

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, 2022 to December 31, 2022



FILED
06/21/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Valeriano Gomez	01-01-22 to 12-31-23
Mayor	Anthony Copeland	01-01-22 to 12-31-23
President of the Board of Public Works	Valeriano Gomez	01-01-22 to 12-31-23
President of the Common Council	Monica G. Gonzalez	01-01-22 to 12-31-23



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, 2022, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated May 17, 2023, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

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

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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



Beth Kelley, CPA, CFE
Deputy State Examiner

May 17, 2023



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE 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 the Major Federal Program

Qualified Opinion

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 its major federal program for the year ended December 31, 2022. The City's major federal program is identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs.

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

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinions* section of our report, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the COVID-19 - Coronavirus State and Local Fiscal Recovery Funds for the year ended December 31, 2022.

Basis for Qualified Opinion

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

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

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

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

As described in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient appropriate audit evidence supporting the compliance of the City with 21.027 COVID-19 - Coronavirus State and Local Fiscal Recovery Funds, as described in item 2022-001 for Procurement and Suspension and Debarment. Consequently, we were unable to determine whether the City complied with those requirements applicable to that program.

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2022-002. Our opinion on the major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002, 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.

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

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

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE 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, 2022, and the related notes to the financial statement. We issued our report thereon dated May 17, 2023, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with accounting principles generally accepted in the United States of America, and an unmodified opinion was issued regarding the presentation in accordance with the regulatory basis of accounting. Our audit was performed for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.



Beth Kelley, CPA, CFE
Deputy State Examiner

May 17, 2023

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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

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CITY OF EAST CHICAGO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2022

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>U.S. Department of Housing and Urban Development</u>					
Section 8 Project-Based Cluster					
Section 8 Housing Assistance Payments Program Housing Assistance Payments Program	Direct Grant	14.195	IN36L000278 & IN36M000280	\$ -	\$ 671,282
Total - Section 8 Project-Based Cluster				-	671,282
<u>CDBG - Entitlement Grants Cluster</u>					
Community Development Block Grants/Entitlement Grants					
CDBG	Direct Grant	14.218	B-17-MC-180004	-	1,250
CDBG			B-18-MC-180004	-	164,760
CDBG			B-19-MC-180004	36,594	195,306
CDBG			B-20-MC-180004	-	154,509
CDBG			B-21-MC-180004	3,046	49,483
CDBG			B-22-MC-180004	-	41,614
Total - Community Development Block Grants/ Entitlement Grants				39,640	606,922
COVID-19 - Community Development Block Grants/Entitlement Grants					
CDBG-CV	Direct Grant	14.218	B-20-MW-180004	-	9,338
Total - CDBG - Entitlement Grants Cluster				39,640	616,260
<u>HOME Investment Partnerships Program</u>					
HOME Investment Partnerships Program	Direct Grant	14.239	M-15-MC-180210	-	119,547
HOME Investment Partnerships Program			M-18-MC-180210	-	704
HOME Investment Partnerships Program			M-19-MC-180210	-	28,132
HOME Investment Partnerships Program			M-20-MC-180210	-	5,778
Total - HOME Investment Partnerships Program				-	154,161
Total - U.S. Department Housing and Urban Development				39,640	1,441,703

CITY OF EAST CHICAGO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2022

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>U.S. Department of Justice</u>					
Edward Byrne Memorial Justice Assistance Grant Program	Lake County, Indiana	16.738			
JAG2018			2018-H3023-IN-DJ	-	16,823
JAG2019			2019-H4114-IN-DJ	-	5,871
Total - Byrne Justice Assistance Grant Program				-	22,694
Equitable Sharing Program	Direct Grant	16.922			
Police Federal Forfeitures			CY 2022	-	45,740
Total - U.S. Department of Justice				-	68,434
<u>U.S. Department of Transportation</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction	Indiana Department of Transportation	20.205			
Highway Planning and Construction Cluster			DES#0900064	-	294,740
Highway Planning and Construction Cluster			DES#1601146	-	12,454
Total - Highway Planning and Construction				-	307,194
Recreational Trails Program	Indiana Department of Natural Resources	20.219			
Recreational Trails Program			RT-17-005	-	143,791
Total - Highway Planning and Construction Cluster				-	450,985
Federal Transit Cluster					
Federal Transit Formula Grants	Northwestern Indiana Regional Planning Commission	20.507			
EC Bus Transit			IN-2018-026	-	93,847
EC Bus Transit			IN-2019-030	-	120,703
EC Bus Transit			IN-2020-039	-	389,248
Total - Federal Transit Cluster				-	603,798
Total - U.S. Department of Transportation				-	1,054,783

