

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, 2015 to December 31, 2015



FILED
09/07/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Valeriano Gomez	01-01-15 to 12-31-16
Mayor	Anthony Copeland	01-01-12 to 12-31-19
President of the Board of Public Works	Valeriano Gomez	01-01-15 to 12-31-16
President of the Common Council	Juda Parks	01-01-15 to 12-31-16
Director of Utilities	Gregory Crowley	01-01-15 to 12-31-16



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, 2015 to December 31, 2015. 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/.

The Federal Findings, identified in the above referenced audit report, are included in the 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

July 20, 2016

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CITY CONTROLLER
CITY OF EAST CHICAGO

CITY CONTROLLER
CITY OF EAST CHICAGO
FEDERAL FINDINGS

FINDING 2015-001 - 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 and Years (or Other Identifying Numbers): IN36L0002278, IN36M000280

Condition

Management of the City's Department of Redevelopment (Department) had not established an effective internal control system related to the grant agreement and the following compliance requirements: Cash Management, Eligibility, Reporting, and Special Tests and Provisions - Vacant Units and Housing Quality Standards.

The Department contracted with a management company to administer the Section 8 Housing Assistance Payments Program. The management company completed all of the reimbursement vouchers, the necessary eligibility calculations, the required reports, and the activities related to the Special Tests and Provisions - Vacant Units and Housing Quality Standards. The management company performed all of these activities without oversight by the Department.

Context

The City had a lack of internal controls throughout the audit period. This is a repeat finding from the immediate prior year. The prior year finding number was 2014-001.

Criteria

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. . . ."

Cause

The Department failed to establish a proper internal control structure to ensure compliance with requirements associated with the Section 8 Housing Assistance Payments Program.

Effect

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

Questioned Costs

There were no questioned costs identified.

CITY CONTROLLER
CITY OF EAST CHICAGO
FEDERAL FINDINGS
(Continued)

Recommendation

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

Views of Responsible Officials

For the views of responsible officials, refer to the Correction Action Plan that is part of this report.

FINDING 2015-002 - PROCUREMENT

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 and Years (or Other Identifying Numbers): B-13-MC180004, B-14-MC180004

Condition

An effective internal control system was not in place at the City's Department of Redevelopment (Department) in order to ensure compliance with requirements related to the grant agreement and the Procurement compliance requirement.

The Department failed to comply with the purchasing policy approved by the Redevelopment Commission (Commission) on August 5, 2014. According to the Commission procurement policy, goods and services which cost less than \$25,000 were to be procured by obtaining quotes. The Department failed to consistently follow this policy.

Context

Of the 25 transactions tested, there were 11 instances of noncompliance with the Commission's procurement policy.

Criteria

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

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

24 CFR 85.36 states in part:

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

CITY CONTROLLER
CITY OF EAST CHICAGO
FEDERAL FINDINGS
(Continued)

(b) *Procurement standards.* (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. . . . "

The Commission's Procurement Policies and Procedures manual passed via Resolution 2014-RED-1507 on August 5, 2014, states in part:

- "1. For purchases of goods and services estimated to cost less than \$500 using federal or federally-assisted funds, the ECDR or award recipient shall make a solicitation from at least two (2) persons known to deal in the class of work proposed to be done by telephone, facsimile transmission, email, or provide any other form of notice, any of which must be documented and filed for record. A sufficient amount of time for the return of costs shall be provided to vendors in allowing for fair and reasonable competition in the solicitation. Responses to the solicitation shall be evaluated and documented by ECDR staff or representatives of ECDR, and the findings and conclusions of the solicitation shall be placed in a respective ECDR or award recipient's business file for record.
2. For purchase of goods or services estimated to cost at least \$500 and less than \$25,000 using federal or federally-assisted funds, the ECDR or award recipient shall request quotes from at least three persons known to deal in the class of work proposed to be done by telephone, facsimile transmission, email, or provide any other form of notice, any of which must be documented and filed for record, stating that the plans/ specifications and/or bidding documents are on file in a specified office. A sufficient amount of time for the return of quotes shall be provided to vendors in allowing for fair and reasonable competition in the solicitation. Quotes shall be evaluated and documented by ECDR staff or representatives of ECDR, and the findings and conclusions of the solicitation shall be reported in a timely fashion to the ECDR Commissioners for record in the minutes. . . ."

Cause

Management had not developed a system of internal controls to ensure compliance with approved policies.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirements could have resulted in the loss of federal funds to the Department.

Questioned Costs

There were no questioned costs identified.

