

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
CITY OF EAST CHICAGO
LAKE COUNTY, INDIANA
January 1, 2016 to December 31, 2016



FILED
09/21/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Valeriano Gomez	01-01-16 to 12-31-17
Mayor	Anthony Copeland	01-01-16 to 12-31-19
President of the Board of Public Works	Valeriano Gomez	01-01-16 to 12-31-17
President of the Common Council	Juda Parks Myrna Maldonado Lenny Franciski	01-01-16 to 07-29-16 07-30-16 to 12-31-16 01-01-17 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the City of East Chicago (City), for the period from January 1, 2016 to December 31, 2016. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

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

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

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

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

August 10, 2017

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DEPARTMENT OF REDEVELOPMENT
CITY OF EAST CHICAGO

DEPARTMENT OF REDEVELOPMENT
CITY OF EAST CHICAGO
FEDERAL FINDINGS

FINDING 2016-001

Subject: Section 8 Housing Assistance Payments Program - Internal Controls
Federal Agency: Department of Housing and Urban Development
Federal Program: Section 8 Housing Assistance Payments Program
CFDA Number: 14.195
Federal Award Numbers and Years (or Other Identifying Numbers): IN36L000278, IN36M000280
Compliance Requirements: Cash Management, Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a partial repeat of finding number 2015-001 from the immediate prior year.

Condition

Management of the City's Department of Redevelopment (Department) had not established an effective internal control system related to the grant agreement and the Cash Management and Reporting compliance requirements.

The Department contracted with a management company to administer the Section 8 Housing Assistance Payments Program. The management company completed all of the monthly reimbursement vouchers without oversight by the Department.

Context

This was a systemic issue, occurring throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

Cause

The Department had not established an effective internal control structure that would have ensured compliance with Cash Management and Reporting requirements.

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

Effect

The failure to establish an effective internal control system could have enabled material noncompliance to go undetected. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Department's management establish controls related to the grant agreement and the Cash Management and Reporting compliance requirements.

Views of Responsible Officials

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

FINDING 2016-002

Subject: Section 8 Housing Assistance Payments Program - Special Tests and Provisions - Housing Quality Standards
Federal Agency: Department of Housing and Urban Development
Federal Program: Section 8 Housing Assistance Payments Program
CFDA Number: 14.195
Federal Award Numbers and Years (or Other Identifying Numbers): IN36L000278, IN36M000280
Compliance Requirement: Special Tests and Provisions - Housing Quality Standards
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a partial repeat of finding number 2015-001 from the immediate prior year.

Condition

Management of the City's Department of Redevelopment (Department) had not established an effective internal control system related to the grant agreement and the Special Tests and Provisions - Housing Quality Standards compliance requirement.

The Department failed to comply with the Special Tests and Provisions - Housing Quality Standards requirement that would have ensured that annual inspections were completed. Additionally, without timely repairs being completed, the property was not maintained in a decent, safe, sanitary, and in good repair condition as required.

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

Context

1. The Department performed all 2016 annual inspections at the end of January 2017.
2. Twenty-two of the thirty-five inspections completed that required repairs did not have a work order generated as of June 26, 2017.
3. Five of the thirty-five inspections had work orders generated, but the work had not been completed as of June 26, 2017.
4. Three of the thirty-five had work orders generated and completed for a portion of the necessary repairs, but not the entire list of required repairs.

This was a systemic issue since 86 percent of the inspections tested (thirty out of thirty-five) were not in compliance with the requirement.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

24 CFR 880.612(a) states: "After the effective date of the Contract, the contract administrator will inspect the project and review its operation at least annually to determine whether the owner is in compliance with the Contract and the assisted units are in decent, safe and sanitary condition."

24 CFR 886.113(a) states: "*General.* Housing used in this program must be maintained and inspected in accordance with the requirements in 24 CFR part 5, subpart G."

24 CFR 5.703 states:

"HUD housing must be decent, safe, sanitary and in good repair. Owners of housing described in § 5.701(a), mortgagors of housing described in § 5.701(b), and PHAs and other entities approved by HUD owning housing described in § 5.701(c), must maintain such housing in a manner that meets the physical condition standards set forth in this section in order to be considered decent, safe, sanitary and in good repair. These standards address the major areas of the HUD housing: the site; the building exterior; the building systems; the dwelling units; the common areas; and health and safety considerations.

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

(a) *Site.* The site components, such as fencing and retaining walls, grounds, lighting, mailboxes/project signs, parking lots/driveways, play areas and equipment, refuse disposal, roads, storm drainage and walkways must be free of health and safety hazards and be in good repair. The site must not be subject to material adverse conditions, such as abandoned vehicles, dangerous walks or steps, poor drainage, septic tank back-ups, sewer hazards, excess accumulations of trash, vermin or rodent infestation or fire hazards.

