

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF EAST CHICAGO
LAKE COUNTY, INDIANA

January 1, 2011 to December 31, 2011



FILED
09/27/2012

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Charles Pacurar Kimberly Anderson	01-01-11 to 06-10-11 06-11-11 to 12-31-12
Mayor	Anthony Copeland	10-16-10 to 12-31-15
President of the Board of Public Works	Charles Pacurar Val Gomez	01-01-11 to 03-30-11 03-31-11 to 12-31-12
President of the Common Council	Adrian Santos Gilda Orange	01-01-11 to 12-31-11 01-01-12 to 12-31-12
President of the Redevelopment Commission	Augusto Flores Ruby Powell-Flowers	01-01-11 to 12-31-11 01-01-12 to 12-31-12
Executive Director of Redevelopment	John Artis (Vacant) Maria C. Becerra	01-01-11 to 06-01-12 06-02-12 to 06-10-12 06-11-12 to 12-31-12
President of the Park Board	Ricardo Rodriquez Lilia Ramos	01-01-11 to 12-31-11 01-01-12 to 12-31-12
Director of Utilities	Peter Baranyai (Interim)	01-01-11 to 12-31-12
Director of Water Operations	Brian Marciniak	01-01-11 to 12-31-12
President of the Water Board	John Bakota	01-01-11 to 12-31-12
President of the Sanitary District Board of Commissioners	Jose Garza Ralph Fabbri Miguel Rivera	01-01-11 to 02-23-11 02-24-11 to 12-31-11 01-01-12 to 12-31-12
President of the Storm Water Board	Terrance Lay Anthony Galindo	01-01-11 to 02-23-11 02-24-11 to 12-31-12
Port Authority Director	Ruben Ramos (Interim)	01-01-11 to 12-31-12
President of the Port Authority Board of Directors	Milton Reed	01-01-11 to 12-31-12



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statement of the City of East Chicago (City), for the year ended December 31, 2011. This financial statement is the responsibility of the City's management. Our responsibility is to express an opinion on this financial statement based on our audit. We did not audit the financial statement of the Haborside Apartments Fund which represents 1 percent of receipts and disbursements and 4 percent of the ending cash and investments balance. The financial statement of the Harborside Apartments Fund was audited by other auditors whose report thereon has been furnished to us and, our opinion, insofar as it relates to that fund, are based upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provides a reasonable basis for our opinion.

As discussed in Note 1, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of other auditors, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2011, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated July 30, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

The City's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City's management, Common Council, Board of Public Works, Redevelopment Commission, Water Board of Directors, Sanitary District Board of Commission, Storm Water Board, Port Authority Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 30, 2012



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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 the financial statement of the City of East Chicago (City), for the year ended December 31, 2011, and have issued our report thereon dated July 30, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Other auditors audited the financial statement of the Haborside Apartments Fund, as described in our report on the City's financial statement. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2011-01 to be a material weakness.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2011-01.

The City's response to the findings identified in our audit is described in the accompanying section of the report entitled Official Response and Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City's management, Common Council, Board of Public Works, Redevelopment Commission, Water Board of Directors, Sanitary District Board of Commission, Storm Water Board, Port Authority Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 30, 2012

FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF EAST CHICAGO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2011

Fund	Restated	Receipts	Disbursements	Cash and
	Cash and Investments 01-01-11			Investments 12-31-11
General	\$ (4,280,738)	\$ 53,484,937	\$ 49,198,932	\$ 5,267
Motor Vehicle Highway	1,700,510	885,361	801,756	1,784,115
Local Road And Street	187,478	278,078	156,484	309,072
Park Nonreverting Operating	-	12,427	6,132	6,295
Health Maintenance	12,693	110,623	98,536	24,780
Economic Development Operating	3,962,398	4,763,780	2,985,230	5,740,948
Transportation	80,840	1,301,834	1,318,029	64,645
CDBG	263,994	1,961,702	2,092,528	133,168
Law Enforcement Continuing Ed	24,576	30,424	2,294	52,706
Clerk's Records Perpetuation	1,160	5,566	-	6,726
Unsafe Building	100,392	160,564	57,001	203,955
Riverboat	3,491,152	18,789,818	19,820,658	2,460,312
Parks And Recreation	(744,008)	3,864,480	3,120,011	461
Civil City Levy Excess	116,572	-	116,572	-
Cumulative Capital Development	74,541	-	-	74,541
Fire Equipment (Not Debt Service)	21,962	-	-	21,962
Cumulative Capital Improvement	547,031	93,085	619,748	20,368
Self-Insurance	(1,033,152)	9,315,103	9,561,906	(1,279,955)
Police Pension	163,771	3,785,553	3,806,733	142,591
Fire Pension	(90,507)	3,010,028	2,897,984	21,537
City And Town Court Costs	2,172	39,093	35,626	5,639
Local Development Agreement	-	12,951,874	-	12,951,874
TIF US Gypsum	-	1,622,589	1,278,292	344,297
TIF Riley Plaza	-	140,950	69,350	71,600
Homeless Prevention	-	157,403	157,278	125
Community Development Block Grant-Recovery	-	169,631	178,053	(8,422)
General Adult Probation	117,393	23,520	3,350	137,563
Federal Grants	(119,386)	1,484,706	1,350,289	15,031
State Grant	(8,482)	661,162	712,148	(59,468)
Grant Misc	212,222	564,243	166,937	609,528
Local Law Enforcement Grants	(25,266)	363,080	337,814	-
SSED Revolving Loan	310,407	234,468	233,442	311,433
Summer Youth Training Program	-	172,189	172,189	-
EC Property Improvement	6,000	-	-	6,000
Police Federal Forfeitures	23,184	63,575	19,416	67,343
Damage To City Property	72,569	4,343	1,751	75,161
Railroad Relocation	830,678	473,552	796,998	507,232
Vital Records	95,567	62,076	42,118	115,525
City Court Programs	81,647	18,083	31,362	68,368
Judgment Bonds Proceeds	133,887	-	750	133,137
EC Petty Cash Accts	2,333	2,695	3,028	2,000
EC/Gary/Hammond RLF	247,636	200,616	190,375	257,877
Redevelopment Rehab Escrow	2,606	448,113	435,171	15,548
Lease Rental Payment	(113,625)	5,735,392	4,706,406	915,361
Redevelopment Bond and Interest	631,582	1,223,491	1,221,925	633,148
Capital Projects - Other	111,206	-	87,142	24,064
Communications Revolving	(130,439)	389,715	267,458	(8,182)
Gasoline Revolving	(239,210)	1,040,845	1,111,013	(309,378)
EC Redevelopment	88,628	601	11,300	77,929
Harborside Apartments	1,002,164	2,369,978	1,977,368	1,394,774
Payroll Withholding	(1,592)	69,518,986	69,517,187	207
PERF	989,420	4,064,767	4,214,354	839,833
Health Insurance	25,866	2,984,403	2,952,731	57,538
Misc Employee Ins	50,990	4,812	2,430	53,372
EC Property Tax Credit	219,598	5,436	-	225,034
Insurance Admin Acct	1,267	-	1,267	-
NWI Health Dept Cooperative	42,466	1,175,279	1,175,882	41,863
Waterway Mgmt District	310,080	459,376	769,456	-
Worker's Compensation	2,967	181,205	182,239	1,933
City Clerk	641,258	1,223,060	1,278,828	585,490
ECSDWW Petty Cash	-	5,001	-	5,001
Wastewater Utility-Operating	1,307,501	5,687,858	5,172,637	1,822,722
Wastewater Replacement Reserve	248,471	300,000	208,785	339,686
Storm Water Utility-Operating	56	218,918	218,974	-
Solid Waste-Operating	(734,134)	9,423,685	8,514,235	175,316
Solid Waste-Bond And Interest	(145,006)	1,665,205	844,150	676,049
Sanitary District Revolving	2,098,161	223,908	1,135,571	1,186,498
Sanitary Levy Excess	34,374	-	34,374	-
Utilities Revolving	-	670,783	670,783	-
Sanitary State Revolving	38,683	-	-	38,683
Water Utility Meter Deposit	-	815	-	815
Water Utility-Operating	(313,074)	6,125,259	5,926,308	(114,123)
Water Utility-Bond And Interest	1,039,767	-	1,039,767	-
Water Tank Refurbishment	610,886	66,560	935	676,511
Water Utility-Customer Deposit	310,452	4,116	6,971	307,597
Water Utility-Construction	6,581,298	11,072,264	16,613,171	1,040,391
Change Fund	500	-	-	500
Water Utility-Debt Reserve	1,379,753	62,623	54,336	1,388,040
Water Utility-Bond and Interest	2,138,989	4,056,971	3,897,490	2,298,470
EC Marina	27,008	1,607,222	1,623,996	10,234
EC Marina Petty Cash Accts	8,811	8,040	6,704	10,147
Totals	\$ 24,850,954	\$ 253,287,898	\$ 238,322,444	\$ 39,816,408

The notes to the financial statement are an integral part of this statement.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, storm water, trash, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Penalties which include fees received for late payments.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, over-time compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

State statutes authorize the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The City may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the City by recording as a disbursement any replacement items purchased.

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

B. 1925 Police Officers' Pension Plan

Plan Description

The 1925 Police Officers' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

C. 1937 Firefighters' Pension Plan

Plan Description

The 1937 Firefighters' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

On Behalf Payments

The 1937 Firefighters' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

D. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS) for all police officers and firefighters hired after April 30, 1977.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting, and requirements for contributions by employers and by employees. Covered employees may retire at age 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

The contribution requirements of plan members and the City are established by the Board of Trustees of INPRS.

Note 7. Subsequent Events

Short Term Debt - Loans Between Funds

Due to a delay in collecting revenue from water customer billing and marina slip rentals, the City made temporary loans between funds during 2011. These loans were not repaid during 2011. There were two outstanding loans between funds totaling \$500,000 as of December 31, 2011. The repayment of these temporary loans between funds was extended on December 1, 2011, by the Sanitary District Board of Commissioners after determining that an emergency existed. The new repayment due date is June 30, 2012.

Short Term Debt – Tax Anticipation Warrants

On January 5, 2012, the City issued tax anticipation warrants for 2012 totaling \$16,426,104 in the General, Parks and Recreation, and Solid Waste-Operating Funds. Principal and interest of \$6,348,233 and \$77,279 was paid on June 29, 2012, and \$10,077,871 is due on December 31, 2012. The interest rate on these tax anticipation warrants is 2.49 percent.

Scheduled Unpaid Leave

On January 3, 2012, the Mayor signed Executive Order No. 12-01 establishing unpaid leave for full-time employees, with the exception of certain public safety employees, in order to reduce the operating budget for 2012. By and through the Executive Order, full-time employees were ordered to take 12 scheduled unpaid leave days throughout 2012.

