

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF EAST CHICAGO

LAKE COUNTY, INDIANA

January 1, 2019 to December 31, 2019



**FILED**  
08/04/2020



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Valeriano Gomez	01-01-19 to 12-31-20
Mayor	Anthony Copeland	01-01-19 to 12-31-20
President of the Board of Public Works	Valeriano Gomez	01-01-19 to 12-31-20
President of the Common Council	Lenny Franciski Robert Garcia	01-01-19 to 12-31-19 01-01-20 to 12-31-20



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the City of East Chicago (City), for the year ended December 31, 2019, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated June 18, 2020, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

***Internal Control over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001, that we consider to be material weaknesses.

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

***Compliance and Other Matters***


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

***City of East Chicago's Response to Findings***

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

***Purpose of This Report***

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

  
Paul D. Joyce, CPA  
State Examiner

June 18, 2020



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

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of East Chicago's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019. 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.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

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

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

**Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

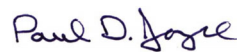
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

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

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

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

We have audited the financial statement of the City, as of and for the year ended December 31, 2019, and the related notes to the financial statement. We issued our report thereon dated June 18, 2020, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with U.S. Generally Accepted Accounting Principles, and an unmodified opinion was issued regarding the presentation in accordance with the Regulatory Basis of Accounting. Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.

  
Paul D. Joyce, CPA  
State Examiner

June 18, 2020

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were prepared 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, 2019

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (Or Other) Identifying Number	Pass-Through To Subrecipient	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Direct Grants				
Section 8 Project-Based Cluster				
Section 8 Housing Assistance Payments Program	14.195	IN36L0002278 & IN36M000280	\$ -	\$ 655,499
Total for cluster			-	655,499
Direct Grants				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218			
		B-14-MC-180004	-	6,040
		B-15-MC-180004	-	12,878
		B-16-MC-180004	-	42,276
		B-17-MC-180004	59,500	786,892
		B-18-MC-180004	10,254	583,312
Total for cluster			69,754	1,431,398
Direct Grants				
HOME Investment Partnerships Program	14.239			
		M-12-MC-180210	-	5,805
		M-13-MC-180210	-	31,874
		M-14-MC-180210	-	139,038
		M-15-MC-180210	-	3,600
		M-17-MC-180210	-	6,363
		M-18-MC-180210	-	32,831
Total for program			-	219,511
Total for federal grantor agency			69,754	2,306,408
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Direct Grants				
Equitable Sharing Program	16.922	FY 2019	-	12,476
Total for federal grantor agency			-	12,476
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass-Through Indiana Department of Natural Resources				
Highway Planning and Construction Cluster				
Recreational Trails Program	20.219	RT-17005	-	36,206
Total for cluster			-	36,206

CITY OF EAST CHICAGO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2019

Pass-Through Northwestern Indiana Regional Planning Commission				
Federal Transit Cluster				
	Federal Transit Formula Grants	20.507	IN-2017-027	-
			IN-2018-026	195,612
			IN-2019-030	67,187
				<u>338,206</u>
	Total for cluster			<u>601,005</u>
	Total for federal grantor agency			<u>637,211</u>
 <u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Pass-Through Indiana Finance Authority				
Drinking Water State Revolving Fund Cluster				
	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DW16164504	-
			DW16164505/DW16154506	745,120
				<u>8,082,448</u>
	Total for cluster			<u>8,827,568</u>
	Pass-Through Indiana Department of Environmental Management			
	Beach Monitoring and Notification Program Implementation Grants	66.472	CU-08E73102	-
				<u>16,356</u>
	Total for federal grantor agency			<u>8,843,924</u>
 <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Pass-Through Indiana State Department of Health				
Hospital Preparedness Program (HPP) and Public Health Emergency				
	Preparedness (PHEP) Aligned Cooperative Agreements	93.074	U90TP000521/26862 BASE	-
			U90TP000521/26862 CRI	14,770
			U90TP000521/26862 LEAD	33,472
				<u>63,695</u>
	Total for Program			<u>111,937</u>
	Total for federal grantor agency			<u>111,937</u>
	Total federal awards expended			<u>\$ 69,754</u> <u>\$ 11,911,956</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 (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2019. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF EAST CHICAGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I - Summary of Auditor's Results**

Financial Statement:

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

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	no

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

Name of Federal Program or Cluster	Opinion Issued
Federal Transit Cluster	Unmodified
Drinking Water State Revolving Fund Cluster	Unmodified

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

Auditee qualified as low-risk auditee? no

**Section II - Financial Statement Findings**

**FINDING 2019-001**

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Finding: Material Weakness

*Condition and Context*

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA) and the notes to the SEFA.

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

The Senior Accountant prepared the SEFA without an oversight or review process in place. The Deputy Controller prepared the notes to the SEFA without an oversight or review process in place.

*Criteria*

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. . . ."

*Cause*

The City's management had not established a system of internal control that would have ensured proper reporting of the SEFA and the notes to the SEFA.

*Effect*

The failure to establish a proper system of internal control could have enabled material misstatements or irregularities of the SEFA and the notes to the SEFA to remain undetected.

*Views of Responsible Officials*

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

**Section III - Federal Award Findings and Questioned Costs**

No matters are reportable.

AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the City. The document is presented as intended by the City.



# CITY OF EAST CHICAGO

4525 Indianapolis Blvd.  
East Chicago, IN 46312  
219/391-8220 (office)

**Anthony Copeland**  
Mayor

## CORRECTIVE ACTION PLAN

### ***FINDING 2019-001***

Contact Person Responsible for Corrective Action:

James Bennett  
Financial Officer

Valeriano Gómez  
City Controller

Contact Phone Number:

James Bennett  
Financial Adviser  
(219) 391-8200

Valeriano Gómez  
City Controller  
(219) 391-8300

### **Views of Responsible Official:**

The City agrees with the finding.

### **Description of Corrective Action Plan:**

The City of East Chicago hired a grant writer in January 2019 / 2020 to help administer the grants throughout the city. Unfortunately, the grant writer was not available for the duration of time allotted to review the grants monthly. Since then the city has been actively looking for a CPA position to help with the grants.

### **Anticipated Completion Date:**

The anticipated completion date will be within 6 months.

## OTHER REPORTS

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