

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF EAST CHICAGO

LAKE COUNTY, INDIANA

January 1, 2023 to December 31, 2023



FILED

09/05/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Valeriano Gomez	01-01-23 to 12-31-24
Mayor	Anthony Copeland	01-01-23 to 12-31-24
President of the Board of Public Works	Valeriano Gomez	01-01-23 to 12-31-24
President of the Common Council	Monica G. Gonzalez Lenny Franciski	01-01-23 to 12-31-23 01-01-24 to 12-31-24



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the City of East Chicago (City), for the year ended December 31, 2023, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated August 19, 2024, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

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

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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



Beth Kelley, CPA, CFE
Deputy State Examiner

August 19, 2024



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the City of East Chicago's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023. The City's major federal programs are identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

In our opinion, except for the noncompliance described in the *Basis for Qualified and Unmodified Opinions* section of our report, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the COVID-19 - Coronavirus State and Local Fiscal Recovery Funds for the year ended December 31, 2023.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2023.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

As described in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding 21.027 COVID-19 - Coronavirus State and Local Fiscal Recovery Funds, as described in item 2023-001 for Procurement and Suspension and Debarment. Compliance with such requirement is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but, is not absolute assurance, and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2023-001 and 2023-002, to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards require the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statement of the City, as of and for the year ended December 31, 2023, and the related notes to the financial statement. We issued our report thereon dated August 19, 2024, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with accounting principles generally accepted in the United States of America, and an unmodified opinion was issued regarding the presentation in accordance with the regulatory basis of accounting. Our audit was performed for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.



Beth Kelley, CPA, CFE
Deputy State Examiner

August 19, 2024

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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

CITY OF EAST CHICAGO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2023

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Housing and Urban Development</u>					
Section 8 Project-Based Cluster					
Project-Based Rental Assistance (PBRA)	Direct Grant	14.195			
Housing Assistance Payments Program			IN36L000278 & IN36M000280	\$ -	\$ 621,653
Total - Section 8 Project-Based Cluster				-	621,653
CDBG - Entitlement Grants Cluster					
Community Development Block Grants/Entitlement Grants	Direct Grant	14.218			
CDBG			B-18-MC-180004	-	3,050
CDBG			B-19-MC-180004	1,672	211,405
CDBG			B-20-MC-180004	121,900	633,465
CDBG			B-21-MC-180004	96,982	197,540
CDBG			B-22-MC-180004	49,171	133,969
CDBG			B-23-MC-180004	-	56,890
Total - Community Development Block Grants/Entitlement Grants				269,725	1,236,319
Total - CDBG - Entitlement Grants Cluster				269,725	1,236,319
Home Investment Partnerships Program	Direct Grant	14.239			
HOME Investment Partnerships Program			M-20-MC-180210	-	4,879
Total - Home Investment Partnerships Program				-	4,879
Total - Department of Housing and Urban Development				269,725	1,862,851
<u>Department of Justice</u>					
Edward Byrne Memorial Justice Assistance Grant Program	Lake County IN	16.738			
JAG2020-Local			2020-H7428-IN-DJ	-	10,292
Equitable Sharing Program	Direct Grant	16.922			
Police Federal Forfeitures			CY 2023	-	33,214
Total - Department of Justice				-	43,506
<u>Department of Transportation</u>					
Highway Planning and Construction	Indiana Department of Transportation	20.205			
Highway Planning and Construction			DES#0900064	-	49,100
Highway Planning and Construction			DES#1601146	-	12,664
Total - Highway Planning and Construction				-	61,764