Note 8. Indiana Harbor Revitalization Project

The Community Builders, Inc. (TCB), Hispanic Housing Development Corp. (HHDC), and EDAW combined to form the Indiana Harbor Community Master Development Team, which was jointly selected by the East Chicago Board of Public Works, East Chicago Housing Authority, and the East Chicago Redevelopment Commission.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

On March 1, 2006, a Master Development Agreement was entered into for a Master Developer to oversee and carry out the redevelopment (the Revitalization) of a certain portion of the City known as the Indiana Harbor Community. This area was designated by the City's Redevelopment Commission as a Tax Increment Financing (TIF) District in 2002. As part of the agreement, the Master Developer is to plan, coordinate and implement all aspects of the Revitalization. The Revitalization contemplates a comprehensive redevelopment of the Revitalization Area, including the development or redevelopment of housing, commercial and retail space, public space, public facilities, and industrial facilities.

To achieve the revitalization, the City's Redevelopment Commission transferred ownership of 21 parcels of property to Northtown Village Townhomes Limited Partnership (Northtown) for the sum of \$10 in 2008. Northtown is a wholly owned subsidiary of The Community Builders, Inc., one of the three entities which comprise the Indiana Harbor Community Master Development Team.

The Commission also loaned Northtown \$3,000,000 to be used to finance construction of 75 unit townhomes consisting of two, three, and four bedroom rental units comprised of ten separate buildings. The loan was made in installments over a three year period. Northtown was loaned \$619,558 in October 2007 and \$1,380,442 in November 2008 from the Economic Development Commission Fund, which receipts the tax increment financing property tax revenues generated from the TIF District. The final installment was paid to Northtown on February 6, 2009, from grants awarded to the City in 2007 from the East Chicago Urban Enterprise Association, Inc., and the Gary/Hammond/East Chicago Empowerment Zone. The Phase I loan bears interest at 1.75 percent compounded annually. The unpaid principal as well as any accrued and unpaid interest will be due and payable no later than December 31, 2048.

Northtown completed the 75 unit development and all units were fully occupied as of March 30, 2010, with plans underway for a Phase II development. Phase II will consist of 50 additional units. To undertake this project the Northtown retained \$1,200,000 of funds available for repayment on the \$3,000,000 loan for Phase I, and the Commission provided an additional \$500,000 from the Economic Development Commission Fund. A new loan agreement was established to evidence the \$1,700,000 loan made by the Commission to Northtown as of June 30, 2010. This loan bears interest at 1.25 percent, compounding annually. The unpaid principal as well as any accrued and unpaid interest will be due and payable no later than December 31, 2050.

On June 30, 2010, the Commission loaned Northtown \$953,000 also bearing interest at 1.25 percent, compounding annually. The unpaid principal as well as any accrued and unpaid interest will be due and payable no later than December 31, 2050. The Commission received the loan funds from the U.S. Department of Housing and Urban Development through the Neighborhood Stabilization Program (NSP).

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

	<u>Balance</u> 01-01-11	<u>New</u> <u>Loans</u>	<u>Repayments</u>	<u>Balance</u> 12-31-11	<u>Accrued and</u> <u>Unpaid Interest</u>
Phase I	\$ 1,800,000	\$ -	\$ -	\$ 1,800,000	\$ 120,355
Phase II	<u>1,700,000</u>	<u>953,000</u>	<u>-</u>	<u>2,653,000</u>	<u>44,623</u>
Totals	<u>\$ 3,500,000</u>	<u>\$ 953,000</u>	<u>\$ -</u>	<u>\$ 4,453,000</u>	<u>\$ 164,978</u>

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 9. Harborside Apartments

The City, through its Redevelopment Commission, purchased the Harborside Apartments (the Project) on November 12, 2009, as part of the continued revitalization of the City's Lake Front Redevelopment Area. On September 1, 2009, the City issued \$6,300,000 of Tax Increment Revenue Bonds to finance the purchase of the Project.

The Project was previously an Illinois Limited Partnership formed pursuant to the laws of the State of Illinois. The Project was formed on October 12, 1989, to construct, own and operate a 225-unit apartment community known as Harborside Apartments, located in East Chicago, Indiana. The apartment community is operated under the Section 8 Housing Assistance Payments Program of the U.S. Housing Act of 1937, as amended. The Project has entered into the standard regulatory agreement with the Federal Housing Administration (FHA) Section of the Department of Housing and Urban Development (HUD). The Project is managed by Residential Management Company and pays a management fee based on 5.77 percent of revenues collected.

Substantially all revenues of the Project are derived from the Section 8 Housing Assistance payments. The 2011 Housing Assistance payments totaled \$2,112,114, which represents approximately 89 percent of the total receipts. The rent subsidy with HUD has been renewed through November 12, 2012. The Project may not distribute any assets without the consent of HUD. Under the regulatory agreement with HUD, the Project may not increase rents charged to tenants without prior HUD approval.

The Harborside Apartments had a separate audit completed and the separate audit can be obtained from the City of East Chicago, Department of Redevelopment, at 400 E. Chicago Avenue, East Chicago, Indiana, 46312.

Note 10. Water Filtration Plant Financing

In 2006, the City authorized the construction of a new water treatment plant and improvements to the intake system, water pumping station, pretreatment and filtration systems, and water storage system. To finance the estimated \$54,200,000 water filtration plant construction and improvements, the City has committed the following resources:

1. In 2006, the City entered into a \$16,600,000 loan with the State Revolving Loan Fund (SRF). Under the terms of the financial assistance agreement, waterworks revenue bonds issued by the City have been purchased by the Indiana Finance Authority. The proceeds are set aside to finance the water utility improvements. Funds are loaned to the City's water department as costs are incurred to the maximum allowed. The 2006 loan program funds are still being drawn down. As of December 31, 2011, the City has drawn \$16,537,847, which leaves \$62,153 remaining to be drawn.

The repayment of the loan is from the Water Utility Operating Fund.

2. In 2009, the City entered into a \$27,200,000 loan with the State Revolving Loan Fund (SRF). Under the terms of the financial assistance agreement, waterworks revenue bonds issued by the City have been purchased by the Indiana Finance Authority. The proceeds are set aside to finance the water utility improvements. Funds are loaned to the City's water department as costs are incurred to the maximum allowed. The 2009 loan program funds are still being drawn down. In 2009, the project was increased by \$8,750,000 through a forgivable loan

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

(see paragraph 3 below) and money from the Economic Development Commission Fund (see paragraph 4 below), making the total project \$35,950,000. As of December 31, 2011, the City has drawn \$35,837,341 which leaves \$112,659 remaining to be drawn.

The City approved Ordinance 06-0053 on January 9, 2007, to irrevocably pledge a maximum of \$3,000,000 annually of gaming revenue for the payment of principal and interest on the 2009 \$27,200,000 State Revolving Fund loan. Per the financial assistance agreement, the City is to deposit by January 16th of each year an annual amount equal to the principal and interest on all outstanding bonds payable during the next twelve month period. If gaming revenue is insufficient, the City would cause a levy of a special benefit tax upon all property of the Waterworks District in the amount necessary to meet and pay the principal and interest payments when due.

3. In 2009, the City entered into a \$3,000,000 forgivable loan with the State Revolving Loan Fund (SRF). Under the terms of the financial assistance agreement, waterworks bond anticipation notes (BAN) issued by the City have been purchased by the Indiana Finance Authority. The proceeds are set aside to finance the water utility improvements. Funds are loaned to the City's water department as costs are incurred to the maximum allowed. The 2009 BAN was subject to loan forgiveness and was deemed forgiven and discharged on November 12, 2010, for the entire amount of the loan, as permitted by the American Recovery and Reinvestment Act. During 2010, the City drew down the entire \$3,000,000 loan.
4. In 2009, the City disbursed \$5,750,000 from the Economic Development Commission Fund, in accordance with the financial assistance agreement with the Indiana Finance Authority, into a Project Fund for the water utility improvements. As of December 31, 2011, the City has drawn \$5,637,341 which leaves \$112,659 remaining to be drawn.
5. The U.S. Army Corp of Engineers contributed the construction of a water storage reservoir at an estimated value of \$1,650,000.

Note 11. Contingent Liabilities and Lawsuits

The City has been named as a defendant in several pending lawsuits of which the outcome and the amount of potential damages has not been estimated.

The City continues to litigate unpaid legal bills in the amount of \$3,000,000 against a firm previously retained by the City to defend wrongful termination/political firing cases under prior administrations from 2005 through 2008. The likelihood of the claim succeeding against the City is unknown at this time.

Corruption Lawsuits

On March 11, 2010, a federal judge ordered former Mayor Robert Pastrick, former aide James Fife III, and former City Council President Frank Kollintzas to pay \$108 million in civil damages in settlement of the federal racketeering lawsuit filed by the State in 2004. The suit alleged former Mayor Pastrick and others ran the City as a "corrupt enterprise" and spent \$24 million in public money on private driveways, patios, and walkways to court voters in the 1999 Democratic primary. Damages were calculated based not only on money alleged spent to buy votes, but on other costs associated with public corruption, including a bond issue that the City issued due to the General Fund being depleted. The City collected \$28,620 in restitution during 2011.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 12. Settlements

Consent Decree

An Agreed Judgment resolving the case of the Indiana Department of Environment Management (IDEM) vs. The East Chicago Sanitary District (District) was approved and entered by the Judge of the Lake Circuit Court on October 1, 2007. The Consent Decree contains both specific and general tasks and obligations and goals which are to be accomplished within prescribed deadlines. The Consent Decree provides for the payment of stipulated penalties in the event of the District's failure to comply with specified wastewater treatment plant performance standards or to achieve facility improvement programs within the time limits imposed.

The major component of the Agreed Judgment is the District's obligation to revise and implement a long term combined sewer overflow control plan (Long Term Plan). The process includes submission of a Use Attainability Analysis which determines a financial capability assessment of the District user charge payers and the cost effectiveness of treatment plant and system improvements which would reduce Combined Sewer Overflows (CSO) into the Grand Calumet River. The Long Term Plan has been submitted to the IDEM and review by the United States Environmental Protection Agency (EPA) is pending. The current plan proposes spending approximately \$4,000,000 on treatment plant and system improvements. IDEM has recently suggested that EPA approval may require an additional expenditure over years in order to reduce the number of CSO events. The District is currently negotiating with representatives of IDEM to determine whether to modify the terms of the Long Term Plan so as to contain additional obligations of the District. The total cost of this project could be as much as \$10,000,000, to be completed over a time period negotiated.

Note 13. Tax Increment Receipts Pledged

The City has pledged a portion of tax incremental finance property tax receipts to repay \$9,065,040 in tax increment finance revenue bonds issued in 1999 to finance the acquisition of processing and production equipment for high capacity wallboard manufacturing facility (U.S. Gypsum Company). The bonds are payable solely from the incremental property tax generated by the allocation area. Incremental property taxes were projected to produce 100 percent of the debt service requirements over the life of the bonds. The tax incremental finance property taxes received in 2011 were not enough to cover the 2011 payments due or the payment due on January 1, 2012.

