

Report Period: January 1, 2012 – December 31, 2012

Pass-Through Entity or Federal Grantor Agency: U.S. Dept. of Housing & Urban Development

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number: 219-391-8513

Finding 2012-06 Corrective Action: The Commission established a Grant reporting requirements Procedure for controls, including segregation of duties, related to the grant agreements and reporting.

Status of Audit Finding: Ongoing development for compliance

**FINDING 2012-07**

Original Assigned SBA Audit Report Number:

Report Period: January 1, 2012 – December 31, 2012

Pass-Through Entity or Federal Grantor Agency: U.S. Dept. of Housing & Urban Development

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number: 219-391-8513

Finding 2012-07 Corrective Action: The East Chicago Department of Redevelopment developed a Subrecipients Handbook (CDBG)

Status of Audit Finding: Ongoing development for compliance

**FINDING 2012-08**

Original Assigned SBA Audit Report Number:

Report Period: January 1, 2012 – December 31, 2012

Pass-Through Entity or Federal Grantor Agency: U.S. Dept. of Housing & Urban Development

Contact Person Responsible for Corrective Action: Maria Becerra


Contact Phone Number: 219-391-8513


Finding 2012-08 Corrective Action: The Commission established 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.

The East Chicago Department of Redevelopment developed Financial Policies & Procedures Manual

Status of Audit Finding: Ongoing development for compliance

  
\_\_\_\_\_  
(Signature)

  
\_\_\_\_\_  
(Title)

  
\_\_\_\_\_  
(Date)



# 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 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

Original SBA Audit Report Number: B43130  
Fiscal Year: 2012  
Auditee Contact Person: Valeriano Gomez  
Title of Contact Person: City Controller  
Phone Number: (219) 391-8220

Status of Finding: This finding has been corrected.

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

Federal Agency: US 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

Original SBA Audit Report Number: B43130  
Fiscal Year: 2012  
Auditee Contact Person: Valeriano Gomez  
Title of Contact Person: City Controller  
Phone Number: (219) 391-8220

Status of Finding: This finding has been corrected.

Valeriano Gomez  
City Controller  
October 31, 2014



**CORRECTIVE ACTION PLAN**

**FINDING 2013-001**

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number (219) 391-8513

Finding 2013-01 Corrective Action: The East Chicago Department of Redevelopment will develop internal controls to ensure compliance with requirements associated with the Section 8 Housing Assistance Program, which will cover Cash Management, Eligibility, Reporting, and the HQS Inspections for Section 8.

Maria Becerra

Executive Director

January 21, 2015

Rodger Gates

Commissioner – Vice President

Anticipated Completion Date: May 1, 2015





**CORRECTIVE ACTION PLAN**

**FINDING 2013-002**

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number (219) 391-8513

Finding 2013-02 Corrective Action: Payroll and Benefit Allocation Procedure, Period Availability Procedure, and a General Administration Costs Procedures were developed.

Accounting staff have been professionally trained on the Federal Grant requirements.

The Commission established policies, procedures and controls to ensure compliance with federal guidelines related to equipment and real property management.

The East Chicago Department of Redevelopment developed a Real Property – Asset Management Plan which includes a Property and Equipment Capitalization Procedure.

The East Chicago Department of Redevelopment established effective controls over procurement, suspension, and debarment. The Commission adopted a procurement policy and procedures to ensure compliance of the policy and review of contracts to ensure appropriate criteria is included. The city staff member responsible for each contract from their department will check the SAMS website and print confirmation that a contractor is not on the debarred list. Second level of review, will be the following, a printout will be attached to all contracts prior to contract execution by the Executive Director. In addition, a third level of review by the finance department as part of any new contract a print out of the debarred review will to be attached with the contract for vendor set up of a purchase order.

The East Chicago Department of Redevelopment established Program Income procedures to ensure compliance with federal compliance guidelines related to program income.

The East Chicago Department of Redevelopment developed a Real Property – Asset Management Plan for controls and ensuring real property appraisals are preformed prior to initiating a purchase of real property. A procedure was developed with controls to ensure work performed by consultants conform to and comply with the federal guidelines related to relocation assistance.

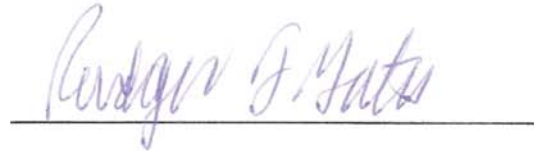
The Commission established a Grant reporting requirements Procedure for controls, including segregation of duties, related to the grant agreements and reporting.