CITY OF EAST CHICAGO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2023

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
Federal Transit Cluster					
Federal Transit Formula Grants	Northwestern Indiana Regional Planning Commission	20.507			
EC Bus Transit			IN-2019-030	-	101,052
EC Bus Transit			IN-2020-039	-	165,653
EC Bus Transit			IN-2022-023	-	290,045
Total - Federal Transit Formula Grants				-	556,750
Total - Federal Transit Cluster				-	556,750
Total - Department of Transportation				-	618,514
<u>Department of the Treasury</u>					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	Direct Grant	21.027			
ARP-CV Local Fiscal Recovery			ARP Act	-	11,258,475
Total - Department of the Treasury				-	11,258,475
<u>Environmental Protection Agency</u>					
Beach Monitoring and Notification Program Implementation Grants	Indiana Department of Environmental Management	66.472			
IN Great Lakes Beach Monitoring and Notification Program			CU-12E73102/73635	-	19,899
Total - Environmental Protection Agency				-	19,899
<u>Department of Health and Human Services</u>					
Public Health Emergency Preparedness	Indiana State Department of Health	93.069			
Public Health Emergency Preparedness			NU90TP922052/6307BASE	-	25,000
Immunization Cooperative Agreements	Indiana State Department of Health	93.268			
Immunization and Vaccines for Children-COVID-19			NH231P922631/53323	-	928
Immunization and Vaccines for Children-COVID-19			NH231P922631/73576	-	3,718
Total - Immunization Cooperative Agreements				-	4,646
Total - Department of Health and Human Services				-	29,646
Total federal awards expended				\$ 269,725	\$ 13,832,891

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

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

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2023. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

B. Other Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

Note 2. Indirect Cost Rate

The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

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

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Programs and type of auditor's report issued on compliance for each:

Assistance Listings Number	Name of Federal Program or Cluster	Opinion Issued
21.027	CDBG - Entitlement Grants Cluster	Unmodified
	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	Qualified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

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

No matters are reportable.

Section III - Federal Award Findings and Questioned Costs

FINDING 2023-001

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Suspension and Debarment
 Federal Agency: U.S. Department of the Treasury
 Federal Program: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds
 Assistance Listings Number: 21.027
 Federal Award Number or Year (or Other Identifying Number): ARP Act
 Compliance Requirement: Procurement and Suspension and Debarment
 Audit Findings: Material Weakness, Modified Opinion

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

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2022-001.

Condition and Context

During the audit period, the SLFRF program funds totaling \$11,258,475 were expended under the premium pay and the water, sewer, and broadband eligible use categories. Transactions expended under the water, sewer, and broadband eligible use category, totaling \$9,778,321, were subject to suspension and debarment provisions.

Prior to entering into subawards and covered transactions with the SLFRF award funds, recipients are required to verify that such contractors and subrecipients are not suspended, debarred, or otherwise excluded. "Covered transactions" include, but are not limited to, contracts for goods and services awarded under a nonprocurement transaction (i.e., grant agreement) that are expected to equal or exceed \$25,000. The verification is to be done by checking the Excluded Parties List System (EPLS), collecting a certification from that person, or adding a clause or condition to the covered transaction with that person.

The City's policies related to suspension and debarment requirements included the Executive Secretary of the Engineering and Board of Works (Executive Secretary) verifying the SAMS exclusions. The City had four ongoing contracts awarded in the prior audit period, with two vendors for various projects under the water, sewer, and broadband eligible use category. Total payments made to the vendors during the audit period were \$9,778,321, all of which were subject to suspension and debarment. Per inquiry with the City, the Executive Secretary verified the two vendors were not suspended or debarred by checking the SAMS exclusions; however, retaining documentation of the verification was not part of the process. As such, we could not determine if the City complied with the suspension and debarment requirements.

The lack of internal controls and noncompliance were systemic issues throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

31 CFR 19.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you do business is not excluded or disqualified. You do this by:

- (a) Checking the *EPLS*, or

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

- (b) Collecting a certification from that person if allowed by this rule, or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

A proper system of internal controls was not implemented by management of the City. Policies over suspension and debarment were in place; however, the procedures did not address the retention of documentation. As such, the City was unable to provide documentation to demonstrate they checked SAM.gov to verify that contractors were not suspended or debarred prior to payment.

Effect

Without the proper implementation of an effectively designed system of internal controls, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. As a result, no documentation was retained to show the status of vendors to whom payments equal to or in excess of \$25,000 were made.

Program funds used to pay contractors that have been suspended or debarred would be unallowable and the funding agency could potentially recover them. Noncompliance with the provisions of federal statutes, regulations, and the terms and conditions of the federal award could result in the loss of future federal funding to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that management of the City strengthen its system of internal controls to ensure that all contractors that are paid \$25,000 or more, all in or in part with federal funds, are not suspended or debarred from participating in federal programs. We also recommended strengthening its policies and procedures to ensure appropriate supporting documentation for federal programs is retained to be present for audit.