The City has pledged a portion of tax incremental finance property tax receipts to repay \$1,750,000 in tax increment finance revenue bonds issued in 2007 to finance the costs of converting an existing retail structure located in Riley Plaza into a supermarket facility. The bonds are payable solely from the incremental property tax generated by the allocation area. Incremental property taxes were projected to produce 100 percent of the debt service requirements over the life of the bonds. The tax incremental finance property tax receipts received in 2011 were not enough to cover the 2011 payments due.

The City has pledged a portion of tax incremental finance property tax receipts to repay \$6,300,000 in tax increment finance revenue bonds issued in 2009 to finance the costs of acquiring certain property located within the Allocation Area, commonly known as the Harborside Apartments, pursuant to the Redevelopment Plan for the Allocation Area. The bonds are payable solely from the incremental property tax generated by the allocation area. Incremental property taxes were projected to produce 100 percent of the debt service requirements over the life of the bonds. The tax incremental finance property tax receipts received in 2011 were enough to cover the 2011 payments due.

CITY OF EAST CHICAGO
 NOTES TO FINANCIAL STATEMENT
 (Continued)

Note 14. Restatements

For the year ended December 31, 2011, certain changes have been made to the financial statement to more appropriately reflect the financial activity of the City as follows:

<u>Fund</u>	<u>Cash and Investments January 1, 2011</u>	<u>Restatement</u>	<u>Cash and Investments January 1, 2011, Restated</u>
Water Utility - Construction	\$ 5,060,021	\$ 1,521,277	\$ 6,581,298
Harborside Apartments	-	1,002,164	1,002,164

The Water Utility - Construction Fund's beginning cash and investment balance for 2011 excluded the balance of a construction escrow account not previously reported. In addition, the Harborside Apartments Fund's beginning cash and investment balance excluded the balances of three accounts totaling \$1,002,164.

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's 2011 Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the City. It is presented as intended by the City.

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

	General	Motor Vehicle Highway	Local Road And Street	Park Nonreverting Operating	Health Maintenance	Economic Development Operating	Transportation	CDBG
Cash and investments - beginning	\$ (4,280,738)	\$ 1,700,510	\$ 187,478	\$ -	\$ 12,693	\$ 3,962,398	\$ 80,840	\$ 263,994
Receipts:								
Taxes	29,845,855	-	-	-	-	4,525,013	535,698	-
Licenses and permits	293,385	-	-	-	-	-	-	-
Intergovernmental	815,661	880,910	278,078	-	110,623	-	764,079	1,619,588
Charges for services	1,185,354	-	-	12,427	-	-	-	21,169
Fines and forfeits	118,412	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	21,226,270	4,451	-	-	-	238,767	2,057	320,945
Total receipts	53,484,937	885,361	278,078	12,427	110,623	4,763,780	1,301,834	1,961,702
Disbursements:								
Personal services	25,679,281	524,514	-	-	-	391	1,059,771	-
Supplies	553,912	188,533	-	-	27,199	-	166,988	-
Other services and charges	3,279,086	88,709	156,484	6,132	68,516	145,221	91,270	1,846,954
Debt service - principal and interest	19,618,664	-	-	-	-	-	-	-
Capital outlay	895	-	-	-	2,821	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	67,094	-	-	-	-	2,839,618	-	245,574
Total disbursements	49,198,932	801,756	156,484	6,132	98,536	2,985,230	1,318,029	2,092,528
Excess (deficiency) of receipts over disbursements	4,286,005	83,605	121,594	6,295	12,087	1,778,550	(16,195)	(130,826)
Cash and investments - ending	<u>\$ 5,267</u>	<u>\$ 1,784,115</u>	<u>\$ 309,072</u>	<u>\$ 6,295</u>	<u>\$ 24,780</u>	<u>\$ 5,740,948</u>	<u>\$ 64,645</u>	<u>\$ 133,168</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Law Enforcement Continuing Ed	Clerk's Records Perpetuation	Unsafe Building	Riverboat	Parks And Recreation	Civil City Levy Excess	Cumulative Capital Development	Fire Equipment (Not Debt Service)
Cash and investments - beginning	\$ 24,576	\$ 1,160	\$ 100,392	\$ 3,491,152	\$ (744,008)	\$ 116,572	\$ 74,541	\$ 21,962
Receipts:								
Taxes	-	-	-	17,481,184	1,830,430	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	28,569	-	-	-
Charges for services	-	-	-	-	570,907	-	-	-
Fines and forfeits	30,424	5,566	124,220	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	-	-	36,344	1,308,634	1,434,574	-	-	-
Total receipts	30,424	5,566	160,564	18,789,818	3,864,480	-	-	-
Disbursements:								
Personal services	-	-	-	-	1,389,266	-	-	-
Supplies	-	-	-	261,033	155,651	-	-	-
Other services and charges	-	-	57,001	4,162,148	248,216	-	-	-
Debt service - principal and interest	-	-	-	634,105	1,311,033	-	-	-
Capital outlay	2,134	-	-	515,439	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	160	-	-	14,247,933	15,845	116,572	-	-
Total disbursements	2,294	-	57,001	19,820,658	3,120,011	116,572	-	-
Excess (deficiency) of receipts over disbursements	28,130	5,566	103,563	(1,030,840)	744,469	(116,572)	-	-
Cash and investments - ending	<u>\$ 52,706</u>	<u>\$ 6,726</u>	<u>\$ 203,955</u>	<u>\$ 2,460,312</u>	<u>\$ 461</u>	<u>\$ -</u>	<u>\$ 74,541</u>	<u>\$ 21,962</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Cumulative Capital Improvement	Self-Insurance	Police Pension	Fire Pension	City And Town Court Costs	Local Development Agreement	TIF US Gypsum	TIF Riley Plaza
Cash and investments - beginning	\$ 547,031	\$ (1,033,152)	\$ 163,771	\$ (90,507)	\$ 2,172	\$ -	\$ -	\$ -
Receipts:								
Taxes	-	-	14,397	14,397	-	-	1,622,589	140,950
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	93,085	-	3,767,377	2,972,431	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	37,065	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	-	9,315,103	3,779	23,200	2,028	12,951,874	-	-
Total receipts	93,085	9,315,103	3,785,553	3,010,028	39,093	12,951,874	1,622,589	140,950
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	-	144,922	7,271	6,444	-	-	-	750
Debt service - principal and interest	-	-	-	-	-	-	1,278,292	68,600
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	619,748	9,416,984	3,799,462	2,891,540	35,626	-	-	-
Total disbursements	619,748	9,561,906	3,806,733	2,897,984	35,626	-	1,278,292	69,350
Excess (deficiency) of receipts over disbursements	(526,663)	(246,803)	(21,180)	112,044	3,467	12,951,874	344,297	71,600
Cash and investments - ending	\$ 20,368	\$ (1,279,955)	\$ 142,591	\$ 21,537	\$ 5,639	\$ 12,951,874	\$ 344,297	\$ 71,600

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Homeless Prevention	Community Development Block Grant-Recovery	General Adult Probation	Federal Grants	State Grant	Grant Misc	Local Law Enforcement Grants	SSED Revolving Loan
Cash and investments - beginning	\$ -	\$ -	\$ 117,393	\$ (119,386)	\$ (8,482)	\$ 212,222	\$ (25,266)	\$ 310,407
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	157,403	169,631	-	1,484,706	659,004	6,995	363,080	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	23,520	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	2,158	557,248	-	234,468
Total receipts	157,403	169,631	23,520	1,484,706	661,162	564,243	363,080	234,468
Disbursements:								
Personal services	12,896	5,288	-	-	264,195	-	337,814	-
Supplies	13	-	2,039	-	26,600	8,778	-	-
Other services and charges	141,056	171,296	1,311	28,972	413,369	33,589	-	18
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	2,712	7,984	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	3,313	1,469	-	1,318,605	-	124,570	-	233,424
Total disbursements	157,278	178,053	3,350	1,350,289	712,148	166,937	337,814	233,442
Excess (deficiency) of receipts over disbursements	125	(8,422)	20,170	134,417	(50,986)	397,306	25,266	1,026
Cash and investments - ending	\$ 125	\$ (8,422)	\$ 137,563	\$ 15,031	\$ (59,468)	\$ 609,528	\$ -	\$ 311,433

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Summer Youth Training Program	EC Property Improvement	Police Federal Forfeitures	Damage To City Property	Railroad Relocation	Vital Records	City Court Programs	Judgment Bonds Proceeds
Cash and investments - beginning	\$ -	\$ 6,000	\$ 23,184	\$ 72,569	\$ 830,678	\$ 95,567	\$ 81,647	\$ 133,887
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	53,377	-	63,383	-	469,652	-	-	-
Charges for services	-	-	-	-	-	57,104	-	-
Fines and forfeits	-	-	-	-	-	3,623	18,010	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	118,812	-	192	4,343	3,900	1,349	73	-
Total receipts	172,189	-	63,575	4,343	473,552	62,076	18,083	-
Disbursements:								
Personal services	172,189	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	25,156	739	-
Other services and charges	-	-	10,000	1,751	796,998	13,364	16,321	750
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	9,416	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	3,598	14,302	-
Total disbursements	172,189	-	19,416	1,751	796,998	42,118	31,362	750
Excess (deficiency) of receipts over disbursements	-	-	44,159	2,592	(323,446)	19,958	(13,279)	(750)
Cash and investments - ending	\$ -	\$ 6,000	\$ 67,343	\$ 75,161	\$ 507,232	\$ 115,525	\$ 68,368	\$ 133,137

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	EC Petty Cash Accts	EC/Gary/Hammond RLF	Redevelopment Rehab Escrow	Lease Rental Payment	Redevelopment Bond and Interest	Capital Projects - Other	Communications Revolving	Gasoline Revolving
Cash and investments - beginning	\$ 2,333	\$ 247,636	\$ 2,606	\$ (113,625)	\$ 631,582	\$ 111,206	\$ (130,439)	\$ (239,210)
Receipts:								
Taxes	-	-	-	4,431,007	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	40,763	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	2,695	200,616	448,113	1,263,622	1,223,491	-	389,715	1,040,845
Total receipts	2,695	200,616	448,113	5,735,392	1,223,491	-	389,715	1,040,845
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	1,111,013
Other services and charges	-	9	235,870	-	-	-	267,458	-
Debt service - principal and interest	-	-	-	4,706,406	1,221,925	-	-	-
Capital outlay	-	-	-	-	-	87,142	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	3,028	190,366	199,301	-	-	-	-	-
Total disbursements	3,028	190,375	435,171	4,706,406	1,221,925	87,142	267,458	1,111,013
Excess (deficiency) of receipts over disbursements	(333)	10,241	12,942	1,028,986	1,566	(87,142)	122,257	(70,168)
Cash and investments - ending	\$ 2,000	\$ 257,877	\$ 15,548	\$ 915,361	\$ 633,148	\$ 24,064	\$ (8,182)	\$ (309,378)

