

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF EAST CHICAGO

LAKE COUNTY, INDIANA

January 1, 2014 to December 31, 2014



**FILED**

09/21/2015



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Department of Redevelopment:	
Federal Findings:	
Finding 2014-001 - Section 8 Housing Assistance Payments Program .....	6
Finding 2014-002 - Special Tests and Provisions - Housing Quality Standards .....	7-8
Finding 2014-003 - Community Development Block Grants/Entitlement Grants.....	8-9
Finding 2014-004 - Equipment and Real Property Management .....	9-11
Finding 2014-005 - Reporting .....	12-13
Corrective Action Plan .....	14-18
Audit Result and Comment:	
Collection of Amounts Due .....	19
Official Response.....	20-22
Exit Conference .....	23
City Controller:	
Audit Result and Comment:	
Overdrawn Cash Balances .....	26
Official Response.....	27
Exit Conference .....	28
Police Department:	
Audit Result and Comment:	
Police Buy Money .....	30
Exit Conference .....	31
Water Utility:	
Audit Result and Comment:	
Payment of Old Invoices - Sanitary District, Storm Water, Water .....	34
Official Response.....	35
Exit Conference .....	36
Sanitary/Stormwater District:	
Audit Results and Comments:	
Delinquent Wastewater Accounts .....	38
Internal Controls - Sanitary District .....	38-39
Payment of Old Invoices - Sanitary District, Storm Water, Water .....	39
Exit Conference .....	40

### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Kimberly Anderson	01-01-14 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	01-01-14 to 12-31-15
President of the Common Council	Lenny Franciski	01-01-14 to 12-31-15
Director of Utilities	Greg Crowley	01-01-14 to 12-31-15



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the City of East Chicago (City), for the period from January 1, 2014 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

August 4, 2015

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DEPARTMENT OF REDEVELOPMENT  
CITY OF EAST CHICAGO

DEPARTMENT OF REDEVELOPMENT  
CITY OF EAST CHICAGO  
FEDERAL FINDINGS

**FINDING 2014-001 - 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 the following compliance requirements: Cash Management, Eligibility, Reporting, and Special Tests and Provisions - Vacant Units. 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.

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 the activities related to the Special Tests and Provisions - Vacant Units. 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.

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 could result in the loss of federal funds to the Department.

We recommended that the Department's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements listed above.



DEPARTMENT OF REDEVELOPMENT  
CITY OF EAST CHICAGO  
FEDERAL FINDINGS  
(Continued)

**FINDING 2014-002 - SPECIAL TESTS AND PROVISIONS - HOUSING QUALITY STANDARDS**

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

*Internal Controls*

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 the Special Tests and Provisions - Housing Quality Standards compliance requirements.

The Department contracted with a management company to administer the Section 8 Housing Assistance Payments Program. The management company completed all activities related to the Special Tests and Provisions - Housing Quality Standards. 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. In October 2014, the Department changed management companies.

*Compliance*

As part of the Section 8 program, the Department of Housing and Urban Development (HUD) requires that owners provide "decent, safe, and sanitary rental housing" to its tenants. In order to ensure no repairs are needed or, if repairs are needed, they are completed timely, housing quality inspections at the time of initial occupancy and at least annually thereafter are to be performed.

During review of the annual inspections, several instances of noncompliance were noted. The noncompliance included inspection reports that could not be located and inspection reports that were not fully or properly completed. Upon inquiry, it was disclosed that not all the annual inspections were completed in 2014 due to the change in management companies.

24 CFR 884.217 Maintenance, operation, and inspections states:

"(a) *Maintenance and operation.* The Owner shall maintain and operate the project so as to provide Decent, Safe, and Sanitary housing and he shall provide all the services, maintenance and utilities which he agrees to provide under the Contract, subject to abatement of housing assistance payments or other applicable remedies if he fails to meet these obligations.

(b) *Inspection prior to occupancy.* Prior to occupancy of any unit by a Family, the Owner and the Family shall inspect the unit and both shall certify, on forms prescribed by HUD, that they have inspected the unit and have determined it to be Decent, Safe, and Sanitary in accordance with the criteria provided in the prescribed forms. Copies of these reports shall be kept on file by the Owner for at least three years.