Recommendation

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

CITY CONTROLLER
CITY OF EAST CHICAGO
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

City of East Chicago



Department of Redevelopment
400 E. Chicago Avenue
East Chicago, IN 46312
Ph: (219) 391-8513 • Fax: (219) 391-7005

CORRECTIVE ACTION PLAN

FINDING 2015-001 – SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM

Contact Person Responsible for Corrective Action: Frank Rivera - New Executive Director as of January 5, 2016
Contact Phone Number: (219) 391-8513

DESCRIPTION OF CORRECTIVE ACTION PLAN


The City of East Chicago Department of Redevelopment is working on developing an internal control system that will establish controls, including segregation of duties, related to the grant agreement and the compliance requirements.

ANTICIPATED COMPLETION DATE

December 31, 2016



Ronald London
President – Redevelopment Commission
City of East Chicago Dept. of Redevelopment
July 9, 2016



Frank Rivera
Executive Director
City of East Chicago Dept. of Redevelopment
July 20, 2016

City of East Chicago



Department of Redevelopment
400 E. Chicago Avenue
East Chicago, IN 46312
Ph: (219) 391-8513 • Fax: (219) 391-7005

CORRECTIVE ACTION PLAN

FINDING 2015-002 – COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS

Contact Person Responsible for Corrective Action: Frank Rivera - New Executive Director as of January 5, 2016
Contact Phone Number: (219) 391-8513

DESCRIPTION OF CORRECTIVE ACTION PLAN

The City of East Chicago Department of Redevelopment is working on establishing controls to ensure compliance with the Procurement requirements of the program.

ANTICIPATED COMPLETION DATE

DECEMBER 31, 2016

Ronald London
President – Redevelopment Commission
City of East Chicago Dept. of Redevelopment
July 19, 2016

Frank Rivera
Executive Director
City of East Chicago Dept. of Redevelopment
July 20, 2016

CITY CONTROLLER
CITY OF EAST CHICAGO
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCES

The financial statement presented for audit included the following funds with overdrawn cash balances at December 31, 2015:

<u>Fund</u>	<u>Amount Overdrawn</u>
Self-Insurance	\$ 1,133,190
Fire Pension	39,708
Water Utility-Operating	71,551

Cash balances of other 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, 2015, which were not due to the timing of reimbursements, were detailed above.

A similar comment appeared in several prior Reports.

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

CITY CONTROLLER
CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on July 20, 2016, with Valeriano Gomez, Controller; Anthony Copeland, Mayor; and Kim Anderson, Deputy Controller.

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WATER UTILITY
CITY OF EAST CHICAGO

WATER UTILITY
CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCE

The financial statement presented for audit included the Water Utility-Operating fund with an overdrawn cash balance of \$71,551 at December 31, 2015.

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

INTERNAL CONTROLS - WATER UTILITY

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

As of December 31, 2015, the City's Accounts Receivable balance exceeded the Water Utility Aging Accounts Receivable Report balance by \$84,907. The Water Utility contracted with an accounting firm to reconcile these accounts; however, no adjustments were made at year end.

The Water Utility assessed and collected Indiana sales tax for the sale of water. The amount of sales tax collected in one month was remitted to the state by the 20th of the following month. The City's Sales Tax Payable account did not agree with the actual payable at year end by \$14,100. Reconciliations between the monthly sales tax remitted and the City's sales tax payable General Ledger account were not performed.

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



CITY OF EAST CHICAGO

Anthony Copeland, Mayor

Gregory D. Crowley, P.E.
Director of Utilities

5201 Indianapolis Boulevard
East Chicago, IN 46312
Phone: (219) 391-8466
Fax: (219) 391-8254
Email: crowley@eastchicago.com

August 2, 2016

Lisa David
Indiana State Board of Accounts
302 W. Washington Street, Room E418
Indianapolis, IN 46204-2765

**RE: OFFICIAL RESPONSE
WATER UTILITY – CITY OF EAST CHICAGO**

Dear Ms. David:

In accordance with Indiana Code 5-11-5-1 and on behalf of the East Chicago Water Department, I am submitting a response to the comments contained in the Indiana State Board of Accounts Field Examiner report, as reviewed and discussed during a conference with the Field Examiners held on July 20, 2016. The response to the Field Examiner comments is provided below:

OVERDRAWN CASH BALANCES

The Water Utility is performing a comprehensive evaluation of operations in a concerted effort to eliminate shortfalls in sources and collection of revenue, while also endeavoring to identify and reduce inefficient or non-essential expenses to improve the availability of funds to support the Water Utility's daily operations.

INTERNAL CONTROLS – WATER UTILITY

The Water Utility does agree that no adjustments were made prior to the year-end closing of the 2015 books and records due to the termination of the previous Water Utility Director during the last ten days of calendar year 2015. This individual had provided the necessary system reports to the consultant in all previous time periods. The reports were requested, however, there was no available history of how to generate the reports for the new Water Utility Manager to follow in attempting to get the reports generated. While this process was ongoing, the consultant was granted electronic access to the Utility's reporting system for informational and report generation purposes. By granting this access and working with the new Water Utility Manager, the necessary reports were generated and the reconciliation work could be completed. Due to the above noted issues with the generation of the reports, the results became available after the City had to close its 2015 books.