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	EC Redevelopment	Harborside Apartments	Payroll Withholding	PERF	Health Insurance	Misc Employee Ins	EC Property Tax Credit	Insurance Admin Acct
Cash and investments - beginning	\$ 88,628	\$ 1,002,164	\$ (1,592)	\$ 989,420	\$ 25,866	\$ 50,990	\$ 219,598	\$ 1,267
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	-	2,326,509	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	601	43,469	69,518,986	4,064,767	2,984,403	4,812	5,436	-
Total receipts	<u>601</u>	<u>2,369,978</u>	<u>69,518,986</u>	<u>4,064,767</u>	<u>2,984,403</u>	<u>4,812</u>	<u>5,436</u>	<u>-</u>
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	300	-	-	-	211,132	2,430	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	11,000	1,977,368	69,517,187	4,214,354	2,741,599	-	-	1,267
Total disbursements	<u>11,300</u>	<u>1,977,368</u>	<u>69,517,187</u>	<u>4,214,354</u>	<u>2,952,731</u>	<u>2,430</u>	<u>-</u>	<u>1,267</u>
Excess (deficiency) of receipts over disbursements	<u>(10,699)</u>	<u>392,610</u>	<u>1,799</u>	<u>(149,587)</u>	<u>31,672</u>	<u>2,382</u>	<u>5,436</u>	<u>(1,267)</u>
Cash and investments - ending	<u>\$ 77,929</u>	<u>\$ 1,394,774</u>	<u>\$ 207</u>	<u>\$ 839,833</u>	<u>\$ 57,538</u>	<u>\$ 53,372</u>	<u>\$ 225,034</u>	<u>\$ -</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	NWI Health Dept Cooperative	Waterway Mgmt District	Worker's Compensation	City Clerk	ECSDWW Petty Cash	Wastewater Utility-Operating	Wastewater Replacement Reserve	Storm Water Utility-Operating
Cash and investments - beginning	\$ 42,466	\$ 310,080	\$ 2,967	\$ 641,258	\$ -	\$ 1,307,501	\$ 248,471	\$ 56
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	1,174,665	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	5,054,326	-	-
Fines and forfeits	-	219,951	-	-	-	61,683	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	42,982	-	-
Other receipts	614	239,425	181,205	1,223,060	5,001	528,867	300,000	218,918
Total receipts	1,175,279	459,376	181,205	1,223,060	5,001	5,687,858	300,000	218,918
Disbursements:								
Personal services	878,493	-	-	-	-	2,259,762	-	204,920
Supplies	12,185	307	-	-	-	229,618	-	5,520
Other services and charges	270,220	94,260	-	-	-	1,473,014	-	8,478
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	14,984	-	-	-	-	84,520	208,785	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	674,889	182,239	1,278,828	-	1,125,723	-	56
Total disbursements	1,175,882	769,456	182,239	1,278,828	-	5,172,637	208,785	218,974
Excess (deficiency) of receipts over disbursements	(603)	(310,080)	(1,034)	(55,768)	5,001	515,221	91,215	(56)
Cash and investments - ending	\$ 41,863	\$ -	\$ 1,933	\$ 585,490	\$ 5,001	\$ 1,822,722	\$ 339,686	\$ -

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Solid Waste-Operating	Solid Waste-Bond And Interest	Sanitary District Revolving	Sanitary Levy Excess	Utilities Revolving	Sanitary State Revolving	Water Utility Meter Deposit	Water Utility-Operating	Water Utility-Bond And Interest
Cash and investments - beginning	\$ (734,134)	\$ (145,006)	\$ 2,098,161	\$ 34,374	\$ -	\$ 38,683	\$ -	\$ (313,074)	\$ 1,039,767
Receipts:									
Taxes	6,605,110	1,649,318	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	120,206	15,887	-	-	-	-	-	-	-
Charges for services	24,738	-	-	-	-	-	-	-	-
Fines and forfeits	72,348	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	5,512,472	-
Penalties	-	-	-	-	-	-	-	36,309	-
Other receipts	2,601,283	-	223,908	-	670,783	-	815	576,478	-
Total receipts	9,423,685	1,665,205	223,908	-	670,783	-	815	6,125,259	-
Disbursements:									
Personal services	4,119,076	-	223,571	-	670,783	-	-	-	-
Supplies	162,993	-	-	-	-	-	-	-	-
Other services and charges	786,652	-	-	-	-	-	-	-	-
Debt service - principal and interest	2,145,669	844,150	-	-	-	-	-	-	-
Capital outlay	8,257	-	512,000	-	-	-	-	39,334	-
Utility operating expenses	-	-	-	-	-	-	-	3,357,894	-
Other disbursements	1,291,588	-	400,000	34,374	-	-	-	2,529,080	1,039,767
Total disbursements	8,514,235	844,150	1,135,571	34,374	670,783	-	-	5,926,308	1,039,767
Excess (deficiency) of receipts over disbursements	909,450	821,055	(911,663)	(34,374)	-	-	815	198,951	(1,039,767)
Cash and investments - ending	<u>\$ 175,316</u>	<u>\$ 676,049</u>	<u>\$ 1,186,498</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,683</u>	<u>\$ 815</u>	<u>\$ (114,123)</u>	<u>\$ -</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Water Tank Refurbishment	Water Utility-Customer Deposit	Water Utility-Construction	Change Fund	Water Utility-Debt Reserve	Water Utility-Bond and Interest	EC Marina	EC Marina Petty Cash Accts	Totals
Cash and investments - beginning	\$ 610,886	\$ 310,452	\$ 6,581,298	\$ 500	\$ 1,379,753	\$ 2,138,989	\$ 27,008	\$ 8,811	\$ 24,850,954
Receipts:									
Taxes	-	-	-	-	-	-	-	-	68,695,948
Licenses and permits	-	-	-	-	-	-	-	-	293,385
Intergovernmental	-	-	-	-	-	-	88,454	-	16,197,607
Charges for services	-	-	-	-	-	-	1,092,095	-	10,344,629
Fines and forfeits	-	-	-	-	-	-	-	-	714,822
Utility fees	-	-	-	-	-	-	-	-	5,512,472
Penalties	-	-	-	-	-	-	-	-	79,291
Other receipts	66,560	4,116	11,072,264	-	62,623	4,056,971	426,673	8,040	151,449,744
Total receipts	66,560	4,116	11,072,264	-	62,623	4,056,971	1,607,222	8,040	253,287,898
Disbursements:									
Personal services	-	-	-	-	-	-	534,889	-	38,337,099
Supplies	-	-	-	-	-	-	121,868	-	3,060,145
Other services and charges	-	-	-	-	-	-	309,115	-	15,596,857
Debt service - principal and interest	-	-	-	-	-	3,897,490	-	-	35,726,334
Capital outlay	935	-	15,687,772	-	-	-	86,919	-	17,272,049
Utility operating expenses	-	-	-	-	-	-	-	-	3,357,894
Other disbursements	-	6,971	925,399	-	54,336	-	571,205	6,704	124,972,066
Total disbursements	935	6,971	16,613,171	-	54,336	3,897,490	1,623,996	6,704	238,322,444
Excess (deficiency) of receipts over disbursements	65,625	(2,855)	(5,540,907)	-	8,287	159,481	(16,774)	1,336	14,965,454
Cash and investments - ending	\$ 676,511	\$ 307,597	\$ 1,040,391	\$ 500	\$ 1,388,040	\$ 2,298,470	\$ 10,234	\$ 10,147	\$ 39,816,408

CITY OF EAST CHICAGO
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2011

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	\$ 2,093,529	\$ 2,417,262
Sanitary District	117,901	1,339,296
Water	99,037	868,718
Marina	6,554	-
Totals	<u>\$ 2,317,021</u>	<u>\$ 4,625,276</u>

CITY OF EAST CHICAGO
SCHEDULE OF LEASES AND DEBT
December 31, 2011

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
East Chicago Municipal Building Corporation (UMB Bank)	Public Safety Facility	\$ 2,223,000	07-05-07	01-05-24
Panasonic Finance Solutions	Laptop Computers	<u>50,600</u>	03-31-11	03-31-14
Total of annual lease payments		<u>\$ 2,273,600</u>		

Type	Description of Debt	Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:				
Redevelopment Tax Increment Financing Bonds, 1999	US Gypsum Project		\$ 5,800,925	\$ 4,919,900
Taxable Economic Development Revenue Bond, Series 2007A	Riley Plaza Project		1,715,000	274,400
EC TIF Revenue Bonds Series 2009A	Harborside Redevelopment Project		<u>4,870,000</u>	<u>1,226,119</u>
Total governmental activities			<u>12,385,925</u>	<u>6,420,419</u>
Sanitary District:				
State Revolving Fund (SRF) Loan 1996	Pump Station Improvements & WWTF Modifications		<u>6,020,000</u>	<u>844,720</u>
Water:				
State Revolving Fund (SRF) Loan 2002	Water Utility Improvements		1,245,000	131,105
State Revolving Fund (SRF) Loan 2006	New Water Filtration Plant		13,720,000	1,269,168
State Revolving Fund (SRF) Loan 2009	New Water Filtration Plant		<u>26,220,000</u>	<u>1,860,765</u>
Total Water			<u>41,185,000</u>	<u>3,261,038</u>
Totals			<u>\$ 59,590,925</u>	<u>\$ 10,526,177</u>

CITY OF EAST CHICAGO
SCHEDULE OF CAPITAL ASSETS
December 31, 2011

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	Ending Balance
Governmental activities:	
Land	\$ 5,176,882
Infrastructure	19,916,377
Buildings	36,709,235
Improvements other than buildings	3,985,182
Machinery, equipment and vehicles	4,135,225
Construction in progress	13,550,402
Total governmental activities	83,473,303
Sanitary District:	
Land	885,268
Buildings	15,850,404
Improvements other than buildings	2,765,567
Machinery, equipment and vehicles	2,707,608
Construction in progress	97,366
Total Sanitary District	22,306,213
Water:	
Land	249,859
Buildings	407,049
Improvements other than buildings	2,616,182
Machinery, equipment and vehicles	37,060
Construction in progress	53,485,271
Total Water	56,795,421
Marina:	
Land	1,020,000
Buildings	6,738,038
Improvements other than buildings	424,800
Machinery, equipment and vehicles	33,001
Total Marina	8,215,839
Total capital assets	\$ 170,790,776

CITY OF EAST CHICAGO
OTHER REPORT

The annual report presented herein was prepared in addition to other official report prepared for the individual City office listed below:

City Controller

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS NOT RECORDED

The activity and balances of the EC Redevelopment and Water Utility - Customer Deposit funds were reported on the Annual Report prepared by the City Controller; however, the activity and balances of these two funds were not recorded in the City's accounting records. The transactions reported in the Annual Report were compiled by the City Controller based upon bank statement activity and balances for the various bank accounts. The total transactions of these two funds not recorded in the City's accounting records were \$4,717 in receipts, \$18,271 in disbursements, and \$385,526 in ending balances.