(c) *Periodic inspections.* HUD (or the PHA, as appropriate) will inspect or cause to be inspected each Contract unit and related facilities at least annually and at such other times (including prior to initial occupancy and rerenting of any unit) as HUD (or the PHA) may determine to be necessary to assure that the Owner is meeting his obligation to maintain the

DEPARTMENT OF REDEVELOPMENT  
CITY OF EAST CHICAGO  
FEDERAL FINDINGS  
(Continued)

units in Decent, Safe, and Sanitary condition and to provide the agreed upon utilities and other services. HUD (or the PHA) will take into account complaints by occupants and any other information coming to its attention in scheduling inspections and shall notify the Owner and the Family of its determination."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls enabled noncompliance with federal guidelines over the Special Tests and Provisions related to Housing Quality Standards and places the Department at risk of not receiving additional federal funding.

We recommended that the Department's management establish controls to ensure compliance and comply with the contract and the requirements for Special Tests and Provisions - Housing Quality Standards.

***FINDING 2014-003 - 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-11-MC-180004, B-12-MC-180004, B-13-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 following compliance requirements: Activities Allowed, Allowable Costs, Cash Management, Program Income, Davis-Bacon Act, Subrecipient Monitoring, and Special Tests and Provisions. 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, Cash Management, and Program Income*

The City has assessed the risk for accounting system recording errors by bringing the Department funds, including the Community Development Block Grant (CDBG), into the City's records. The federal Housing and Urban Development Department (HUD) also requires CDBG transactions to be entered into their Integrated Disbursement and Information System (IDIS) system; however, City officials have not been able to reconcile the two accounting systems. By not reconciling the records, the Commission and City are at risk of not adequately monitoring Activities Allowed, Allowable Costs, Cash Management, and Program Income requirements.

DEPARTMENT OF REDEVELOPMENT  
CITY OF EAST CHICAGO  
FEDERAL FINDINGS  
(Continued)

*Davis-Bacon Act*

A consultant managed all the documents related to the implementation of the Davis-Bacon Act and prepared compliance reports with supporting documentation on the weekly payrolls. Controls have not been established to ensure that the work performed by the consultant is complete and addresses all the factors that could affect compliance with the Davis-Bacon Act. An oversight or review process has not been established.

*Subrecipient Monitoring*

A subrecipient monitoring checklist was designed and implemented; however, no reports on the subrecipient monitoring were presented to the Executive Director or the Commission. Controls have not been established to ensure proper oversight or review of the monitoring activities performed.

*Special Tests and Provisions: Citizen Participation*

A consultant was hired to prepare the HUD required Citizen Participation Plan and ensure compliance with Citizen Participation requirements. Controls have not been designed to ensure compliance with Citizen Participation. An oversight or review process has not been established to ensure compliance.

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 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 the compliance requirements noted above that have a direct and material effect on the program.

***FINDING 2014-004 - EQUIPMENT AND REAL PROPERTY MANAGEMENT***

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-11-MC-180004, B-12-MC-180004, B-13-MC-180004

DEPARTMENT OF REDEVELOPMENT  
CITY OF EAST CHICAGO  
FEDERAL FINDINGS  
(Continued)

*Internal Controls*

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 Equipment and Real Property Management compliance requirements. The failure to establish an effective internal control system places the Commission at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

The Commission has not implemented effective procedures to ensure compliance with the program requirements of Equipment and Real Property Management. There is no segregation of duties, such as an oversight, review, or approval process to ensure compliance.

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.

*Compliance*

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 their acquisition has been financed with federal funds. The Commission has not maintained capital asset records which comply with federal requirements over Equipment and Real Property Management.

A resolution adopted by the Common Council established a capital asset policy which 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 with all the data elements.

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.

The Commission prepared an equipment list that included a description and tag number but did not include acquisition amount, acquisition date, funding source, percentage of federal participation in the cost, location, and condition. A physical inventory of equipment was not performed.

DEPARTMENT OF REDEVELOPMENT  
CITY OF EAST CHICAGO  
FEDERAL FINDINGS  
(Continued)

The Commission prepared a real property list as of December 16, 2014. The real property listing did not include the funding source and percentage of federal participation. Without the detail, we were unable to determine if any disposals of real property were for property that had been acquired with federal funds.

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:

- (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. . . ."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls enabled noncompliance with federal guidelines over the Equipment and Real Property Management requirements and places the City at risk of not receiving additional federal funding.

We recommended that the City's management establish controls to ensure compliance and comply with the contract and the requirements for Equipment and Real Property Management.

