

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

SPECIAL INVESTIGATION REPORT
OF

POLICE DEPARTMENT
CITY OF EAST CHICAGO
LAKE COUNTY, INDIANA

September 1, 2016 to May 9, 2019



FILED
07/26/2019

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STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This is a special investigation report for the City of East Chicago (City), for the period September 1, 2016 to May 9, 2019, and is in addition to any other report for the City as required under Indiana Code 5-11-1. All reports pertaining to the City may be found at www.in.gov/sboa/.

We performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts and were limited to records associated with the East Chicago Police Department's Purchase of Evidence/Purchase of Information Fund. The 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 Official Response to the Results and Comments, incorporated within this report, was not verified for accuracy.

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

June 1, 2019

POLICE DEPARTMENT
CITY OF EAST CHICAGO
RESULTS AND COMMENTS

CASH NECESSARY TO BALANCE

Historically, the Gang and Narcotics Unit of the East Chicago Police Department (Police Department) has maintained a Purchase of Evidence/Purchase of Information (PE/PI) Fund. The primary purpose of the fund was to finance the purchase of illegal drugs and to compensate confidential informants for their services. For the period September 1, 2016 to May 9, 2019, Commander Nathan London (London) was designated by the Chief of Police as the custodian of the PE/PI Fund. As custodian, London's responsibilities included maintaining records as to the receipt, disposition, and balance of the PE/PI Fund. The PE/PI Fund was periodically replenished from the Police Federal Forfeiture Fund (held by the City Controller) at the direction of the custodian of the fund.

A cash count performed on the PE/PI Fund indicated cash short in the amount of \$1,287 as of May 9, 2019.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

We requested London to reimburse the PE/PI Fund in the amount of \$1,287. (See Summary of Charges, page 6)

SPECIAL INVESTIGATION COSTS

The State of Indiana incurred costs, in the amount of \$2,255 due to the special investigation of the Police Department PE/PI funds.

Audit costs incurred because of theft and shortage may be the personal obligation of the responsible official or employee.

Audit costs or other costs incurred because of poor records, nonexistent records or other inadequate bookkeeping practices may be the personal obligation of the responsible official or employee of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

We requested that London reimburse the State of Indiana for special investigation costs in the amount of \$2,255. (See Summary of Charges, page 6)

EMPLOYEE DISHONESTY INSURANCE COVERAGE

The City of East Chicago has an insurance policy which protects them from employee theft. The limit of insurance is \$50,000 per occurrence for the period from December 29, 2011 until cancelled.

INTERNAL CONTROLS

The Police Department did not have adequate controls over the accounting for PE/PI due to a lack of management oversight. Management failed to inform its personnel of the policy governing confidential funds. In addition, management did not ensure that quarterly internal audits were being performed; therefore, noncompliance went undetected.

POLICE DEPARTMENT
CITY OF EAST CHICAGO
RESULTS AND COMMENTS
(Continued)

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

POLICE DEPARTMENT POLICY

The policy governing the PE/PI Fund dates back to August 7, 2012, as submitted by former Chief of Police Mark Becker. The current Chief of Police and the former and current custodians of the PE/PI Fund indicated they were unaware of this policy.

For the period September 1, 2016 to May 9, 2019, the following were found to be in noncompliance with the Police Department's policy governing the accounting for the PE/PI Fund.

1. Twelve disbursements of the PE/PI Fund were not supported by a written "Request of Funds" form and no other documentation was presented that would support that the transaction transpired.
2. Forty-five of the "Request of Funds" forms were lacking two signatures. Thirty-nine of these were "Request of Funds" for the custodian (London) of the PE/PI Fund.
3. Twenty-four Confidential Informant (CI) Receipts lacked the signature of a witness.
4. The policy allows for the amount to replenish the PE/PI Fund not to exceed \$4,000; however, the purchase orders and checks issued by the City Controller were in the amount of \$5,000 each.
5. The purchase order to replenish the PE/PI Fund was not supported by "proof of expenditures" or documentation of an internal audit, as required. Per the policy, the amount for replenishment of the fund can only be for the amount that coincides with the amount expended.
6. PE/PI funds were to be kept in a locked safe. According to London, the funds were kept in an unlocked cabinet in his office.

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

POLICE DEPARTMENT
CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on June 12, 2019, with Valeriano Gomez, City Controller; Lenny Franciski, President of the Common Council; Robert Garcia, Common Council member; and Hector Rosario, Chief of Police.

POLICE DEPARTMENT
 CITY OF EAST CHICAGO
 SUMMARY OF CHARGES
 (Due to Malfeasance, Misfeasance, or Nonfeasance)

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Nathan London, former custodian of the PE/PI Fund			
Cash Necessary to Balance, page 3	\$ 1,287	\$ -	\$ 1,287
Special Investigation Costs, page 3	<u>2,255</u>	<u>-</u>	<u>2,255</u>
 Total	 <u>\$ 3,542</u>	 <u>\$ -</u>	 <u>\$ 3,542</u>

This report was forwarded to the Office of the Indiana Attorney General and the local prosecuting attorney.

AFFIDAVIT

STATE OF INDIANA)
 Potter COUNTY)

I, Mary J. Small, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Police Department, City of East Chicago, Lake County, Indiana, for the period from September 1, 2016 to May 9, 2019, is true and correct to the best of our knowledge and belief.

Mary J. Small
Field Examiner

Subscribed and sworn to before me this 15 day of July, 2019.

Judy A. Hittle
Notary Public

My Commission Expires: 06-26-2021

County of Residence: JASPER