In addition, the City's Department of Redevelopment purchased the Harborside Apartments on November 12, 2009, as part of the City's master development plan in the City's Revitalization Area. The Redevelopment Commission contracted with Residential Management Company for the management, maintenance, and operation of the apartment complex. Per the Housing Management Agreement between the Department of Redevelopment and Residential Management Company, the Department of Redevelopment opened two bank accounts. One account is designated as Harborside Apartments Operating Account and is used to deposit rents, charges, and other receivables and disburse operating expenses of the apartment complex. The other bank account is for the collection, deposit, and disbursement of security deposits and is designated as Harborside Apartments Security Deposit Account. In February 2010, the Redevelopment Commission opened a third non-interest bank account as an escrow account to be used for future maintenance of the facilities. Monthly transfers were made from the operating account to the escrow account.

Neither the City's accounting records nor the Annual Report of the City included the Harborside Apartments funds noted above. Since the City's records did not include the above noted funds, the transactions of these three funds and the accounts payable vouchers or claims were not prepared or approved by the proper governing board. The dollar amounts which bypassed the City's recordkeeping process are considered material to the financial statement and results from a lack of internal controls of the City's recordkeeping process. The total transactions of these three funds not recorded in the City's accounting records or reported in the City's annual report were \$2,369,978 in receipts, \$1,977,368 in disbursements and \$1,394,774 in ending balances. The City Controller has approved an adjustment to the financial statement presented herein to reflect the activity of the three Harborside Apartments accounts.

Indiana Code 5-11-10-1.6(c) states:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-1-2 states in part:

"The state board of accounts shall formulate, prescribe, and install a system of accounting and reporting in conformity with this chapter, which must comply with the following:

- (1) Be uniform for every public office and every public account of the same class and contain written standards that an entity that is subject to audit must observe.
- (2) Exhibit true accounts and detailed statements of funds collected, received, obligated, and expended for or on account of the public for any and every purpose whatever, and by all public officers, employees, or other individuals.
- (3) Show the receipt, use, and disposition of all public property and the income, if any, derived from the property.
- (4) Show all sources of public income and the amounts due and received from each source.
- (5) Show all receipts, vouchers, contracts, obligations, and other documents kept, or that may be required to be kept, to prove the validity of every transaction. . . ."

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OUTSIDE AUDIT COSTS - REDEVELOPMENT

The City's Department of Redevelopment purchased the Harborside Apartments on November 12, 2009, as part of the City's master development plan in the City's Revitalization Area. The Redevelopment Commission contracted with Residential Management Company for the management, maintenance, and operation of the apartment complex. Per the Housing Management Agreement between the Department of Redevelopment and Residential Management Company (RMC), the RMC "will establish and maintain a comprehensive system of records, books, and accounts in a manner conforming to the directives of the Secretary of the United States Department of Housing and Urban Development (Secretary), and otherwise satisfactory to the Department of Redevelopment. All records, books, and accounts will be subject to examination at reasonable hours by any authorized representative of the Department of Redevelopment or Secretary."

The July 20, 2011 Redevelopment Commission minutes reflect that the former executive director was contacted by the Department of Housing and Urban Development (HUD) that a 2009 and 2010 annual financial statement audit was to be submitted as it relates to the Harborside Apartments. The Redevelopment Commission authorized the Executive Director to engage the services of an attorney who is qualified to complete audits. The August 30, 2011 Redevelopment Commission minutes reflected that the executive director executed a contract on August 28, 2011, with Humphrey's CPA Group to perform an audit on the Harborside Apartments for 2009 and 2010. The total paid for the 2009 and 2010 audit was \$11,500. On January 18, 2012, the Redevelopment Commission accepted a contract with Humphrey's CPA Group to

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

perform the 2011 audit of the Harborside Apartments. The fees are not to exceed \$9,000 for the audit and \$1,000 for the submission to REAC (Real Estate Assessment Center - HUD) and the Federal Clearing House. As of April 30, 2012, Humphrey's CPA Group had been paid \$4,500 for the 2011 audit. The audit costs were paid from the Harborside Apartments operating fund.

The Redevelopment Commission was created in accordance with Indiana Code 36-7-14 and is a department of the City. The City, which includes the Department of Redevelopment, did not obtain prior approval from the State Board of Accounts for any other examination of the City other than the State Board of Accounts.

Indiana Code 5-11-1-24(e) states: "The state or a municipality may not request proposals for performing examinations of an entity that is subject to examination under this chapter unless the request for proposals has been submitted to and approved by the state board of accounts."

Any outside audit costs paid, not authorized by statute, may be considered a duplication of service and an unnecessary expense. These payments may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COLLECTION OF AMOUNTS DUE - REDEVELOPMENT

Healthy East Chicago, Inc., an Indiana nonprofit corporation, had entered into two loan agreements for the purchase of property from the City's Department of Redevelopment for \$3,724,271. The deferred 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 to be paid semiannually.
3. November 1, 2013 through October 31, 2018, principal bears a 3 percent annual interest rate 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 payment which was due on October 1, 2011, was not received until March 2012. The Department of Redevelopment did not calculate additional interest which is due for the late payment.

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 Redevelopment. A copy of the promissory note or loan agreement that detailed the loan criteria was not provided for audit.

Healthy East Chicago, Inc., had not paid the required monthly payment of \$14,081.61 since October 2010 due to financial constraints. Beginning in April 2011, Redevelopment did receive interest only payments from Healthy East Chicago, Inc., for the November 2010 through July 2011 monthly payments; however, additional interest was not calculated for the late payments.

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)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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."

DORMANT ACCOUNT BALANCES - REDEVELOPMENT

On November 4, 1999, the Indiana State Budget Committee approved \$500,000 for the North Lake County Children's Museum from the Build Indiana Fund. In February 2000, the East Chicago Department of Redevelopment received the \$500,000. Based on the grant application, the project was to be completed in 2001. As of December 31, 2011, the Department of Redevelopment has a \$305,210.62 remaining balance from the Build Indiana funds.

In addition, the Department of Redevelopment has been carrying \$7,000 in Fannie Mae and \$15,972.66 in UPS Program account balances. The account balances have remained unchanged since January 1, 2009. Redevelopment officials indicated that the \$7,000 was a grant from Fannie Mae and the \$15,972.66 is the remaining balance from an Empowerment Zone grant for the UPS Program when it was discontinued.

Indiana Code 4-30-17-11 states in part:

"(a) Each eligible recipient that is approved to receive money from the build Indiana fund under section 10 of this chapter must, as a condition of receiving money from the build Indiana fund, enter into a funding agreement with the budget agency.

(b) The agreement required under subsection (a) must obligate the eligible recipient to do the following:

(1) Complete the project in conformity with the information in the project statement reviewed and approved under section 10 of this chapter and any subsequent agreements reviewed by the budget committee and approved by the governor, upon recommendation of the budget agency."

"(7) If a project is not completed by the anticipated completion date specified in the documents described in subdivision (1), submit to the budget agency, on a form prescribed by the budget agency, information as to the reason the project is not complete and the revised completion date of the project. The form must be submitted before the anticipated completion date specified in the documents described in subdivision (1)."

"(d) In addition to any other remedy provided by law, if the eligible recipient fails to comply with a condition of the agreement required under subsection (a), the budget agency may, under the procedures set forth in IC 4-21.5, require the entity to repay all the funds distributed to the eligible recipient under this chapter. The budget agency shall give notice of the order under IC 4-21.5-3-4. Money repaid under this section shall be deposited in the build Indiana fund."

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

COMMUNITY DEVELOPMENT ENTITY – REDEVELOPMENT

On February 11, 2009, the East Chicago Redevelopment Commission approved Resolution 1317 authorizing the formation of the East Chicago Redevelopment Community Development Entity (CDE) limited liability company (LLC). The East Chicago Redevelopment Commission would own 99.999 percent of the Parent CDE with the East Chicago Urban Enterprise Association, Inc., owning the remaining 0.001 percent. The Parent CDE will be taxable as a domestic partnership for federal and state income tax purposes. The Parent CDE was created as part of the City's application for New Market Tax Credits. Subsequently, the City's application was denied and the Parent CDE did not organize and remains inactive as of June 2012. The City may apply for grants in the future through the Parent CDE.

The resolution did not note under what authority the Redevelopment Commission was enabled to form and become a member of a community development entity. Indiana Code 36-7-14-12.2 does not provide redevelopment commissions that authority.

A similar comment appeared in the prior report.

Indiana Code 36-7-14-12.2 states:

"(a) The redevelopment commission may do the following:

- (1) Acquire by purchase, exchange, gift, grant, condemnation, or lease, or any combination of methods, any personal property or interest in real property needed for the redevelopment of areas needing redevelopment that are located within the corporate boundaries of the unit.
- (2) Hold, use, sell (by conveyance by deed, land sale contract, or other instrument), exchange, lease, rent, or otherwise dispose of property acquired for use in the redevelopment of areas needing redevelopment on the terms and conditions that the commission considers best for the unit and its inhabitants.
- (3) Sell, lease, or grant interests in all or part of the real property acquired for redevelopment purposes to any other department of the unit or to any other governmental agency for public ways, levees, sewerage, parks, playgrounds, schools, and other public purposes on any terms that may be agreed on.
- (4) Clear real property acquired for redevelopment purposes.
- (5) Enter on or into, inspect, investigate, and assess real property and structures acquired or to be acquired for redevelopment purposes to determine the existence, source, nature, and extent of any environmental contamination, including the following:
 - (A) Hazardous substances.
 - (B) Petroleum.
 - (C) Other pollutants.
- (6) Remediate environmental contamination, including the following, found on any real property or structures acquired for redevelopment purposes:

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

- (A) Hazardous substances.
 - (B) Petroleum.
 - (C) Other pollutants.
- (7) Repair and maintain structures acquired for redevelopment purposes.
 - (8) Remodel, rebuild, enlarge, or make major structural improvements on structures acquired for redevelopment purposes.
 - (9) Survey or examine any land to determine whether it should be included within an area needing redevelopment to be acquired for redevelopment purposes and to determine the value of that land.
 - (10) Appear before any other department or agency of the unit, or before any other governmental agency in respect to any matter affecting:
 - (A) real property acquired or being acquired for redevelopment purposes; or
 - (B) any area needing redevelopment within the jurisdiction of the commissioners.
 - (11) Institute or defend in the name of the unit any civil action.
 - (12) Use any legal or equitable remedy that is necessary or considered proper to protect and enforce the rights of and perform the duties of the department of redevelopment.
 - (13) Exercise the power of eminent domain in the name of and within the corporate boundaries of the unit in the manner prescribed by section 20 of this chapter.
 - (14) Appoint an executive director, appraisers, real estate experts, engineers, architects, surveyors, and attorneys.
 - (15) Appoint clerks, guards, laborers, and other employees the commission considers advisable, except that those appointments must be made in accordance with the merit system of the unit if such a system exists.
 - (16) Prescribe the duties and regulate the compensation of employees of the department of redevelopment.
 - (17) Provide a pension and retirement system for employees of the department of redevelopment by using the Indiana public employees' retirement fund or a retirement plan approved by the United States Department of Housing and Urban Development.
 - (18) Discharge and appoint successors to employees of the department of redevelopment subject to subdivision (15).
 - (19) Rent offices for use of the department of redevelopment, or accept the use of offices furnished by the unit.
 - (20) Equip the offices of the department of redevelopment with the necessary furniture, furnishings, equipment, records, and supplies.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