DEPARTMENT OF REDEVELOPMENT  
CITY OF EAST CHICAGO  
FEDERAL FINDINGS  
(Continued)

***FINDING 2014-005 - REPORTING***

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-12-MC180004, B-13-MC180004

*Internal Control*

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 Reporting compliance requirement. 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.

The City assessed the risk for accounting system recording errors and brought the Department funds, including Community Development Block Grant (CDBG), into the City's records. The federal Housing and Urban Development Department (HUD) also requires CDBG transactions to be entered into their Integrated Disbursement and Information System (IDIS) system. However, City officials have not been able to reconcile the two accounting systems. By not reconciling the records, the Commission and City are at risk of not adequately monitoring the grant and Reporting requirements.

A proper system of oversight or review has not been established for the Integrated Disbursement and Information System (IDIS) System generated reports (PR 03 Accounting Summary Report and PR 26 Financial Summary Report) and a Performance Report HUD 6002 Section 3 Reports.

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.

*Compliance*

HUD requires recipients to file financial reports on a quarterly basis. The City filed the four required reports for 2014; however, the reported amounts for the four quarters did not agree with amounts recorded in the City's ledger. The City's ledger was not used to complete the reports and a reconciliation of the City's ledger to the amounts reported was not available.

The receipts reported for the second, third, and fourth quarters resulted in an understatement of receipts by \$270,263 without explanation. The disbursements reported for the third quarter were overstated by \$65,389 when compared to the City's ledger. Furthermore, the cash on hand reported as of the end of the fourth quarter was negative \$122,362. The cash balance per the City's records was negative \$82,324.

DEPARTMENT OF REDEVELOPMENT  
CITY OF EAST CHICAGO  
FEDERAL FINDINGS  
(Continued)

The PR 026 Annual Financial Report and PR 03 CDBG Activity Summary reports are not reconciled to amounts recorded in the City's ledger.

24 CFR 85.20 states in part:

"(b) The financial management systems of other grantees and subgrantees must meet the following standards:

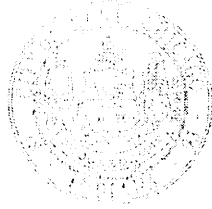
- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records 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. . . ."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

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

We recommended that the Department and the Commission's management establish controls to ensure compliance and comply with the Reporting requirements of the program.



CORRECTIVE ACTION PLAN

**FINDING 2014-001 – SECTION 8 HOUSING ASSISTANCE PAYMENTS**

Contact Person Responsible for Corrective Action: Maria C. Becerra  
Contact Phone Number: (219) 391-8513

Description of Corrective Action Plan:

The City's Department of Redevelopment Management will establish an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Cash Management, Eligibility, Reporting and Special Tests and Provisions – Vacant Units.

Anticipated Completion Date: November 30, 2015

[Handwritten Signature]  
(Signature)

President Ronald London  
(Title)

8-3-15  
(Date)

[Handwritten Signature: Maria C. Becerra]  
(Signature)

Executive Director \_\_\_\_\_  
(Title)

[Handwritten Signature]  
(Date)



CORRECTIVE ACTION PLAN

**FINDING 2014-002 – SPECIAL TESTS AND PROVISIONS – HOUSING QUALITY STANDARDS**


Contact Person Responsible for Corrective Action: Maria C. Becerra

Contact Phone Number: (219) 391-8513

Description of Corrective Action Plan:

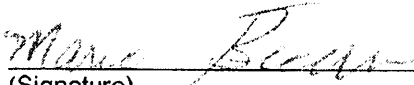
The City's Department of Redevelopment Management will establish an effective internal control system, which would include segregation of duties, related to the grant agreement and the Special Tests and Provisions – Housing Quality Standards compliance requirements. The Department will establish the proper internal control structure to ensure compliance and comply with the contract and the requirements for Special Tests and Provisions associated with the Section 8 Housing Assistance Payments Program – Housing Quality Standards.