(b) *Building exterior.* Each building on the site must be structurally sound, secure, habitable, and in good repair. Each building's doors, fire escapes, foundations, lighting, roofs, walls, and windows, where applicable, must be free of health and safety hazards, operable, and in good repair.

(c) *Building systems.* Each building's domestic water, electrical system, elevators, emergency power, fire protection, HVAC, and sanitary system must be free of health and safety hazards, functionally adequate, operable, and in good repair.

(d) *Dwelling units.*

(1) Each dwelling unit within a building must be structurally sound, habitable, and in good repair. All areas and aspects of the dwelling unit (for example, the unit's bathroom, call-for-aid (if applicable), ceiling, doors, electrical systems, floors, hot water heater, HVAC (where individual units are provided), kitchen, lighting, outlets/switches, patio/porch/balcony, smoke detectors, stairs, walls, and windows) must be free of health and safety hazards, functionally adequate, operable, and in good repair.

(2) Where applicable, the dwelling unit must have hot and cold running water, including an adequate source of potable water (note for example that single room occupancy units need not contain water facilities).

(3) If the dwelling unit includes its own sanitary facility, it must be in proper operating condition, usable in privacy, and adequate for personal hygiene and the disposal of human waste.

(4) The dwelling unit must include at least one battery-operated or hard-wired smoke detector, in proper working condition, on each level of the unit.

(e) *Common areas.* The common areas must be structurally sound, secure, and functionally adequate for the purposes intended. The basement/garage/carport, restrooms, closets, utility, mechanical, community rooms, day care, halls/corridors, stairs, kitchens, laundry rooms, office, porch, patio, balcony, and trash collection areas, if applicable, must be free of health and safety hazards, operable, and in good repair. All common area ceilings, doors, floors, HVAC, lighting, outlets/switches, smoke detectors, stairs, walls, and windows, to the extent applicable, must be free of health and safety hazards, operable, and in good repair. These standards for common areas apply, to a varying extent, to all HUD housing, but will be particularly relevant to congregate housing, independent group homes/residences, and single room occupancy units, in which the individual dwelling units (sleeping areas) do not contain kitchen and/or bathroom facilities.

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

(f) *Health and safety concerns.* All areas and components of the housing must be free of health and safety hazards. These areas include, but are not limited to, air quality, electrical hazards, elevators, emergency/fire exits, flammable materials, garbage and debris, hand-rail hazards, infestation, and lead-based paint. For example, the buildings must have fire exits that are not blocked and have hand rails that are undamaged and have no other observable deficiencies. The housing must have no evidence of infestation by rats, mice, or other vermin, or of garbage and debris. The housing must have no evidence of electrical hazards, natural hazards, or fire hazards. The dwelling units and common areas must have proper ventilation and be free of mold, odor (e.g., propane, natural gas, methane gas), or other observable deficiencies. The housing must comply with all requirements related to the evaluation and reduction of lead-based paint hazards and have available proper certifications of such (see 24 CFR part 35).

(g) *Compliance with State and local codes.* The physical condition standards in this section do not supersede or preempt State and local codes for building and maintenance with which HUD housing must comply. HUD housing must continue to adhere to these codes."

Cause

Management had not developed an effective system of internal controls that would have ensured compliance with the Special Tests and Provisions - Housing Quality Standards compliance requirement.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

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

Views of Responsible Officials

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

FINDING 2016-003

Subject: Community Development Block Grants/Entitlement Grants - Procurement
Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218
Federal Award Number and Year (or Other Identifying Number): B-15-MC180004
Compliance Requirement: Procurement
Audit Finding: Material Weakness, Other Matters

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

Repeat Finding

The internal control portion of this finding is a repeat of finding number 2015-002 from the immediate prior year.

Condition

Management of the City's Department of Redevelopment (Department) had not established an effective internal control system related to the grant agreement and the Procurement compliance requirement.

The Department failed to comply with the Procurement requirement that the contract files document the history of the procurement, including the rationale for method of procurement, selection of contract type, basis for contractor selection, and the basis for the contract price.

Project management services used in 2016 were retained from the prior year, but were not procured properly through small purchase procedures which required price or rate quotations.

Context

Of the 8 contracts tested, there were 3 instances of noncompliance. The issue was limited to the 3 project managers used in 2016, who received \$133,733 during the year. There were 46 contracts with reimbursements in 2016.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

2 CFR 200.318(i) states:

"The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price."