CITY OF EAST CHICAGO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2022

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>U.S. Department of the Treasury</u>					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds ARP-CV Local Fiscal Recovery	Direct Grant	21.027	ARP Act	-	8,422,009
Total - U.S. Department of the Treasury				-	8,422,009
<u>Environmental Protection Agency</u>					
Beach Monitoring and Notification Program Implementation Grants Beach Monitoring	Indiana Department of Environmental Management	66.472	CU-11E73102/63536	-	24,787
Total - Environmental Protection Agency				-	24,787
<u>Department of Health and Human Services</u>					
Immunization Cooperative Agreements Immunization and Vaccines for Children	Indiana Department of Health	93.268	NH23IP00723/52585	-	8,362
COVID-19 - Immunization Cooperative Agreements Immunization and Vaccines for Children-COVID-19	Indiana Department of Health	93.268	NH23IP922631/53323	-	13,126
Total - Immunization Cooperative Agreements				-	21,488
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) Epidemiology and Laboratory Capacity Epidemiology and Laboratory Capacity	Indiana Department of Health	93.323	NU50CK000503/44731 NU50CK000503/55431	-	9,109 83,313
Total - Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)				-	92,422
Total - Department of Health and Human Services				-	113,910
Total federal awards expended				\$ 39,640	\$ 11,125,626

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. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2022. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

B. Other Significant Accounting Policies

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

Note 2. Indirect Cost Rate

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

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

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

Federal Awards:

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

Identification of Major Program and type of auditor's report issued on compliance for it:

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

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

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

No matters are reportable.

Section III - Federal Award Findings and Questioned Costs

FINDING 2022-001

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

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

Condition and Context

The City received a total State and Local Fiscal Recovery Funds (SLFRF) allocation of \$31,172,909. During the audit period, the SLFRF program funds totaling \$8,422,009 were expended under the premium pay and the water, sewer, and broadband eligible use categories. Transactions expended under the water, sewer, and broadband eligible use category, totaling \$7,124,581, were subject to suspension and debarment provisions.

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

The City's policies related to suspension and debarment requirements included the Executive Secretary of the Engineering and Board of Works (Executive Secretary) verifying the SAMS exclusions. The City entered into five contracts with two vendors for various projects under the water, sewer, and broadband eligible use category during the audit period. Total payments made to the vendors during the audit period were \$7,124,581, all of which were subject to suspension and debarment. Per inquiry with the City, the Executive Secretary verified the two vendors were not suspended or debarred by checking the SAMS exclusions; however, retaining documentation of the verification was not part of the process. As such we could not determine if the City complied with suspension and debarment.

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

2 CFR 180.300 states:

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

- (a) Checking SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

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

Cause

The system of internal controls as established by management of the City was not properly implemented to ensure that the policies and procedures in place related to suspension and debarment were resulted in adequate supporting documentation being retained for audit.

Effect

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

Noncompliance with the provisions of federal statutes, regulations, and the terms and conditions of the federal award could result in the loss of future federal funding to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that management of the City establish a proper system of internal controls, including strengthening its policies and procedures to ensure its compliance with requirements related to suspension and debarment.

Views of Responsible Officials

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

FINDING 2022-002

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

Condition and Context

The City had not properly designed or implemented a system of internal controls that would likely be effective in preventing, or detecting and correcting, noncompliance. Recipients are required to submit quarterly or annually Project and Expenditure (P&E) Reports to the Department of the Treasury (Treasury). The reporting periods as well as the respective due dates are based upon type of recipient and its population, as well as the recipient's allocation amount. Information to be reported includes projects funded, expenditures, and contracts for the appropriate reporting period.

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

The City was classified as a metropolitan city with a population below 250,000 residents that received an allocation of more than \$10 million in State and Local Fiscal Recovery Funds. As such, the initial P&E report, covering three calendar quarters from March 3, 2021 to December 31, 2021, was required to be submitted to the Treasury by January 31, 2022. The subsequent quarterly reports are to cover one calendar quarter and must be submitted to the Treasury by the last day of the month following the end of the period covered.

The City submitted four quarterly P&E reports during the audit period. The reports were prepared by one knowledgeable employee and reviewed and submitted by another employee; however, the review process in place was not effective to prevent, or detect and correct, errors.

Of the four reports filed, two reports were selected for testing. The two reports tested were the quarterly reports due on July 31, 2022, and October 31, 2022. Errors noted on the reports were as follows:

Project and Expenditure Report: July 31, 2022:

The report was not mathematically accurate and complete, nor was it supported by the unit's records. Additionally, data accumulated and summarized was not accurate and complete including information to support key line items.

Of the four projects reported by the City the current period obligation was overstated for all four. The current period obligation was based on a budgeted amount per Resolution instead of an amount for the current period. In addition, the current period expenditures were incorrect for three of the four projects and the cumulative expenditures were incorrect for two of the four projects.