Anticipated Completion Date: November 30, 2015

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

President RONALD LONDON  
(Title)

8-3-15  
\_\_\_\_\_  
(Date)

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

Executive Director \_\_\_\_\_  
(Title)

November 3, 2015  
\_\_\_\_\_  
(Date)

CORRECTIVE ACTION PLAN

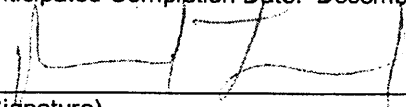
**FINDING 2014-003 – Internal Control over Community Development Block Grants/Entitlement Grants**

Contact Person Responsible for Corrective Action: Maria C. Becerra  
Contact Phone Number: (219) 391-8513

Description of Corrective Action Plan:

The City's Department of Redevelopment Management will establish an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Activities Allowed, Allowable Costs, Cash Management, Program Income, Davis Bacon Act, Subrecipients Monitoring, and Special Tests and Provisions. The Department will 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.

Anticipated Completion Date: December 31, 2015

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

President Ronald London  
(Title)

8-3-15  
\_\_\_\_\_  
(Date)

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

Executive Director \_\_\_\_\_  
(Title)

August 2, 2015  
\_\_\_\_\_  
(Date)

ORRECTIVE ACTION PLAN

**FINDING 2014-004 – Equipment and Real Property Management**


Contact Person Responsible for Corrective Action: Maria C. Becerra

Contact Phone Number: (219) 391-8513

Description of Corrective Action Plan:

The City's Department of Redevelopment Management will establish an effective internal control system, which would include segregation of duties, related to the grant agreement and the Equipment and Real Property Management compliance requirements. The Department will establish the proper internal controls, including segregation of duties, related to the grant agreement and all compliance requirements for Equipment and Real Property Management, to ensure compliance and comply with the contract and the requirements

Anticipated Completion Date: December 31, 2015

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

President RONALD LONDON  
(Title)

8-3-15  
\_\_\_\_\_  
(Date)

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

Executive Director \_\_\_\_\_  
(Title)

August 8, 2015  
\_\_\_\_\_  
(Date)

CORRECTIVE ACTION PLAN

**FINDING 2014-005 – REPORTING**

Contact Person Responsible for Corrective Action: Maria C. Becerra

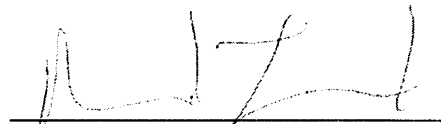
Contact Phone Number: (219) 391-8513

Description of Corrective Action Plan:

The City's Department of Redevelopment Management will establish an effective internal control system, which would include segregation of duties, related to the grant agreement and the Reporting compliance requirement.

The Department will establish proper internal control structure to ensure compliance and comply with the contract and the requirements including segregation of duties, related to the grant agreement and Reporting requirement.

Anticipated Completion Date: December 31, 2015



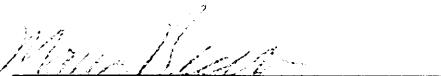
(Signature)

President Ronald London

(Title)

8-3-15

(Date)



(Signature)

Executive Director \_\_\_\_\_

(Title)

8/6/15

(Date)

DEPARTMENT OF REDEVELOPMENT  
CITY OF EAST CHICAGO  
AUDIT RESULT AND COMMENT

**COLLECTION OF AMOUNTS DUE**

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

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

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

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

Healthy East Chicago, Inc., has not paid the required monthly payment of \$14,081.61 since November 9, 2010, for the amounts due October 1, 2010, due to financial constraints. The remaining unpaid principal balance was \$1,138,515.79 as of October 1, 2010. Beginning in April 2011, the Department of Redevelopment did receive interest only payments from Healthy East Chicago, Inc., for the November 2010 through August 15, 2013, monthly payments; however, additional interest was not calculated or collected for the late payments. As of July 23, 2015, no additional payments have been received.

A similar comment appeared in prior Report B44806.

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

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

ADAM D. DECKER  
ATTORNEY AT LAW, P.C.

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10200 BROADWAY  
CROWN POINT, INDIANA 46307

TELEPHONE: (219) 663-7400  
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EMAIL: DECKERLAW@SBCGLOBAL.NET

August 13, 2015

State Board of Accounts  
302 W. Washington St.  
Room E 418  
Indianapolis, IN 46204-2765

Re: OFFICIAL RESPONSE - State Board of Accounts Audit

Dear Sir/Ma'am:

Please accept this letter as an official response to the comments contained in the audit report for the City of East Chicago Department of Redevelopment (the "ECCR") for the period January 1 through December 31, 2014.

