

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

SUPPLEMENTAL COMPLIANCE REPORT  
OF

DEPARTMENT OF REDEVELOPMENT  
CITY OF EAST CHICAGO  
LAKE COUNTY, INDIANA

January 1, 2015 to December 31, 2015



**FILED**  
05/05/2017



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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/](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

July 20, 2016

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DEPARTMENT OF REDEVELOPMENT  
CITY OF EAST CHICAGO

DEPARTMENT OF REDEVELOPMENT  
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.



DEPARTMENT OF REDEVELOPMENT  
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.

DEPARTMENT OF REDEVELOPMENT  
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 place 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.

*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**  
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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

DEPARTMENT OF REDEVELOPMENT  
CITY OF EAST CHICAGO  
AUDIT RESULTS AND COMMENTS

**DUPLICATE AUDIT COSTS**

The City's Department of Redevelopment (Department) purchased the Harborside Apartments (Harborside) on November 12, 2009, as part of the City's master development plan in the City's Revitalization Area. On March 1, 2016, the Redevelopment Commission (Commission) received an engagement letter from a CPA Group to audit Harborside's financial statements, schedule of expenditures of federal awards, and supplementary financial information and to provide compliance services related to Harborside's federal funding for the year ended December 31, 2015. Harborside had received direct federal funding from the Department of Housing and Urban Development (HUD) and the engagement was to fulfill the audit requirements under Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) for Harborside only and not for the City as a whole. The fees related to the audit were not to exceed \$7,000.

The audit was completed on March 23, 2016. The Harborside's financial statements and audit report were certified by the Department's Executive Director on March 29, 2016. On April 8, 2016, the CPA Group was paid \$6,500 for the audit services. On June 21, 2016, twelve weeks after the audit was completed and certified by the Department's Executive Director, the Commission accepted and approved the engagement letter, and authorized the Department's Executive Director to execute the engagement letter.

The Indiana State Board of Accounts audit of the City of East Chicago, which included the audit of Harborside, began on April 20, 2016. We were informed on June 6, 2016, that Harborside had been audited by an outside firm, and at that time, our audit of Harborside was complete. The audit work provided by the CPA Group of Harborside is not sufficient to satisfy the City's requirements under the Uniform Guidance and is duplicative of the work performed by the Indiana State Board of Accounts.

A similar comment appeared in prior Report B41029 issued in 2012, which stated the City, including the Department of Redevelopment, did not obtain prior approval from the Indiana State Board of Accounts for any other examination of the City other than by the Indiana State Board of Accounts.

Subsequent to the date of this report, the Indiana State Board of Accounts communicated with HUD officials and confirmed that the federal and financial audit of the City of East Chicago meets all necessary reporting requirements for the Department and Harborside. This information was communicated with the Department's Executive Director via email on March 14, 2017, and with the Controller and Deputy Controller via email on April 5, 2017.

Indiana Code 5-11-1-24(e) states: "An audited entity may not request proposals for performing examinations of an audited entity unless the request for proposals has been submitted to and approved by the state board of accounts."

**COLLECTION OF AMOUNTS DUE**

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

DEPARTMENT OF REDEVELOPMENT  
CITY OF EAST CHICAGO  
AUDIT RESULTS AND COMMENTS  
(Continued)

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 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 (\$14,082) per the amortization schedule prepared by the Department. 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 \$14,082 since November 9, 2010, for the amounts due October 1, 2010, because of financial constraints. The remaining unpaid principal balance was \$1,138,516 as of October 1, 2010. Beginning in April 2011, the Department 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 May 25, 2016, no additional payments have been received.

A similar comment appeared in several prior Reports.

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

*City of East Chicago*



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

August 23, 2016

Dear State Board of Accounts:

In response to the Audit Results and Comments regarding duplicate audit costs regarding Harborside Apartments, the City of East Chicago Department of Redevelopment provides the following:

The audit completed by the outside CPA group was obtained based on an understanding that HUD audit requirements were not being met with past audit reports. The Department of Redevelopment had not received any communication from the State Board of Accounts regarding the completion of the audit by the deadline. Based on this understanding and past services provided, the CPA group sent the initial correspondence to the Department of Redevelopment in an effort to prepare the appropriate reporting requirements for HUD regarding Harborside Apartments. Therefore, the CPA group was obtained to avoid any missing information as dictated by HUD requirements and to avoid any penalties or disbarment.

Sincerely,

Frank Rivera  
Executive Director  
City Of East Chicago Department of Redevelopment  
August 23, 2016

DEPARTMENT OF REDEVELOPMENT  
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; Frank Rivera, Executive Director of Redevelopment; Maune Morgan, Redevelopment Commission member; Judy Nava, Redevelopment Commission member; Rodger Gates, Redevelopment Commission member; and Ezell Foster, Redevelopment Commission member.