2 CFR 200.320(b) states:

"Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources."

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

Cause

The Department had not established an effective internal controls that would have ensured compliance with the requirements of the Procurement compliance requirement.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

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

Views of Responsible Officials

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

FINDING 2016-004

Subject: Community Development Block Grants/Entitlement Grants - Reporting
Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218
Federal Award Numbers and Years (or Other Identifying Numbers): B-14-MC180004, B-15-MC180004
Compliance Requirement: Reporting
Audit Finding: Material Weakness

Condition

Management of the City's Department of Redevelopment (Department) had not established an effective internal control system related to the grant agreement and the Reporting compliance requirement.

The Department had not designed or implemented adequate policies or procedures to ensure accurate reporting of the required C04PR03 - Activity Summary Report or the C04PR26 - CDBG Financial Summary report. Both reports were prepared by the Community Development Programs Director without a proper system of oversight or review.

Context

The lack of controls was a systemic issue, occurring throughout the audit period.

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

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

Cause

The Department had not established a proper internal control structure that would have ensured compliance with the Reporting compliance requirement.

Effect

The failure to establish an effective internal control system could have enabled material noncompliance to go undetected. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Department's management establish controls related to the grant agreement and the Reporting compliance requirement.

Views of Responsible Officials

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

City of East Chicago



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

CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Frank Rivera, Executive Director-Department of Redevelopment
Contact Phone Number: (219) 391-8513

VIEWS OF RESPONSIBLE OFFICIAL

We concur with the finding.

DESCRIPTION OF CORRECTIVE ACTION PLAN

The City of East Chicago Department of Redevelopment will establish an effective internal control system related to the grant agreement and the Cash Management and Reporting compliance requirements.

ANTICIPATED COMPLETION DATE

October 31, 2017

Ezell Foster
President – Redevelopment Commission
City of East Chicago Dept. of Redevelopment
August 10, 2017

Frank Rivera
Executive Director
City of East Chicago Dept. of Redevelopment
August 10, 2017

City of East Chicago



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

CORRECTIVE ACTION PLAN

FINDING 2016-002

Contact Person Responsible for Corrective Action: Frank Rivera, Executive Director-Department of Redevelopment
Contact Phone Number: (219) 391-8513

VIEWS OF RESPONSIBLE OFFICIAL

We concur with the finding.

DESCRIPTION OF CORRECTIVE ACTION PLAN

The City of East Chicago Department of Redevelopment is working diligently on establishing an effective internal control system to ensure compliance and comply with the Special Tests and Provisions – Housing Quality Standards requirement along with establishing a procedure to ensure that annual inspections and timely repairs are completed.

ANTICIPATED COMPLETION DATE

November 30, 2017

Ezell Foster
President – Redevelopment Commission
City of East Chicago Dept. of Redevelopment
August 10, 2017

Frank Rivera
Executive Director
City of East Chicago Dept. of Redevelopment
August 10, 2017

City of East Chicago



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

CORRECTIVE ACTION PLAN

FINDING 2016-003

Contact Person Responsible for Corrective Action: Frank Rivera, Executive Director-Department of Redevelopment
Contact Phone Number: (219) 391-8513

VIEWS OF RESPONSIBLE OFFICIAL

We concur with the finding

DESCRIPTION OF CORRECTIVE ACTION PLAN

The City of East Chicago Department of Redevelopment is working to establish an effective internal control system related to the grant agreement and the Procurement requirements of the Procurement and Suspension and Debarment compliance requirement. The Department of Redevelopment will also establish a procedure that complies with the Procurement requirements to ensure that the contract files document the history of the procurement, including the rationale for method of procurement, selection of contract type, basis for contractor selection, and the basis for the contract price.

ANTICIPATED COMPLETION DATE

DECEMBER 31, 2017

Ezell Foster
President – Redevelopment Commission
City of East Chicago Dept. of Redevelopment
August 10, 2017

Frank Rivera
Executive Director
City of East Chicago Dept. of Redevelopment
August 10, 2017

City of East Chicago



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

CORRECTIVE ACTION PLAN

FINDING 2016-004

Contact Person Responsible for Corrective Action: Frank Rivera, Executive Director-Department of Redevelopment
Contact Phone Number: (219) 391-8513

VIEWS OF RESPONSIBLE OFFICIAL

We do not concur with the finding for the PR03 report. This report displays program and financial information on projects and activities that have been funded with CDBG dollars for the Program Year requested for Entitlement grantees. This report is generated by IDIS and does not require any manual adjustments. The Accounting department is responsible for putting the accomplishments and the narratives in the IDIS system. The Community Development Programs Manager does not have access in IDIS to update the accomplishments and narratives. Both the Accountant and the Community Development Programs Manager work on this report to ensure that the accomplishments and the narratives are updated in IDIS. The Community Development Programs Manager reviews the PR03 report to ensure that the accomplishments and narratives appear on the report. The PR03 report requires the Accounting Department and the Community Development Programs Manager to work on it together and therefore satisfies the requirement of proper system of oversight and review for the PR03 report.