A. The Nature of the Litigation.

In this lawsuit, the ECCR seeks for foreclose two (2) mortgages securing payment of two (2) notes executed by Healthy East Chicago, Inc. ("HEC"), an Indiana not-for-profit corporation that owns a commercial office building located at 100 West Chicago Ave., East Chicago, Indiana 46312 (the "subject real estate"). The first of the two mortgages being foreclosed secures a note, identified as the Subordinated Promissory Note, made by HEC in favor of ECCR in the sum of \$1,950,000, dated Nov. 2, 1998. This subordinated note provides that:

1. the principal amount shall not bear any interest and that no principal or interest is due for the ten (10) year period Nov. 1, 1998 through Oct. 31, 2008 ("Segment I);
2. for the five (5) year period Nov. 1, 2008 through Oct. 31, 2013 (Segment II), the principal shall bear interest at the rate of one percent (1%);
3. for the five (5) year period Nov. 2013 through Oct. 31, 2018 (Segment III), the principal shall bear interest at the rate of three percent (3%);
4. for the twenty (20) year period Nov. 1, 2018 through Oct. 31, 2038 (Segment IV), the unpaid principal plus accrued but unpaid interest, shall bear interest at six percent (6%) and be paid in 240 equal monthly installments.

The second of the two mortgages being foreclosed secures a second note made by HEC in favor of ECCR in the sum of \$1,809,271, dated January 1, 2000. This second note contains a traditional amortization schedule for repayment.

In its Amended Complaint filed April 22, 2014, ECCR alleges that HEC is in default for non-payment of the amounts due pursuant to both mortgages. HEC has filed a counterclaim and

third-party complaint in this lawsuit against the City of East Chicago, alleging that the City of East Chicago violated the terms of a lease agreement that it entered into with HEC to allow the City of East Chicago's Department of Environmental and Public Health to occupy space in the subject real estate. HEC also denied that it violated the terms of the Subordinated Note and mortgage. In its defense, HEC relies on the manner in which the payment obligation is worded. Specifically, the Subordinated Note provides:

"During Segments II and III, the Borrower shall make payments of accrued interest semi-annually; provided, however, such payments shall be made only to the extent that they are permitted under the indebtedness payable to Peoples Bank, SB as hereinafter described and to which this indebtedness is subordinated."

"The loan evidenced by this Subordinated Promissory Note is subordinate to the Peoples Bank Loan and *no payments of principal or interest shall be made on the indebtedness evidenced by this Note until there has been sixty (60) consecutive months in which the Borrower's debt coverage ratio, as defined in the Peoples Loan Commitment shall have been equal to or greater than 1.20 to 1.00 and payments of principal or interest on the indebtedness evidenced by this Promissory Note shall cease if at any time the Borrower's debt coverage ratio falls below 1.20 to 1.00.*"

HEC asserts in the litigation that it has not achieved a debt coverage ratio equal to or greater than 1.20 to 1.0 during the time period in which ECDR claims payments should have been made. It further asserts that any monies paid by it to ECDR on the Subordinated Note should have been credited to the other note. HEC has also filed a counterclaim and third-party complaint against the City of East Chicago alleging breach of lease for non-payment of rent since April, 2012. In fact, the City of East Chicago ceased payment of rent for the offices occupied by its Dept. of Public Health in 2012 after HEC stopped making payment under the notes. The counterclaim and third-party complaint allege that the City of East Chicago entered into three (3) leases on behalf of its Dept. Public and Environmental Health. The total amount of unpaid rent as of Dec. 31, 2013 was approximately \$228,690.

#### B. The Progress of the Case to Date.

The case was originally filed by predecessor legal counsel for ECDR on August 15, 2012. On April 22, 2014, I filed an Amended Complaint on behalf of ECDR. On October 29, 2014, I filed a Motion for Summary Judgment and Memorandum of Law with the Court. A hearing on said motion was scheduled for January 14, 2015. Prior to the hearing, the parties agreed to continue such hearing to allow settlement discussions. Those settlement discussions are presently ongoing, and pursuant to those discussions, ECDR would receive fee simple title to the subject real estate in exchange for a mutual release of all claims the parties may have against each other for the amounts allegedly owed. I have drafted a Deed-In-Lieu of Foreclosure Agreement for this purpose, which has been exchanged with legal counsel for HEC, and the parties are still engaged in negotiations.

- C. How management of the City of East Chicago is responding or intends to respond to the litigation; e.g., to contest the case vigorously or to seek an out-of-court settlement

The ECDR intends to pursue the foreclosure and seek to either have the subject parcel sold at sheriff sale or receive fee simple title to the said parcel.