- (21) Expend, on behalf of the special taxing district, all or any part of the money of the special taxing district.
 - (22) Contract for the construction of:
 - (A) local public improvements (as defined in IC 36-7-14.5-6) or structures that are necessary for redevelopment of areas needing redevelopment or economic development within the corporate boundaries of the unit; or
 - (B) any structure that enhances development or economic development.
 - (23) Contract for the construction, extension, or improvement of pedestrian skyways.
 - (24) Accept loans, grants, and other forms of financial assistance from the federal government, the state government, a municipal corporation, a special taxing district, a foundation, or any other source.
 - (25) Provide financial assistance (including grants and loans) to enable individuals and families to purchase or lease residential units within the district. However, financial assistance may be provided only to individuals and families whose income is at or below the unit's median income for individuals and families, respectively.
 - (26) Provide financial assistance (including grants and loans) to neighborhood development corporations to permit them to:
 - (A) provide financial assistance for the purposes described in subdivision (25); or
 - (B) construct, rehabilitate, or repair commercial property within the district.
 - (27) Require as a condition of financial assistance to the owner of a multiple unit residential structure that any of the units leased by the owner must be leased:
 - (A) for a period to be determined by the commission, which may not be less than five (5) years;
 - (B) to families whose income does not exceed eighty percent (80%) of the unit's median income for families; and
 - (C) at an affordable rate.
- (b) Conditions imposed by the commission under subsection (a)(27) remain in force throughout the period determined under subsection (a)(27)(A), even if the owner sells, leases, or conveys the property. The subsequent owner or lessee is bound by the conditions for the remainder of the period.
- (c) As used in this section, "pedestrian skyway" means a pedestrian walkway within or outside of the public right-of-way and through and above public or private property and buildings, including all structural supports required to connect skyways to buildings or buildings under construction. Pedestrian skyways constructed, extended, or improved over or through public or private property constitute public property and public improvements, constitute a public use and purpose, and do not require vacation of any public way or other property.

CITY OF EAST CHICAGO
 AUDIT RESULTS AND COMMENTS
 (Continued)

(d) All powers that may be exercised under this chapter by the redevelopment commission may also be exercised by the redevelopment commission in carrying out its duties and purposes under IC 36-7-14.5."

TAX INCREMENT FINANCING (TIF) ALLOCATION FUNDS - REDEVELOPMENT

The Redevelopment Commission was established in accordance with Indiana Code 36-7-14 and is the governing body of the Department of Redevelopment. The Redevelopment Commission also created three separate Tax Increment Finance (TIF) allocation areas in accordance with Indiana Code 36-7-14. The allocation areas are receiving tax increment revenues that are receipted to three separate allocation funds. However, the Redevelopment Commission does not approve the claims for the Tax Increment Finance (TIF) allocation funds as required by Indiana Code 36-7-14-29. The claims for the three separate allocation funds were approved by the City Council.

Indiana Code 36-7-14-29(a) states: "All payments from any of the funds established by this chapter shall be made by warrants drawn by the proper officers of the unit upon vouchers of the redevelopment commission signed by the president or vice president and the secretary or executive secretary."

Prior to its amendment, effective January 1, 2012, Indiana Code 36-7-14-39(b)(2) stated in part:

"Except as otherwise provided in this section, property tax proceeds in excess of those described in subdivision (1) shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following: . . ."

Effective January 1, 2012, Indiana Code 36-7-14-39(b)(3) states in part:

"Except as otherwise provided in this section, property tax proceeds in excess of those described in subdivisions (1) and (2) shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following: . . ."

OVERDRAWN CASH BALANCES

The following funds had negative cash balances at December 31, 2011:

Fund	Amount
Self-Insurance	\$ 1,279,955
Community Development Block Grant-Recovery	8,422
State Grant	59,468
Communications Revolving	8,182
Gasoline Revolving	309,378
Water Utility-Operating	114,123

A similar audit result and comment appeared in the prior report.

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 OF EAST CHICAGO
 AUDIT RESULTS AND COMMENTS
 (Continued)

POLICE BUY MONEY AND LOCAL FORFEITURE FUNDS

In 2012, the new Chief of Police had an internal review of all the gang and narcotic funds handled at the police department. The internal review determined that the Gang and Narcotic Unit maintained three pools of funds. Cash on hand identified as Buy Money, cash on hand identified as Forfeiture Funds and a checking account at a local credit union with joint owners being the former chief of police, a now retired lieutenant, and two sergeants. The following concerns were noted:

1. An analysis of the checking account activity determined that the gang and narcotic unit would deposit local forfeiture funds and then on the same day have a cashier's check issued for the same amount to a court clerk's office. In addition, the buy money received from the City was deposited into the account. Sixteen cash withdrawals were made without any documentation as to what the withdrawal was used for or to whom. The balance remaining in the checking account as of March 15, 2012 was withdrawn and used to fund the buy money on hand. The following table summarizes the checking account activity from January 1, 2011 until March 30, 2012.

	January 1, 2011 to March 30, 2012
Beginning Balance	\$ 108.08
Activity:	
Interest Earned	4.97
Bank Fees	(4.00)
Deposit of Buy Money from City	7,500.00
Forfeiture deposits	12,166.00
Forfeiture withdrawal	(12,166.00)
11/03/11 unknown deposit	150.00
16 unaccounted for cash withdrawals	(1,199.00)
March 15, 2012 withdrawal to close account	(6,560.05)
Balance as of March 30, 2012	\$ -

2. Controls over the police "buy money" were insufficient. The Police Department did not have any defined standard operating procedures regarding the use of the buy money. On June 14, 2011, \$4,405 of buy money on hand was counted and verified to a ledger balance. No further transactions were noted on the ledger for the buy money from June 13, 2011 to March 15, 2012.
3. From the buy money records provided, the buy money on hand as of March 15, 2012, should have been \$10,965.05. The \$6,560.05 from the closed checking account noted in #1 above and \$4,405 of buy money funds per the ledger noted in #2 above.

However, on March 15, 2012, the Police Department had \$9,321 of buy money funds on hand as counted and verified by three police personnel. The \$1,644.05 difference is unaccounted for and undocumented as to what happened to the funds between June 14, 2011 and March 15, 2012.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

On May 31, 2012, the Auditor verified \$9,001 was on hand and that \$320 was properly documented as used for confidential informant payments.

4. As of March 15, 2012, the Police Department had \$3,527.18 of forfeiture funds on hand from the disposition of cases. A ledger of the funds was maintained which reflected deposits with the corresponding case names and numbers and disbursements for police equipment. On March 15, 2012, two police personnel brought the \$3,527.18 balance to the City Controller's office for deposit to the City's bank account.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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 IC 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 IC 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. PR – INV-009), by the Indiana State Police Department.

(Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2004)

Indiana Code 34-24-1-4(d) states:

"If the court enters judgment in favor of the state, or the state and a unit (if appropriate), the court shall, subject to section 5 of this chapter:

- (1) determine the amount of law enforcement costs; and
- (2) order that:
 - (A) the property, if it is not money or real property, be sold under section 6 of this chapter, by the sheriff of the county in which the property was seized, and if the property is a vehicle, this sale must occur after any period of use specified in subsection (c);
 - (B) the property, if it is real property, be sold in the same manner as real property is sold on execution under IC 34-55-6;

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

- (C) the proceeds of the sale or the money be:
- (i) deposited in the general fund of the state, or the unit that employed the law enforcement officers that seized the property; or
 - (ii) deposited in the general fund of a unit if the property was seized by a local law enforcement agency of the unit for an offense, an attempted offense, or a conspiracy to commit an offense under IC 35-47 as part of or in furtherance of an act of terrorism; and
- (D) any excess in value of the proceeds or the money over the law enforcement costs be forfeited and transferred to the treasurer of state for deposit in the common school fund."

PARK CONCESSIONS

Bottled beverages and snack foods, including hot dogs, are sold as concessions at the park locations. Items are purchased through Gordon Food Service and Hershey Creamery, but inventory records are not maintained. Internal controls over vending operations, concessions or other sales should include a regular reconciliation of the beginning inventory, purchases, distribution of items sold and ending inventory to the dollar amount received from the sales of goods. Maintaining inventory records can help reduce misappropriation of the bottled beverages and snack foods by assigning accountability to the employees at the various locations. A similar comment appeared in the prior report.

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)

INTERNAL CONTROLS - WATER UTILITY AND SANITARY DISTRICT

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

- (A) The following deficiencies exist in the customer deposit area:
- (1) The Water Utility Operating Fund (0601) posts activity to a customer deposit payable account. The only activity posted to the account is when a customer meter deposit is applied to a final bill of a customer. The collection of the customer meter deposits is posted through the Water Utility Operating Fund account #391999 as a Transfer In. In addition, a separate bank account with the customer meter deposits refund activity abstracted via excel is maintained. As of December 31, 2011, the operating funds customer deposit payable had a negative balance of \$155,105.50. As of December 31, 2011, the balance of the detail report of customer meter deposits was \$279,929.90 for an accountability difference of \$435,035.40.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

- (2) The detail listing of customer meter deposits on hand should agree to the City's bank account specifically for meter deposits. A detail report of customer meter deposits had a balance of \$279,929.90 as of December 31, 2011. The separate bank account balance for customer meter deposits was \$307,596.74. In addition, \$11,050, \$20,090 and \$18,660 of meter deposits collection were receipted and deposited to the Water Operating Fund in 2009, 2010, and 2011, respectively. Furthermore, \$815 was also receipted to a new Water Utility Meter Deposit Fund in 2011. A monthly comparison of the reconciled customer deposits bank account to the detail listing of customer meter was not performed.
- (3) The amount of customer meter deposits applied to the final bills in 2011 was not transferred from the customer meter deposits bank account to the operating bank account.
- (4) The December 2011 bank reconciliation for the customer meter deposit account includes reconciling items totaling \$2,986.82 dating back to 2004 without further investigation or timely posting to the City's ledger.

(B) The Water Utility aging accounts receivable report balance is greater than the City ledger accounts receivable balance by \$133,463 at December 31, 2011. The Wastewater (Sewer) aging accounts receivable report balance is less than the City ledger accounts receivable balance by \$314,041 at December 31, 2011. The Sanitary District's garbage aging accounts receivable report balance is less than the City ledger accounts receivable balance by \$522 at December 31, 2011. 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 (a computerized financial accounting system). The Auditor determined that 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 aging reports and the City accounts receivable ledger balance are not performed at the Water Department or City Controller's office.

(C) The Water Utility assesses and collects sales tax for the sale of water. The amount of sales tax collected in one month is remitted to the State of Indiana by the 20th of the following month. The sales tax payable account on the City's general ledger posts the amounts of sales tax assessed, and the amount collected and remitted to the State of Indiana. Thus, the difference between the sales tax payable account and the accounts receivable related to sales tax should agree to the payable amount at each month end. The amount remitted in January 2012 for December 2011 was \$14,552; however, the City's general ledger sales tax payable account had a negative \$106,006 balance at year end and the accounts receivable balance related to sales tax was \$49,917, resulting in a negative \$155,923 payable balance. This results in a difference of \$170,475. Reconciliations between the monthly sales tax remitted and the City's sales tax payable general ledger account are not performed by personnel at the Water Department or the City Controller's office.