DESCRIPTION OF CORRECTIVE ACTION PLAN

The City of East Chicago Department of Redevelopment will implement the proper system of oversight and review for the PR26 report.

ANTICIPATED COMPLETION DATE

September 28, 2017

Ezell Foster
President – Redevelopment Commission
City of East Chicago Dept. of Redevelopment
August 10, 2017

Frank Rivera
Executive Director
City of East Chicago Dept. of Redevelopment
August 10, 2017

DEPARTMENT OF REDEVELOPMENT
CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on August 10, 2017, with Valeriano Gomez, Controller; Anthony Copeland, Mayor; Brenda Walker, Common Council member; Stephen Bower, Council Attorney; Kimberly Anderson; Deputy Controller; Frank Rivera, Executive Director Department of Redevelopment; Ezell Foster, President of the Redevelopment Commission; Christine Russell; Redevelopment Commission member; and Maune Morgan, Vice President of the Redevelopment Commission.

WATER UTILITY
CITY OF EAST CHICAGO

WATER UTILITY
CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS

CURRENT PAYMENT OF CLAIMS

The Water Utility was delinquent in the payment of gas and electric services invoices of \$289,367 as of December 31, 2016. The City had discussions with the vendor concerning discrepancies with the payments and billings.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

WATER UTILITY BILLINGS

The City's water utility monthly billings were not completed on a timely basis. During 2016, two multi-month bills were sent out. The first multi-month billing was for four months and the second was for two months. The monthly flat rate for water was only charged for one month of the four-month bill, but according to the ordinance, the fee should have been charged for each month covered in the bill. The issue was remedied for the two-month bill. Sixty-four of 120 customer bills tested were not billed in accordance with approved rates per the current rate ordinance.

Due to services not being billed on a timely basis, late payment fees were not assessed on delinquent accounts. Late payment fees have not been assessed since January 2016. Late payment fees were not billed in accordance with rate ordinance and statutes.

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



East Chicago Water Department

400 E CHICAGO AVENUE • EAST CHICAGO, IN • 46312

PHONE: 219.391.8469 • FAX: 219.391.8499

OFFICE HOURS: 8:30AM-4:30PM

Honorable Anthony Copeland, Mayor

Winna G. Guzman, Director
wguzman@eastchicago.com

August 16, 2017

Provided below is the official response to the *City of East Chicago Water Utility Audit Results and Comments* report issued by the Indiana State Board of Accounts on August 10, 2017.

Current Payment of Claims

The following procedures have been implemented in an effort to process invoices in a timely manner:

- Communication between departments (Filtration/Sanitary/Water) has been re-established and requiring that any and all invoices/bills that relate to other departments be routed immediately to the respective department(s)
- Continue working closely with assigned staff member and accountant to timely process claims/invoices
- Currently working on closing out of any and all 2015/2016 open purchase orders

Water Utility Billing

The following internal measures have been implemented relating to billing:

- Additional meter readers hired, including hiring of employee with seasoned background to provide training to newly hired meter readers
- Future hiring of office staff to support the needs of department
- Enhancing and improving established billing procedures and policies
 - Establishing and strictly adhering to billing deadline dates for all ledgers
- Effective July 2017, resumed enforcement of Resolution WD-0008-04 which reflects the policy for dealing with customers receiving a delinquency red tag notice or that have had water services terminated
- Effective July 2017, resumed the assessment of late payment fees to bills that are not paid by the specified due dates

Submitted by:

Winna Guzman,
Water Department Director

WATER UTILITY
CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on August 10, 2017, with Valeriano Gomez, Controller; Anthony Copeland, Mayor; Brenda Walker, Common Council member; Stephen Bower, Council Attorney; Kimberly Anderson, Deputy Controller; Winna Guzman, Director of Water Operations; Dr. Abderrahman Zehraoui, Director of Utilities; and Anthony Herrera, Board Secretary.