The East Chicago Department of Redevelopment developed a Subrecipients Handbook (CDBG). There in on-site monitoring plan and annual internal written report requirement to certify audit reports were reviewed for follow-up on any findings noted.

The East Chicago Redevelopment Department will develop internal controls over the citizen participation plan, environmental review, and the rehab inspections to ensure compliance with the regulations.



Maria Becerra  
Executive Director  
January 21, 2015



Rodger Gates  
Commissioner – Vice President

Anticipated Completion Date: May 1, 2015



CORRECTIVE ACTION PLAN

FINDING 2013-003

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number (219) 391-8513

Finding 2013-03 Corrective Action: The East Chicago Department of Redevelopment will expand on the establish policies, procedures and controls to ensure compliance with federal compliance guidelines related to equipment and real property management. The East Chicago Department of Redevelopment established internal controls for ensuring property appraisals are preformed prior to initiating a purchase of real property. The East Chicago Department of Redevelopment has established controls to ensure work performed by consultants conform to and comply with the federal guidelines related to relocation assistance.

Maria Becerra

Executive Director

January 21, 2015

Rodger Gates

Commissioner – Vice President

Anticipated Completion Date: May 1, 2015



**CORRECTIVE ACTION PLAN**

**FINDING 2013-004**

Contact Person Responsible for Corrective Action: Maria Becerra

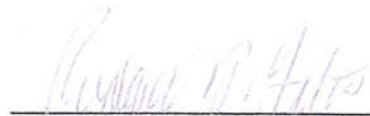
Contact Phone Number (219) 391-8513

Finding 2013-04 Corrective Action: : Payroll and Benefit Allocation Procedure, Period Availability Procedure, and a General Administration Costs Procedures were developed with assistance of a CPA firm.

  
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Maria Becerra  
Executive Director

January 21, 2015

  
\_\_\_\_\_

Rodger Gates  
Commissioner – Vice President

Anticipated Completion Date: May 1, 2015



**CORRECTIVE ACTION PLAN**

**FINDING 2013-005**

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number (219) 391-8513

Finding 2013-05 Corrective Action: The East Chicago Department of Redevelopment developed a Real Property – Asset Management Plan which includes a Property and Equipment Capitalization Procedure.

Handwritten signature of Maria Becerra in blue ink, written over a horizontal line.

Maria Becerra

Executive Director

January 21, 2015

Handwritten signature of Rodger Gates in blue ink, written over a horizontal line.

Rodger Gates

Commissioner – Vice President

Anticipated Completion Date: **May 1, 2015**



**CORRECTIVE ACTION PLAN**

**FINDING 2013-006**

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number (219) 391-8513

Finding 2013-06 Corrective Action:

The East Chicago Department of Redevelopment has established effective controls, including segregation of duties, related specifically for both Home and CDBG grant, for compliance in reporting, to make sure that the reports are properly and accurately completed in the future. Accounting Staff have been professionally trained on the Federal Grant requirements.

A handwritten signature in blue ink, appearing to read "Maria Becerra", is written over a horizontal line.

Maria Becerra  
Executive Director  
January 21, 2015

A handwritten signature in blue ink, appearing to read "Rodger Gates", is written over a horizontal line.

Rodger Gates  
Commissioner – Vice President

Anticipated Completion Date: May 1, 2015



**CORRECTIVE ACTION PLAN**

**FINDING 2013-007**

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number (219) 391-851

Finding 2013-07 Corrective Action: The East Chicago Department of Redevelopment developed a Subrecipients Handbook (CDBG) and an on-site Subrecipient monitoring plan.

Handwritten signature of Maria Becerra in purple ink, written over a horizontal line.

Maria Becerra  
Executive Director

January 21, 2015

Handwritten signature of Rodger Gates in purple ink, written over a horizontal line.

Rodger Gates  
Commissioner – Vice President

Anticipated Completion Date: May 1, 2015



**CORRECTIVE ACTION PLAN**

**FINDING 2013-008**

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number (219) 391-8513

Finding 2013-08 Corrective Action: The East Chicago Department of Redevelopment has established effective controls, including segregation of duties, related to the grant agreements. In addition the East Chicago Department of Redevelopment will develop internal control forms and checklists, to specifically address internal controls over Activities Allowed/Allowable Costs, Eligibility, Earmarking, Period of Availability, Procurement and Suspension and Debarment, Reporting, Maximum per Unit Subsidy, and the HQS Inspections.

Maria Becerra

Executive Director

January 21, 2015

Rodger Gates

Commissioner – Vice President

Anticipated Completion Date: May 1, 2015



#### OTHER REPORT

In addition to this report, a Supplemental Compliance Report has been issued for the City. That report can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.