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
AUDIT RESULTS AND COMMENTS
(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the City of East Chicago (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2011. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Harborside Apartments (Apartments), which received \$2,112,114 in federal awards that are not included in the Schedule of Expenditures of Federal Awards for the year ended December 31, 2011. Our audit, described below, did not include the operations of the Apartments because they engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

As described in item 2011-02 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Allowable Costs that are applicable to its ARRA – Public Safety Partnership and Community Policing Grants. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended December 31, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2011-03.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there is no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2011-02 to be material weaknesses.

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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2011-03 to be a significant deficiency.

The City's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the City's management, Common Council, Board of Public Works, Redevelopment Commission, Water Board of Directors, Sanitary District Board of Commission, Storm Water Board, Port Authority Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 30, 2012

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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, 2011

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Indiana State Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	MWSSNP-2-6: WC1-2 FY10-11 MWSSNP-2-6: WC1-2 FY11-12	\$ 252,349 <u>62,482</u>
Total for federal grantor agency			<u>314,831</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Grants			
CDBG - Entitlement Grants Cluster Community Development Block Grants/Entitlement Grants	14.218	B-09-MC-180004	547,714
ARRA - Community Development Block Grant ARRA Entitlement Grants (CDBG-R)	14.253	B-09-MY-180004	<u>169,631</u>
Total for cluster			<u>717,345</u>
Pass-Through Indiana Housing and Community Development Authority			
CDBG - State-Administered CDBG Cluster Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (State-Administered Small Cities Program)	14.228	NSP1-0009-016	<u>1,318,605</u>
Total for Cluster			<u>1,318,605</u>
Direct Grants			
HOME Investment Partnerships Program	14.239	M-07-MC-18210 M-09-MC-18210 M-10-MC-18210	119,477 241,862 <u>130,084</u>
Total for program			<u>491,423</u>
ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP)	14.257	S-09-MY-180004	<u>156,299</u>
Total for federal grantor agency			<u>2,683,672</u>
<u>U.S. DEPARTMENT OF THE INTERIOR</u>			
Pass-Through Indiana Department of Environmental Management Clean Vessel Act	15.616	A305-10-78 & 79	<u>65,189</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grants			
Bulletproof Vest Partnership Program	16.607	FY 2010	8,688
ARRA - Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0343	337,814
Equitable Sharing Program	16.922	Federal Forfeitures FY11	<u>19,416</u>
Total for federal grantor agency			<u>365,918</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Department of Transportation			
Highway Planning and Construction Cluster Highway Planning and Construction Congestion Mitigation and Air Quality Funds	20.205	DES#0200188 "Rack 'em Up!" Program	425,864 <u>2,712</u>
Total for cluster			<u>428,576</u>
Pass-Through Northwestern Indiana Regional Planning Commission			
Federal Transit Cluster Federal Transit - Formula Grants	20.507	IN-90-X4609 FY10-11 IN-90-X4609 FY11-12	126,126 <u>182,533</u>
Total for cluster			<u>308,659</u>

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

CITY OF EAST CHICAGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2011
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF TRANSPORTATION (continued)</u>			
Pass-Through Indiana Department of Transportation ARRA - Surface Transportation - Discretionary Grants for Capital Investment	20.932	DES#0900473/0900474 DES#0600472	21,812 <u>5,140</u>
Total for program			<u>26,952</u>
Surface Transportation - Discretionary Grants for Capital Investment	20.932	DES#0900061 DES#0900062 DES#0900063 DES#0900064 DES#0600749 STP-9945-080	54,074 150,479 67,003 38,615 47,296 <u>11,835</u>
Total for program			<u>369,302</u>
Total for federal grantor agency			<u>1,133,489</u>
<u>U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</u>			
Direct Grant Employment Discrimination - Title VII of the Civil Rights Act of 1964	30.001	EECCN080020-11	<u>11,597</u>
Total for federal grantor agency			<u>11,597</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Finance Authority Capitalization Grants for Drinking Water State Revolving Funds	66.468	DW19911002 DW19911003 2009A	791,141 <u>5,261,848</u>
Total for program			<u>6,052,989</u>
Pass-Through Indiana Department of Environmental Management Beach Monitoring and Notification Program Implementation Grants	66.472	A305-1-53	<u>11,357</u>
Total for federal grantor agency			<u>6,064,346</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana State Department of Health Immunization Cluster Immunization Grants	93.268	H23/CCH522522-06 5H23IP522522-09	11,570 <u>31,145</u>
Total for cluster			<u>42,715</u>
Pass-Through Indiana State Department of Health Public Health Emergency Preparedness	93.069	5U90TP517024-08 (BPRS 193-7) 5U90TP517024-09 (BPRS 193-7) 5U90TP517024-10 (BPRS 193-7) 5U90TP517024-10 (CRI)	205 2,033 8,869 <u>13,244</u>
Total for program			<u>24,351</u>
Total for federal grantor agency			<u>67,066</u>
Total federal awards expended			<u>\$ 10,706,108</u>

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

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

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of East Chicago (City) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows for the year ended December 31, 2011:

Program Title	Federal CFDA Number	2011
Community Development Block Grants/Entitlement Grants	14.218	\$ 148,711
HOME Investment Partnerships Program	14.239	72,458

Note 3. Section 8 Project-Based Cluster

The City's Department of Redevelopment obtained a separate, independent audit in compliance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations for the Harborside Apartments. The Harborside Apartments are operated under the Section 8 Housing Assistance Payments Program, U.S. Department of Housing and Urban Development Contract No. IN36L000278. The federal transactions of the Harborside Apartments totaled \$2,112,114 and were not reflected in this schedule. The OMB Circular A-133 audit of the Harborside Apartments including any related findings and questioned costs, if any, with management's corrective action plan can be obtained from the City's Department of Redevelopment, 400 E. Chicago Avenue, East Chicago, Indiana, 46312.

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:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiency identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiency identified?	yes
Type of auditor's report issued on compliance for major programs:	Unqualified for all programs except ARRA – Public Safety Partnership and Community Policing Grants, which was qualified.
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
16.710	CDBG - State-Administered CDBG Cluster ARRA - Public Safety Partnership and Community Policing Grants Highway Planning and Construction Cluster
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$321,183

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2011-01 - FINANCIAL TRANSACTIONS NOT RECORDED

The activity and balances of the EC Redevelopment and Water Utility Customer Deposit funds were reported on the Annual Report prepared by the City Controller; however, the activity and balances of these two funds were not recorded in the City's accounting records. The transactions reported in the Annual Report were compiled by the City Controller based upon bank statement activity and balances for the various bank accounts. The total transactions of these two funds not recorded in the City's accounting records were \$4,717 in receipts, \$18,271 in disbursements, and \$385,526 in ending balances.

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

In addition, the City's Department of Redevelopment purchased the Harborside Apartments on November 12, 2009, as part of the City's master development plan in the City's Revitalization Area. The Redevelopment Commission contracted with Residential Management Company for the management, maintenance and operation of the apartment complex. Per the Housing Management Agreement between the Department of Redevelopment and Residential Management Company, the Department of Redevelopment opened two bank accounts. One account is designated as Harborside Apartments Operating Account and is used to deposit rents, charges, and other receivables and disburse operating expenses of the apartment complex. The other bank account is for the collection, deposit, and disbursement of security deposits and is designated as Harborside Apartments Security Deposit Account. In February 2010, the Redevelopment Commission opened a third non-interest bank account as an escrow account to be used for future maintenance of the facilities. Monthly transfers were made from the operating account to the escrow account.

Neither the City's accounting records nor the Annual Report of the City included the Harborside Apartments funds noted above. Since the City's records did not include the above noted funds, the transactions of these three funds and the accounts payable vouchers or claims were not prepared or approved by the proper governing board. The dollar amounts which bypassed the City's recordkeeping process are considered material to the financial statements and results from a lack of internal controls of the City's recordkeeping process. The total transactions of these three funds not recorded in the City's accounting records or reported in the City's annual report were \$2,369,978 in receipts, \$1,977,368 in disbursements, and \$1,394,774 in ending balances. The City Controller has approved an adjustment to the financial statement presented herein to reflect the activity of the three Harborside Apartments accounts.

Indiana Code 5-11-10-1.6(c) states:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Indiana Code 5-11-1-2 states in part:

"The state board of accounts shall formulate, prescribe, and install a system of accounting and reporting in conformity with this chapter, which must comply with the following:

- (1) Be uniform for every public office and every public account of the same class and contain written standards that an entity that is subject to audit must observe.
- (2) Exhibit true accounts and detailed statements of funds collected, received, obligated, and expended for or on account of the public for any and every purpose whatever, and by all public officers, employees, or other individuals.

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

- (3) Show the receipt, use, and disposition of all public property and the income, if any, derived from the property.
- (4) Show all sources of public income and the amounts due and received from each source.
- (5) Show all receipts, vouchers, contracts, obligations, and other documents kept, or that may be required to be kept, to prove the validity of every transaction. . . ."

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We recommended officials establish the appropriate funds and accounts within their financial accounting software to record all transactions processed by the City and its departments. By establishing the appropriate funds and accounts, purchase orders, claims and claim dockets will be produced, so disbursements can be properly reviewed and approved by the appropriate governing board prior to payments being made.

Section III – Federal Award Findings and Questioned Costs

FINDING 2011-02 - ALLOWABLE COSTS

Federal Agency: U.S. Department of Justice
Federal Program: ARRA - Public Safety Partnership and Community Policing Grants
CFDA Number: 16.710
Federal Award Number: 2009RKWX0343

In 2009, the City was awarded a COPS Hiring Recovery Program (CHRP) grant funded through the American Recovery and Reinvestment Act of 2009 (ARRA). The CHRP grant allowed the City to rehire officers who were, at the time of application, scheduled to be laid off on a future date as a result of budget cuts. The City was approved to retain five law enforcement officers.

The Allowable Costs as stated in the CHRP Grant Owner's Manual: "

The funding under this project is for the payment of approved full-time entry-level salaries and fringe benefits over three years (for a total of 36 months of funding) for career law enforcement officer positions hired and/or rehired on or after the official grant award start date. Any salary and fringe benefit costs higher than entry-level that your agency pays a CHRP-funded officer must be paid with local funds." The City's entry-level position for law enforcement officers is Probationary Police Officer.

A review of the salary allocated to the CHRP grant determined that the five officers were paid in accordance with the City's salary ordinances for their respective level as either a Master Police Officer or Patrolman 2nd Class. The salaries allocated to the grant were determined to be greater than the allowable entry-level position as approved by the grant agreement. The following table compares the salary allocated to the grant from September 2009 to May 2012 to the determined allowable costs associated with the entry-level position salary.