SANITARY/STORMWATER DISTRICT
CITY OF EAST CHICAGO

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

CURRENT PAYMENT OF CLAIMS

The Sanitary District was delinquent in the payment of gas and electric services invoices of \$300,248 as of December 31, 2016. The City had discussions with the vendor concerning discrepancies with the payments and billings.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

WASTEWATER UTILITY BILLINGS

The City's wastewater services were not billed on a timely basis. During 2016, two multi-month bills were sent out. The first multi-month billing was for four months and the second was for two months. The monthly flat rate for wastewater services was only charged for one month of the four-month bill, but according to the ordinance, the fee should have been charged for each month covered in the bill. The issue was remedied for the two-month bill. Sixty-six of one hundred and twenty customer bills tested were not billed in accordance with approved rates per the current rate ordinance.

A summer rate is charged for the three-month period of June through August based on an average of previous winter month bills. Utility employees could not specify which winter months the summer rate was based upon. In addition, the four-month billing period was applied at the summer rate for all months billed, despite the bills also covering the months of March, April, and May.

Due to services not being billed on a timely basis, penalties were not assessed on delinquent accounts. Penalties have not been assessed since January of 2016. Penalties were not billed in accordance with rate ordinance and statutes.

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties were not recorded with the County Recorder nor certified to the County Auditor, which would have resulted in a lien against the property.

A similar comment appeared in prior Reports B44806, B45364, and B46872.

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

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

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

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

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



CITY OF EAST CHICAGO
Honorable Anthony Copeland, Mayor

5201 Indianapolis Boulevard
East Chicago, IN 46312
Phone: (219) 391-8466
Fax: (219) 391-8254

August 18, 2017

Provided below is the official response to the City of East Chicago Water Utility Audit Results and Comments report issued by the Indiana State Board of Accounts on August 10, 2017.

Current Payment of Claims

The delinquent payment of gas and electric invoices in December 2016 may be attributable to a number of factors (late receipt of invoices and their timely inclusion into the packet for Board approval, inaccuracies identified in the invoices requiring correction, invoices sent to other utility departments, lost/misplaced invoices, transition of responsible personnel, etc.) Review of the Board meeting minutes may be able to add detail as to why the payments were delinquent. Records should also show that the delinquent invoices have been paid.

To prevent this in the future, the following procedures have been implemented by the Water Department in an effort to process invoices in a timely manner:

- Communication between departments (Filtration/Sanitary/Water) has been re-established requiring that any and all invoices/bills that relate to other departments be routed immediately to the respective department(s)
- Continue working closely with assigned staff member and accountant to timely process claims/invoices
- Currently working on closing out of any and all 2015/2016 open purchase orders

Wastewater Utility Billing

The billing for wastewater services is handled by the Water Department. The Sanitary District provides wastewater billing detail for 26 permitted industrial waste dischargers. By permit, each industry is to report their monthly discharge volume to the Sanitary District by the 10th of each month. The Sanitary District adds monthly data for COD and TSS to determine what surcharges are to be billed for each industrial user. Once the meter readings and analytical results are in for each industry, a billing spreadsheet is provided to the water department for inclusion in their monthly billing process, typically provided to the water department by the 16th of each month.

To prevent this in the future, the following internal measures have been implemented by the Water Department relating to billing:

- Additional meter readers hired, including hiring of employee with seasoned background to provide training to newly hired meter readers
- Future hiring of office staff to support the needs of department
- Enhancing and improving established billing procedures and policies
- Establishing and strictly adhering to billing deadline dates for all ledgers

Delinquent Wastewater Accounts

The Sewer Rate Ordinance 15-0023 adopted in December 2015 allows for the assessment of a 10% penalty for fees not paid within 30 days after payment is due. The specific wording states that the 10% fee and reasonable

attorney's fees may be recovered, so it is unclear if this penalty is to be automatically applied by the water department billing procedure. The Billing and assessment of late fees is handled by the Water Department.

The following internal measures have been implemented by the Water Department relating to assessment of late fees:

- Effective July 2017, resumed enforcement of Sewer Rate Ordinance 15-0023 which reflects the policy for dealing with customers with bills that are not paid by the specified due dates.

Sincerely,

A handwritten signature in black ink, appearing to read "Zehraoui", with a long, sweeping underline that extends to the right.

Abderrahman Zehraoui, PhD.
Director of Utilities

SANITARY/STORMWATER DISTRICT
CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on August 10, 2017, with Valeriano Gomez, Controller; Anthony Copeland, Mayor; Brenda Walker, Common Council member; Stephen Bower, Council Attorney; Kimberly Anderson, Deputy Controller; Winna Guzman, Director of Water Operations; Dr. Abderrahman Zehraoui, Director of Utilities; and Anthony Herrera, Board Secretary.