- D. An evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.

While I submit that it is more likely than not that the Court will ultimately find that HEC is in default and issue a judgment and decree of foreclosure in favor of ECDR., it remains possible, due primarily to the language found in the Subordinated Note as set forth above, that the Court may find that HEC is not in default under the terms of said note, and that HEC breached the lease when it ceased making payments to HEC. I do not anticipate any loss to be suffered by ECDR in the event that the Court should find against ECDR in this foreclosure action and rule that HEC is not in default, as ECDR remains the mortgagee and first lien holder against the subject parcel. In that circumstance, it is likely that HEC and ECDR would then renegotiate the terms of the notes and/or leases.

The information set forth herein is as of August 10, 2015, the date on which I completed my internal review procedures for purposes of preparing this response, except as otherwise noted, and I disclaim any undertaking to advise you of changes which thereafter may be brought to my attention.

Respectfully submitted,



Adam D. Decker



DEPARTMENT OF REDEVELOPMENT  
CITY OF EAST CHICAGO  
EXIT CONFERENCE

The contents of this report were discussed on August 4, 2015, with Anthony Copeland, Mayor; Valeriano Gomez, Controller; Lenny Franciski, President of the Common Council; Kimberly Anderson, Deputy Controller; Maria Becerra, Executive Director; and Ronald London, President of the Redevelopment Commission.

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CITY CONTROLLER  
CITY OF EAST CHICAGO

CITY CONTROLLER  
CITY OF EAST CHICAGO  
AUDIT RESULT AND COMMENT

***OVERDRAWN CASH BALANCES***

The City's financial statement included the Self-Insurance fund with an overdrawn cash balance of \$2,122,571 at December 31, 2014.

Cash balances of some City funds were overdrawn due to grant funds or internal service funds operating on the reimbursement basis. Reimbursement basis of operations requires the City to expend funds and subsequently request reimbursement. Only those City funds with overdrawn cash balances at December 31, 2014, which were not due to the timing of reimbursements, were detailed above.

A similar comment appeared in the prior Report B44806.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Town, Chapter 7)

City of East Chicago  
Audit Responses  
For the Year Ended December 31, 2014

OVERDRAWN CASH BALANCES

The City has been actively pursuing alternatives to correct the deficit balance in the Self Insurance Fund. Prior year measures included reducing benefits and increasing deductibles. Future measures will include an additional appropriation and increased employer contributions.

CITY CONTROLLER  
CITY OF EAST CHICAGO  
EXIT CONFERENCE

The contents of this report were discussed on August 4, 2015, with Anthony Copeland, Mayor; Valeriano Gomez, Controller; Lenny Franciski, President of the Common Council; and Kimberly Anderson, Deputy Controller.

POLICE DEPARTMENT  
CITY OF EAST CHICAGO

POLICE DEPARTMENT  
CITY OF EAST CHICAGO  
AUDIT RESULT AND COMMENT

***POLICE BUY MONEY***

As stated in prior Report B44806, an Ordinance establishing the Police Buy Money Program and allowing the associated expenditures was not available for audit.

The following procedures should be followed if a municipality wishes to obtain an appropriation and make expenditures for buy money or payments to informants:

1. under Indiana Code 36-1-3 an ordinance should be passed allowing this type of program and associated expenditures;
2. an appropriation for such purpose must be obtained in the manner authorized by state statutes;
3. petty cash fund procedures are to be followed as authorized by Indiana Code 36-1-8-3; and
4. a minimum documentation procedure must be followed, similar to either:
  - A. "Guidelines for the Expenditure of Confidential Funds," published by the U. S. Department of Criminal Justice.
  - B. "Guidelines for Obtaining and Accounting For Confidential Funds Used in Support of Criminal Investigations," (Revised S.O.P. INV-009), by the Indiana State Police Department.

(Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2013)



POLICE DEPARTMENT  
CITY OF EAST CHICAGO  
EXIT CONFERENCE

The contents of this report were discussed on August 4, 2015, with Anthony Copeland, Mayor; Valeriano Gomez, Controller; Lenny Franciski, President of the Common Council; Kimberly Anderson, Deputy Controller; and John Verbich, Deputy Police Chief.

