

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, 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



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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, 2022 to December 31, 2022. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement Audit Report of the City, which provides our opinions on the City's financial statement. This report may be found at www.in.gov/sboa/.

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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Beth Kelley, CPA, CFE
Deputy State Examiner

May 17, 2023

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CITY CONTROLLER
CITY OF EAST CHICAGO

CITY CONTROLLER
CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Reports B57222 and B59658.

Condition and Context

The financial statement included the Police Pension fund with an overdrawn cash balance of \$9,636 on December 31, 2022.

In addition, the Water Utility Operating fund's cash balance on January 1, 2022, and December 31, 2022, contained outstanding temporary loans owed to other funds. Without these temporary loans, the cash balance of the Water Utility Operating fund would have been overdrawn as follows:

Water Utility Operating Fund	January 1, 2022	December 31, 2022
Cash Balance	\$ 581,705	\$ 84,017
Outstanding Temporary Loans Owed to Other Funds	5,000,000	5,000,000
Cash Balance Without Outstanding Temporary Loans	\$ (4,418,295)	\$ (4,915,983)

The deficit cash balance in the fund increased by \$497,688 from January to December 2022.

Criteria

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TEMPORARY TRANSFER OF FUNDS

Condition and Context

A temporary transfer between the General fund and Water Utility Operating fund was made and not repaid within the time frame permitted by statute. The Common Council approved ordinances in 2021 for the temporary transfer of \$2,000,000 from the General fund to Water Utility Operating fund, which was not repaid by December 31, 2021, as required, nor was an emergency declared to extend the repayment to the next year. The \$2,000,000 owed to the General fund from the Water Utility Operating fund remained unpaid at December 31, 2022.

CITY CONTROLLER
CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Indiana Code 36-1-8-4 states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.
- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

CITY CONTROLLER
CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on May 17, 2023, with Valeriano Gomez, City Controller; Anthony Copeland, Mayor; Monica G. Gonzalez, President of the Common Council; Robert Garcia, Common Council member; and Raymond Lopez, Water Utility Board member.

WATER UTILITY
CITY OF EAST CHICAGO

WATER UTILITY
CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Reports B57222 and B59658.

Condition and Context

The Water Utility Operating fund's cash balance on January 1, 2022, and December 31, 2022, contained outstanding temporary loans owed to other funds. Without these temporary loans, the cash balance of the Water Utility Operating fund would have been overdrawn as follows:

<u>Water Utility Operating Fund</u>	<u>January 1, 2022</u>	<u>December 31, 2022</u>
Cash Balance	\$ 581,705	\$ 84,017
Outstanding Temporary Loans Owed to Other Funds	<u>5,000,000</u>	<u>5,000,000</u>
Cash Balance Without Outstanding Temporary Loans	<u>\$ (4,418,295)</u>	<u>\$ (4,915,983)</u>

The deficit cash balance in the fund increased by \$497,688 from January to December 2022.

Criteria

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TEMPORARY TRANSFER OF FUNDS

Condition and Context

A temporary transfer between the General fund and Water Utility Operating fund was made and not repaid within the time frame permitted by statute. The Common Council approved ordinances in 2021 for the temporary transfer of \$2,000,000 from the General fund to Water Utility Operating fund, which was not repaid by December 31, 2021, as required, nor was an emergency declared to extend the repayment to the next year. The \$2,000,000 owed to the General fund from the Water Utility Operating fund remained unpaid at December 31, 2022.

WATER UTILITY
CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Indiana Code 36-1-8-4 states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.
- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."



City of East Chicago
Law Department

4525 INDIANAPOLIS BLVD.
EAST CHICAGO, INDIANA 46312
219-391-8291

Anthony Copeland
MAYOR

JOSEPH ALLEGRETTI
CORPORATION COUNSEL

May 23, 2023

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: deficit cash balance Water Utility Operating fund (East Chicago Department of Waterworks)

Gentlepersons:

The Department's current rates and charges are inadequate to meet operating expenses.

Under the terms of Joint Stipulation and Settlement Agreement made in the Department's rate case filed with the Indiana Utility Regulatory Commission on December 12, 2022, expected to be approved and adopted by the Commission, the Department's rates and charges will be increased in three (3) annual phases as follows:

Phase I: Increase by 41.79% so as to produce \$2,551,853 in additional operating revenue.

Phase II: Effective on January 1, 2025, an increase over Phase I rates by 28.60% to produce \$2,476,326 in additional annual operating revenue.