Views of Responsible Officials

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

FINDING 2023-002

Subject: CDBG - Entitlement Grants Cluster - Reporting

Federal Agency: Department of Housing and Urban Development

Federal Program: Community Development Block Grants/Entitlement Grants

Assistance Listings Number: 14.218

Federal Award Numbers and Years (or Other Identifying Numbers): B-18-MC-180004, B-19-MC-180004,
B-20-MC-180004, B-21-MC-180004,
B-22-MC-180004, B-23-MC-180004

Compliance Requirement: Reporting

Audit Finding: Material Weakness

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

Condition and Context

Recipients are required to submit quarterly the CDBG Cash on Hand Quarterly report (PR29). The report is generated from information entered by the City into HUD's Integrated Disbursement Information System (IDIS). The City did not have internal control procedures in place over the PR29 Quarterly Reports. The reports were generated and submitted by one individual, without a review or oversight process to detect and correct errors.

The lack of internal controls was isolated to the quarterly reports noted above.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

A proper system of internal controls was not designed by the management of the City. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the City's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

Effect

Without the proper implementation of an effectively designed system of internal controls over reporting, the City cannot ensure that the reports submitted are materially accurate and correct.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the management of the City design and implement a proper system of internal controls, including a segregation of duties, to ensure the accuracy and correctness of the PR 29 reports.

Views of Responsible Officials

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

AUDITEE-PREPARED DOCUMENTS

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



City of East Chicago
Administrative Services Division
4525 Indianapolis Blvd., East Chicago, Indiana 46312
Phone: (219) 391-8220 Fax: (219) 391-8223

Anthony Copeland
Mayor

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2022-0001

Fiscal year in which the finding initially occurred: 2022

Current Audit Period: 1/1/23 – 12/31/23

Finding Subject: Coronavirus State and Local Fiscal Recovery Funds - Suspension and Debarment

Summary of Finding: Evidence was not retained showing vendors were checked for suspension and debarment.

Status of Audit Finding: Not Corrected

Response Comments: The proposed corrective action for finding 2022-001 was to add a suspension and debarment clause to the contracts and/or retain documentation that the Excluded Parties List System (EPLS) was checked. No new contracts were entered into during 2023 so the proposed corrective action did not take place.

We will contact the current firms to provide suspension and debarment certifications and then implement the original corrective action plan going forward.



City of East Chicago

Administrative Services Division

4525 Indianapolis Blvd., East Chicago, Indiana 46312

Phone: (219) 391-8220

Fax: (219) 391-8223

Anthony Copeland
Mayor

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2022-0002

Fiscal year in which the finding initially occurred: 2022

Current Audit Period: 1/1/23 – 12/31/23

Finding Subject: Coronavirus State and Local Fiscal Recovery Funds - Reporting

Summary of Finding: Project and expenditure reports contained errors.

Status of Audit Finding: Fully Corrected and the original corrective action was implemented.



City of East Chicago

Administrative Services Division

4525 Indianapolis Blvd., East Chicago, Indiana 46312

Phone: (219) 391-8220

Fax: (219) 391-8223

Anthony Copeland

Mayor

FINDING 2023-001

Finding Subject: Coronavirus State and Local Fiscal Recovery Funds - Suspension and Debarment

Summary of Finding: Evidence was not retained showing vendors were checked for suspension and debarment.

Contact Person Responsible for Corrective Action: Valeriano Gomez, City Controller

Contact Phone Number and Email Address: (219) 391-8220 vgomez@eastchicago.com

Views of Responsible Officials: We concur with the finding

Description of Corrective Action Plan: Engineering Department in prior audit (2022-001) verified that two vendors were not suspended or debarred by checking SAM exclusions; but did not retain the documentation, nor was a policy to ensure future internal control & compliance effectively put in place. The following actions will be put in place to address these issues:

1. Engineering Department has contacted the firms involved in prior audit to provide certifications and update the contracts pertaining to the suspension and debarment documentation / certifications for verification.
2. The City of East Chicago, will enact the following policy into the City's purchasing Policy, through passage by the Board of Public Works Resolution, to be followed by similar resolutions by all City Department Boards:

CITY OF EAST CHICAGO SUSPENSION / OR DEBARMENT POLICY FOR VENDOR WHEN FEDERAL FUNDS / ASSISTANCE INVOLVED:

The following specific provisions to be followed under the City of East Chicago purchasing policy and procedure for determining Suspension and Debarment status of any vendor doing business with the City for which federal funds and / or federal assistance are to be utilized by City.