By granting restricted access to the Utility reporting system, the Utility has put into place a process that limits the potential for similar circumstances to occur that caused or could cause delays in the provision of the necessary reports/information for future reconciliations. Also, the new Water Utility Manager has memorialized the process of the reports needed to complete these various reconciliations so as to avoid similar delays.

Questions regarding this response can be directed to me via telephone at (219) 391-8466 or email at crowley@eastchicago.com.

Respectfully submitted,

A handwritten signature in cursive script that reads "Gregory D. Crowley".

Gregory D. Crowley, P.E.
Director of Utilities

cc: Mr. Joseph Ochoa, President, East Chicago Waterworks Board of Commissioners
Ms. Patricia Bodnar, Water Utility Manager, East Chicago Waterworks
Mr. Theodore Sommer, London Witte Group

WATER UTILITY
CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on July 20, 2016, with Valeriano Gomez, Controller; Anthony Copeland, Mayor; Kim Anderson, Deputy Controller; Gregory Crowley, Director of Utilities; and Joe Ochoa, President of the Water Board of Directors.

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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 have 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 Reports.

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. . . ."

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

INTERNAL CONTROLS - SANITARY DISTRICT

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

As of December 31, 2015, the Wastewater (Sewer) Aging Accounts Receivable Report balance exceeded the City's Accounts Receivable balance by \$746,018 and the Sanitary District's Refuse Aging Accounts Receivable Report balance exceeded the City's Accounts Receivable balance by \$2,457. One possible explanation for the continued difference in the detail customer accounts receivable report and the general ledger was how the penalties and non-sufficient funds (NSF) charges and collections are recorded to the computer system. The Water and Wastewater penalties and NSF collections are recorded directly to revenue accounts in the general ledger even though the penalties and NSF fees are recorded to the customer accounts and included in the Aging Accounts Receivable Report. Reconciliations between the Sewer and Refuse aging reports and the City's Accounts Receivable balance were not performed.

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



CITY OF EAST CHICAGO

Anthony Copeland, Mayor

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August 2, 2016

Lisa David
Indiana State Board of Accounts
302 W. Washington Street, Room E418
Indianapolis, IN 46204-2765

**RE: OFFICIAL RESPONSE
SANITARY/STORMWATER DISTRICT – CITY OF EAST CHICAGO**

Dear Ms. David:

In accordance with Indiana Code 5-11-5-1 and on behalf of the East Chicago Sanitary District, I am submitting a response to the comments contained in the Indiana State Board of Accounts Field Examiner report, as reviewed and discussed during a conference with the Field Examiners held on July 20, 2016. The response to the Field Examiner comments is provided below:

DELINQUENT WASTEWATER ACCOUNTS

While the Utility would agree that delinquent wastewater fees and penalties have not been recorded or certified with the proper County offices, the Utility must be able to know without a doubt that those accounts are delinquent before such filings can occur. In order to determine whether a customer is delinquent, accurate and timely billings are required. The Utility has been experiencing numerous issues with the accuracy of meter readings transferred from the reading gathering software to the billing software. They have also encountered the failure of many meters that have exceeded their useful lives. When this occurs there is only a short window of opportunity to get this issue resolved before monthly invoices must be issued as the readings become stale and re-reads become useless. This window of opportunity has been exceeded in numerous months. The Water Utility, which performs the billing process, has applied to the Indiana State Revolving Loan Fund in order to obtain a long term loan which would enable the complete upgrading of meters and the associated software. The Water Utility is also analyzing its current billing practices and identifying areas of improvements so as to insure the accuracy of billings and thus enable the Utility to determine delinquencies for the proper filings.

INTERNAL CONTROLS – SANITARY DISTRICT

The Sanitary District has contracted with the Water Utility's accounting contractor to perform similar quarterly and year-end reconciliations. The District will be evaluating severely past due accounts and providing write off requests for Board approval. The Water Utility and Sanitary District will be reviewing the accounting and billing software account spread assumptions when monthly bills are issued and payments are made to a customer's accounts to insure that the proper assumptions are being made.

Questions regarding this response can be directed to me via telephone at (219) 391-8466 or email at crowley@eastchicago.com.

Respectfully submitted,

A handwritten signature in cursive script that reads "Gregory D. Crowley".

Gregory D. Crowley, P.E.
Director of Utilities

cc: Mr. Miguel Rivera, Vice President, East Chicago Sanitary District
Board of Commissioners
Mr. Theodore Sommer, London Witte Group

SANITARY/STORMWATER DISTRICT
CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on July 20, 2016, with Valeriano Gomez, Controller; Anthony Copeland, Mayor; Kim Anderson, Deputy Controller; Gregory Crowley, Director of Utilities; and Joe Ochoa, President of the Water Board of Directors.