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

	<u>September 2009 to December 2009</u>	<u>2010</u>	<u>2011</u>	<u>January 2012 to May 2012</u>	<u>Totals</u>
Salaries Allocated	\$ 79,884.10	\$ 228,670.40	\$ 243,652.50	\$ 103,083.75	\$ 655,290.75
Allowable Entry-Level	<u>70,997.40</u>	<u>194,847.90</u>	<u>205,103.60</u>	<u>86,774.60</u>	<u>557,723.50</u>
Costs Not Allowable	<u>\$ 8,886.70</u>	<u>\$ 33,822.50</u>	<u>\$ 38,548.90</u>	<u>\$ 16,309.15</u>	<u>\$ 97,567.25</u>

A review of the benefits allocated to the CHRP grant determined that the City's accounting system automatically pro-rates the employer benefits among all the funds gross salaries are allocated to. Thus, if the CHRP officer worked over-time, the employer's health insurance cost would be split between the grant fund and any other local funds the over-time was allocated to. However, the full costs of the employer benefits related to the entry-level position are allowable costs associated with the CHRP grant. The following table compares the benefits allocated to the CHRP grant from September 2009 to May 2012 to the determined allowable costs associated with the entry-level position benefits.

	<u>September 2009 to December 2009</u>	<u>2010</u>	<u>2011</u>	<u>January 2012 to May 2012</u>	<u>Totals</u>
Benefits Allocated	\$ 35,622.74	\$ 109,885.56	\$ 94,161.68	\$ 41,767.71	\$ 281,437.69
Allowable Entry-Level	<u>35,492.65</u>	<u>112,730.16</u>	<u>109,327.75</u>	<u>49,617.85</u>	<u>307,168.41</u>
Costs Allowable Not Allocated	<u>\$ 130.09</u>	<u>\$ (2,844.60)</u>	<u>\$ (15,166.07)</u>	<u>\$ (7,850.14)</u>	<u>\$ (25,730.72)</u>

The following table nets the unallowable salary costs allocated to the grant with the benefits variance. The amount of the \$71,836.53 was determined to be questioned costs.

	<u>September 2009 to December 2009</u>	<u>2010</u>	<u>2011</u>	<u>January 2012 to May 2012</u>	<u>Totals</u>
Net Questioned Costs	<u>\$ 9,016.79</u>	<u>\$ 30,977.90</u>	<u>\$ 23,382.83</u>	<u>\$ 8,459.01</u>	<u>\$ 71,836.53</u>

28 CFR 66.22(a) states in part: "*Limitation on use of funds.* Grant funds may be used only for: (1) The allowable costs of the grantees, subgrantees and cost-type contractors, including allowable costs in the form of payments to fixed-price contractors; and . . ."

OMB Circular A133 Section .300(b) states:

"The auditee shall:

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."

Internal controls were not established to ensure that the allowable entry-level law enforcement position salary and benefits costs were properly allocated to the CHRP grant fund.

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

We recommended City officials establish procedures and controls to ensure that approved allowable costs associated with grants are allocated to the proper grant funds.

FINDING 2011-03 - CASH MANAGEMENT

Federal Agency: U.S. Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Award Number: DES#0200188
Pass-through Entity: Indiana Department of Transportation

The City received a grant to reimburse 80 percent of the construction engineering costs for the Railroad Avenue Grade Separation Over CSX Railroad Project Des. #0200188 from the Indiana Department of Transportation (INDOT). The City contracted with RQAW Corporation, an engineering firm, to perform the construction inspection services. The firm would invoice the City for services provided. The firm would also complete the INDOT claim voucher for the City's approval and submission to INDOT for reimbursement.

Since this is a reimbursement grant, the funds should be obligated and paid prior to the request for reimbursement being generated. However, a comparison of the dates the firm was paid to the dates the City received the reimbursement noted that the City received reimbursements anywhere 12 to 99 days before payment was remitted to the firm.

The City did not have a system of controls in place to ensure that contractors were paid timely and prior to the date the reimbursement was received.

49 CFR 18.21 (d) *Reimbursement*. Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met. Grantees and subgrantees may also be paid by reimbursement for any construction grant. Except as otherwise specified in regulation, Federal agencies shall not use the percentage of completion method to pay construction grants. The grantee or subgrantee may use that method to pay its construction contractor, and if it does, the awarding agency's payments to the grantee or subgrantee will be based on the grantee's or subgrantee's actual rate of disbursement.

OMB Circular A133 Section .300(b) states:

"The auditee shall:

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."

Failure to adhere to cash management requirements could cause the City to have to repay federal funds or interest earned on those funds received in advance.

We recommended the City develop and implement procedures and controls to ensure that when awards are funded on a reimbursement basis that the costs for which reimbursement was requested were paid prior to the date the reimbursement was received.



City of East Chicago

Administrative Services Division

4525 Indianapolis Blvd. East Chicago, Indiana 46312

Phone: (219) 391-8220

Facsimile: (219) 391-8223

Anthony Copeland
Mayor

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2010-02 AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

Federal Agency: U.S. Department of Housing and Urban Development
Cluster: CDBG – Entitlement Grants Cluster
Federal Program: ARRA – Community Development Block Grants ARRA Entitlement Grants (CDBG-R)
(Recovery Act Funded)
CFDA Number: 14.253
Award Number: B-08-MY-18-0004

Original SBA Audit Report Number:	B39196
Fiscal Year	2010
Auditee Contact Person	Charles Pacurar
Title of Contact Person	City Controller
Phone Number	(219) 391-8220

Status of Finding: This finding has been corrected.

Signed: _____

Kimberly Anderson

Dated: _____

5/14/12



City of East Chicago

Administrative Services Division

4525 Indianapolis Blvd. East Chicago, Indiana 46312

Phone: (219) 891-8220

Facsimile: (219) 891-8228

Anthony Copeland
Mayor

CITY OF EAST CHICAGO CORRECTIVE ACTION PLAN

Section II – Financial Statement Findings

FINDING 2011-01 FINANCIAL TRANSACTIONS NOT RECORDED

In January 2012 the City of East Chicago started accounting for the activity and balances of the various Redevelopment Funds and the Water Utility Customer Deposit Fund in the City's financial system.

The City is currently working to collect data and establish recordkeeping procedures in an effort to move the Harborside Apartment accounts and their activity onto the City's financial system.

Section III – Federal Award Findings and Questioned Costs

FINDING 2011-02 ALLOWABLE COSTS

Federal Agency: U.S. Department of Justice
Federal Program: ARRA -- Public Safety Partnership and Community Policing Grants
CFDA Number: 16.710
Federal Award Number: 2009RKWX0343

The City of East Chicago has established internal controls to ensure that the allowable entry-level law enforcement position and benefits costs are properly allocated to the CHRP grant fund. The grant allowable costs have been corrected for 2012, and the City has contacted the U.S. Department of Justice for any funds owed for 2009-2011.

The City's accounting system automatically prorated fringe benefits but not the salaries of the Entry-Level Officers. The total salaries and fringe benefits budgeted in the grant application were not exceeded and the overall grant will be underspent.

Y. G. G. G.

FINDING 2011-03 CASH MANAGEMENT

Federal Agency: U.S. Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Award Number: DES#0200188
Pass-through Entity: Indiana Department of Transportation

The City of East Chicago has developed and implemented procedures and controls to ensure that a grant reimbursement from INDOT is requested at the same time the vendor is paid.

A handwritten signature in black ink, appearing to read "Kimberly K. Anderson". The signature is written in a cursive style and is positioned above a horizontal line.

Kimberly K Anderson
City Controller
July 23, 2012

CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report pertaining to the Water Utility, Sanitary District, and Storm Water Utility were discussed on July 30, 2012, with Kimberly Anderson, Controller; Peter Baranyai, Director of Utilities (Interim); John Bakota, President of the Water Board; Miguel Rivera, President of the Sanitary District Board of Commissioners; Anthony Galindo, President of the Storm Water Board; Brian Marciniak, Director of Water Operations; and John Martinez, Director of Wastewater Operations. The Official Response has been made a part of this report and may be found on pages 66 and 67.

The contents of this report were discussed on August 1, 2012, with Kimberly Anderson, Controller; Anthony Copeland, Mayor; Gilda Orange, President of the Common Council; Maune Morgan, Vice President of the Redevelopment Board of Commissioners; Maria C. Becerra, Executive Director of Redevelopment; Lilia Ramos, President of the Park Board; Frank Rosado, Park Director; Mark Becker, Chief of Police; Jezreel Rodriguez, City Engineer; and Olga Cosme, Engineering Administrative Assistant. The Official Response has been made a part of this report and may be found on pages 66 and 67.

City of East Chicago
Audit Responses
For the Year Ended December 31, 2011

FINANCIAL TRANSACTIONS NOT RECORDED

The Water Utility Customer Deposit activity has begun to run through the City's financial system in 2012.

The Department of Redevelopment is in the process of hiring a full-time accountant and a permanent accountant assistant. The Department has also contracted with an independent, external Certified Public Accountant to assist with the uniform recording of all financial transactions. In addition, the Department of Redevelopment has transitioned to the City's financial system which has better internal controls.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City of East Chicago will ensure that the Schedule of Expenditures of Federal Awards will include the Department of Redevelopment's Section 8 Housing assistance payments going forward.

OUTSIDE AUDIT COSTS-REDEVELOPMENT

The Department of Redevelopment shall obtain prior approval for the employment of any future external auditors pursuant to IC 5-11-1-24(e).

COLLECTION OF AMOUNTS DUE-REDEVELOPMENT

The Department of Redevelopment has initiated foreclosure action against Healthy East Chicago.

DORMANT ACCOUNT BALANCES-REDEVELOPMENT

Each dormant account balance shall be investigated and an appropriate plan of action will be developed accordingly.

COMMUNITY DEVELOPMENT ENTITY- REDEVELOPMENT

The Redevelopment Commission approved the dissolution of the East Chicago Redevelopment Community Development Entity in 2012 and has charged the Commission's counsel with filing the appropriate articles of dissolution with the Indiana Secretary of State.

TAX INCREMENT FINANCING (TIF) ALLOCATION FUNDS-REDEVELOPMENT

The Redevelopment Commission shall approve the claims for the TIF allocation funds as required by IC 36-7-14-29.

POLICE BUY MONEY AND LOCAL FORFEITURE FUNDS

After taking office in 2012, the new Chief of Police established written guidelines for obtaining, using and accounting for confidential funds. The new policy also calls for mandatory internal audits of these monies on a quarterly basis.

PARK CONCESSIONS

The new Park Director has established a system which calls for regular inventories of park concessions.

INTERNAL CONTROLS-WATER UTILITY AND SANITARY DISTRICT

A1) This issue was resolved in 2012.

A2) Monthly reconciliations started in calendar year 2012.

A3) This issue was resolved in conjunction with A1 in 2012.

A4) The Water Board will take action in 2012 to resolve this issue.

B) The Water Utility will investigate the posting of penalties and NSF fees to the general ledger during the 2012 calendar year.

C) The Water Utility will investigate the postings of sales tax to the general ledger during the 2012 calendar year.