- A. SAM search, verification by contracted vendor or contractual provision. Prior to any purchase for which federal funds or federal assistance is to be utilized by the City, the purchasing agency, or its designee, shall:
 1. Examine and verify the status of any vendor participating in or to be contracting for business with the City utilizing federal funds and or federal assistance for debarment and suspension status to determine whether the vendor is qualified to participate. The check or

verification for debarment and suspension shall be performed using the System for Award Management (SAM) or any similar system currently approved for such purpose. The City Departments / Boards responsible for facilitating, coordinating and utilizing federal funds will be required to conduct and complete the SAM search, or its approved equivalent, as such procedures and methods are amended, on all vendors with whom the City intends to conduct business utilizing federal funds. Further the City or entity responsible shall provide a hard copy proof and verification of each SAM search for record keeping.

2. Require each contracted vendor utilizing federal funds to certify that the contracted vendor was not suspended or debarred; or
 3. Add a clause to appropriate contract to ensure that the contracted vendors were not suspended or debarred.
 4. Further these policy requirements for determination of suspension and / or debarment status of any vendor doing business with the City of East Chicago, in which federal funds and / or federal assistance are utilized shall pertain to "Covered Transactions" under 2 C.F. R. pt. 180, subpt. B which include those government contracts for goods and services awarded under a non-procurement transaction (e.g. grant or cooperative agreement) that are expected to equal or exceed \$25,000, or meet certain other specified criteria.
- B. No business with a debarred or suspended entity. It is specifically directed and required that the City of East Chicago, shall not conduct any business with any firm, individual, or entity that has been identified as having been debarred or suspended for such purposes, in conformance with applicable law; in particular, 2CFR 180.300
- a. 2 CFR 180.300 states: When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You must do this by: 1. Checking SAM Exclusions; or 2. Collecting a certification from that person; or 3. Adding a clause or condition to the covered transaction with that person.

Anticipated Completion Date: 01/01/2025



CORRECTIVE ACTION PLAN

FINDING 2023-002

Finding Subject: Community Development Block Grants/Entitlement Grants - Program Income
Summary of Finding:

Internal Controls regarding Separation of Duties with the PR29 Quarterly Reports

Contact Person Responsible for Corrective Action:

Frank Rivera
Executive Director

Contact Phone Number and Email Address:
219-391-8513 Ext:2092
frivera@eastchicago.com

Views of Responsible Officials:

The City of East Chicago Department of Redevelopment (ECDR) concurs with the finding and ECDR will ensure compliance with the establishment of an effective internal control over Federal Award provided by Federal statutes, regulation and with the terms and conditions of the award agreement by establishing guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the Internal Control Integrated Framework' issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO) by establishing an internal control guidance ensuring a separation of duties regarding the control procedures of the PR29 Quarterly Reports.

Description of Corrective Action Plan:

A guidance will be developed to ensure that the regulation of an internal control is enforced regarding the separation of duties for the control procedures of the PR29 Quarterly Report being implemented by the Executive Director and the Community Development Program Manager. The process of assuring the separation of duties will consist of the Executive Director by insuring proper oversight, reviews and approvals are being adhered to and this is conducted by the process in IDIS of Certifying by the use of the user login ID and name and the Cash on Hand information that the Community Development Program Manager inserts into IDIS utilizing a user login ID and name. The separation of duties is assured by the Office of Community Planning and Development by the PR29 Summary of Submission of Cash on Hand Report illustrating the users in formulating the data for the PR29. Included in this information is a spreadsheet reflecting the current process where the Community Development Program Manager has been both the Certify User and Insert user. The Department of Redevelopment will change the current process to reflect the changes mentioned and in the spreadsheet it illustrates the changes forth coming in red fonts.

Anticipated Completion Date:

This will be initiated as of August 31, 2024.

OTHER REPORTS

In addition to this report, other reports may have been issued for the City. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.