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WATER UTILITY  
CITY OF EAST CHICAGO

WATER UTILITY  
CITY OF EAST CHICAGO  
AUDIT RESULT AND COMMENT

***PAYMENT OF OLD INVOICES - SANITARY DISTRICT, STORM WATER, WATER***

During review of the minutes of the Sanitary District Board, Water Board, and Storm Water Board, we noted approval for the payment of old, past due invoices. The City has the responsibility to ensure claims are paid in a timely manner.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



Anthony Copeland  
Mayor

# CITY OF EAST CHICAGO

EAST CHICAGO WATER DEPARTMENT

400 E. CHICAGO AVENUE  
EAST CHICAGO, INDIANA 46312  
OFFICE: 219-391-8468 FAX: 219-391-8499

August 12, 2015

State Board of Accounts  
302 West Washington Street  
Room E 418  
Indianapolis, Indiana 46204-2765

RE: OFFICIAL RESPONSE

The following is the response to the one finding of the 2014 audit conducted by the State Board of Accounts for the East Chicago Water Department:

**Finding #1**  
***PAYMENT OF OLD INVOICES***

During review of the minutes of the Sanitary District Board, Water Board, and Storm Water Board, we noted approval of old invoices. The City has the responsibility to ensure claims are paid in a timely manner.

**RESPONSE**

The Water Department will strive to make every effort to pay invoices in a timely manner. If circumstances arise, the Board of Directors of the East Chicago Water Department will discuss the invoices and circumstances during its regularly scheduled public meeting and therefore all discussions and comment will be of public record.

Thank you,

Brian J Marciniak  
Director of Operations

WATER UTILITY  
CITY OF EAST CHICAGO  
EXIT CONFERENCE

The contents of this report were discussed on August 4, 2015, with Anthony Copeland, Mayor; Valeriano Gomez, Controller; Lenny Franciski, President of the Common Council; Kimberly Anderson, Deputy Controller; Brian Marciniak, Director of Water Operations; and John Bakota, President of the Water Board.

SANITARY/STORMWATER DISTRICT  
CITY OF EAST CHICAGO

SANITARY/STORMWATER DISTRICT  
CITY OF EAST CHICAGO  
AUDIT RESULTS AND COMMENTS

***DELINQUENT WASTEWATER ACCOUNTS***

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

A similar comment appeared in prior Report B44806.

Indiana Code 36-9-23-33 states in part:

"(c) Except as provided in subsection (m), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
  - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
  - (B) A description of the premises, as shown by the records of the county auditor.
  - (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

(d) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(f) . . . Using the lists and instruments prepared under subsection (c) and recorded under subsection (d), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (d), certify to the county auditor a list of the unpaid liens for collection with the next May installment of property taxes. . . ."

***INTERNAL CONTROLS - SANITARY DISTRICT***

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



SANITARY/STORMWATER DISTRICT  
CITY OF EAST CHICAGO  
AUDIT RESULTS AND COMMENTS  
(Continued)

As of December 31, 2014, the Wastewater (Sewer) aging accounts receivable report balance exceeds the City ledger accounts receivable balance by \$171,971; and the Sanitary District's refuse aging accounts receivable report balance exceeds the City ledger accounts receivable balance by \$5,521. One possible explanation for the continued difference in the detail customer accounts receivable report and the general ledger is how the penalties and non-sufficient funds (NSF) charges and collections are posted to the MUNIS system. The water and wastewater penalties and NSF collections are posted directly to revenue accounts in the general ledger even though the penalties and NSF fees are posted to the customer accounts and included in the aging accounts receivable report. Reconciliations between the Sewer and Refuse aging reports and the City accounts receivable ledger balance are not performed by the Utility.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***PAYMENT OF OLD INVOICES - SANITARY DISTRICT, STORM WATER, WATER***

During review of the minutes of the Sanitary District Board, Water Board, and Storm Water Board, we noted approval for the payment of old, past due invoices. The City has the responsibility to ensure claims are paid in a timely manner.

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SANITARY/STORMWATER DISTRICT  
CITY OF EAST CHICAGO  
EXIT CONFERENCE

The contents of this report were discussed on August 4, 2015, with Anthony Copeland, Mayor; Valeriano Gomez, Controller; Lenny Franciski, President of the Common Council; Kimberly Anderson, Deputy Controller; John Martinez, Director of Operations; Alojzy (Ben) Moricz, President of the Stormwater Board; and Miguel Rivera, President of the Sanitary District Board.