Phase III: Effective on January 1, 2026, an increase of 10.90% over Phase II rates to produce \$1,214,181 in additional annual operating revenue.

The Department's operating revenue will be \$8,658,023 in Phase 1, \$11,134,349 in Phase 2, and \$12,348,530 in Phase 3.

Sincerely,

Joseph Allegretti
Corporation Counsel

WATER UTILITY
CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on May 17, 2023, with Valeriano Gomez, City Controller; Anthony Copeland, Mayor; Monica G. Gonzalez, President of the Common Council; Robert Garcia, Common Council member; and Raymond Lopez, Water Utility Board member.

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OFFICE OF THE MAYOR
CITY OF EAST CHICAGO

OFFICE OF THE MAYOR
CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENT

FAILURE TO REPORT MISAPPROPRIATION OF FUNDS

Condition and Context

The City failed to immediately report misappropriation of public assets to the Indiana State Board of Accounts (SBOA) as required by Indiana Code 5-11-1-27(l) and Board of Public Works Resolution No. 2016-82.

As directed by Amended State Examiner Directive 2015-6, the City approved Resolution 2016-82 which states: "Written notice shall immediately be sent to State Board of Accounts and the appropriate prosecuting attorney's office of any erroneous or irregular variances, losses, shortages, or thefts of cash in excess of \$5,000."

However, in early 2023, the City discovered that a pensioner had passed away and pension payments continued to be deposited into the deceased pensioner's account. The City determined an amount in excess of \$5,000 was paid after the pensioner's passing and collected by someone other than the pensioner. Written notice of the theft was not immediately sent to SBOA when the fraud was discovered in early 2023 as required.

Criteria

Indiana Code 5-11-1-27(l) states:

"A public officer who has actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds or assets of the public office, including:

- (1) information obtained as a result of a police report;
- (2) an internal audit finding; or
- (3) another source indicating that a misappropriation has occurred;

shall immediately send written notice of the misappropriation to the state board of accounts and the prosecuting attorney serving in the area governed by the political subdivision."

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



City of East Chicago
Law Department

4525 INDIANAPOLIS BLVD.
EAST CHICAGO, INDIANA 46312
219-391-8291

Anthony Copeland
MAYOR

JOSEPH ALLEGRETTI
CORPORATION COUNSEL

May 24, 2023

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: City of East Chicago. Failure to report misappropriation of funds.

Gentlepersons

Pursuant to I.C. 5-10.3-11, the city is required to certify to the board of trustees of the Indiana public retirement system the amount of payments made during the preceding year for benefits under its pension fund to all police officers and firefighters, active, retired, and deceased if their beneficiaries are eligible for benefits, who are members of a police or fire pension fund that was established before May 1, 1977. This certificate is generally known as the pension relief report.

The Controller's office prepares a list of all police officers and firefighters, active, retired, and deceased if their beneficiaries were eligible for and received benefits during the previous year, which is used to compile the pension relief report. The person normally responsible for preparing this report is Pension Board Secretary Officer Randy Morris. At the beginning of the year Officer Morris had been on extended medical leave and was assisted in his duties by Lt. Juda Parks. Lt. Parks reviewed the list prepared by the Controller's office and noticed that it contained the name of Katie Jackson. Mrs. Jackson was the surviving spouse of deceased East Chicago Sargent Ronald Jackson. Fortuitously, and unlike Officer Morris, Lt. Parks was familiar with the Jackson family and knew that the widow Katie Jackson has died sometime in the Spring of 2022 (May 26, 2022). Pension payments totaling \$32,737.80 were paid during 2022. Up to the time of her death, Widow Jackson was eligible for \$13,112.60. The balance of \$19,625.20 is believed to have been wrongfully converted by her daughter Ayesha Jackson. The pension benefits were paid by direct deposit to a bank account owned by both women.

Upon this discovery a police investigation was undertaken, and the case was presented to the Lake County Prosecutor's office. The Controller's office has no knowledge of a similar event having ever occurred, despite the obvious vulnerability. Because of the rather uncommon "misappropriation" of public assets, it wasn't recognized by the law department as an event requiring disclosure under I.C. 5-11-1-27(l) until city officials were informed so by SBA field auditors.

Sincerely,

Joseph Allegretti
Corporation Counsel

OFFICE OF THE MAYOR
CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on May 17, 2023, with Valeriano Gomez, City Controller; Anthony Copeland, Mayor; Monica G. Gonzalez, President of the Common Council; Robert Garcia, Common Council member; and Raymond Lopez, Water Utility Board member.