Project and Expenditure Report: October 31, 2022:

The report was not mathematically accurate and complete, nor was it supported by the unit's records. Additionally, data accumulated and summarized was not accurate and complete including information to support key line items.

Of the five projects reported by the City the current period obligation one was overstated as it was based on a budgeted amount per Resolution instead of an amount for the current period and three were understated. In addition, the current period expenditures were incorrect for four of the five projects, and the cumulative expenditures were incorrect for two of the five projects.

The lack of internal controls and noncompliance was systemic 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). . . ."

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

Reporting. All recipients of federal funds must complete financial, performance, and compliance reporting as required and outlined in Part 2 of this guidance. Expenditures may be reported on a cash or accrual basis, as long as the methodology is disclosed and consistently applied. Reporting must be consistent with the definition of expenditures pursuant to 2 CFR 200.1. Your organization should appropriately maintain accounting records for compiling and reporting accurate, compliant financial data, in accordance with appropriate accounting standards and principles. . . . (Coronavirus State and Local Fiscal Recovery Funds Compliance and Reporting Guidance)

31 CFR 35.4(c) states in part: "*Reporting and requests for other information.* During the period of performance, recipients shall provide to the Secretary periodic reports providing detailed accounting of the uses of funds . . ."

Cause

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

Effect

Without the proper implementation of an effectively designed system of internal controls, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. Noncompliance with the provisions of federal statutes, regulations, and the terms and conditions of the federal award could result in the loss of future federal funding to the City.

In addition, not meeting the SLFRF reporting requirements increases the likelihood that the public will not have access to transparent and accurate information regarding expenditures of federal awards.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that management of the City design and implement a proper system of internal controls that would ensure appropriate reviews, approvals, and oversight are taking place. Additionally, management should develop policies and procedures to ensure that the City provides the Treasury with complete and accurate information for the P&E report.

Views of Responsible Officials

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

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AUDITEE-PREPARED DOCUMENTS

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



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

Anthony Copeland
Mayor

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2021-0001

Fiscal year in which the finding initially occurred: 2021

Status of audit finding: Corrective action has been taken.



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Anthony Copeland
Mayor

CORRECTIVE ACTION PLAN

FINDING 2022-001

Contact Person Responsible for Corrective Action: Valeriano F. Gomez / City Controller
Contact Phone Number: 219-391-8300

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Internal controls to ensure compliance of the following 1. Documentation of procurement, suspension, and debarment clause compliance requirements. 2. Collection of certification from vendors and retention of documentation to show Excluded Parties List System (EPLS) was checked prior to entering into transaction.

City Departments will provide in all bid packages requirements for the documentation pertaining to items 1 & 2 listed above; to include a required check list with items listed, The City Board of Public Works (and all awarding Boards) before awarding bids and approving contracts shall ensure all items on check list have been provided, and the discussed documentation has been entered into meeting minutes. All actions shall proceed before entering into a covered transaction. Board Attorneys shall also review city bid packages to ensure compliance of these controls.

Required Documentation to be included in all check lists:

1. U.S. Gov. System for Award Management (SAM) exclusions
2. Certification from Person / Firm / Vendor pertaining to Excluded Parties List System (EPLS) or adding of clause or condition to transaction or contract.

Note: In addition, with further discussion, we will continue to work on finding other proposals to improve internal controls issues related to the Finding 2022-001.

Anticipated Completion Date: All Boards and Departments will be informed to include all information listed above on their June/July agendas for discussion and to carry out the requirements.



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Mayor

CORRECTIVE ACTION PLAN

FINDING 2022-002

Contact Person Responsible for Corrective Action: Valeriano F. Gomez / City Controller
Contact Phone Number: 219-391-8300

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: Additional Internal controls to address Finding 2022-002:

A.- 1. East Chicago SLFRF reporting personnel, will be expanded to include a review of Quarterly Project and Expenditure Reports by a city senior accountant. 2. All personnel will jointly review Quarterly Project & Expenditure Report when completed, before proceeding to submission in portal. 3. Review by city personnel of previous Quarterly Reports to include the initial Interim Report (SLT-4798, 8-31-21) to address issues. 4. To address possible error in reporting tier will e-mail Treasury (SLFRF@treasury.gov) for guidance and direction. Per Project and Expenditure Report User Guide April 1, 2023.

B.- 2. East Chicago SLFRF reporting personnel will include the project ledger to future SLFRF Compliance Quarter Reports to ensure accurate reporting within the proper timeline / period.

Note: In addition, with further discussion, we will continue to work on finding other proposals to improve internal controls issues related to Finding 2022-002.

Anticipated Completion Date: Corrective actions should be in place for next SLFRF Quarterly Report (2nd Qtr. 2023).

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/>.