



Joseph M. Ferguson
Inspector General

OFFICE OF INSPECTOR GENERAL *City of Chicago*

740 N. Sedgwick Street, Suite 200
Chicago, Illinois 60654
Telephone: (773) 478-7799
Fax: (773) 478-3949

July 20, 2012

To the Mayor, Members of the City Council, City Clerk, City Treasurer, and residents of the City of Chicago:

In October 2011, the Inspector General's Office (IGO) published an audit of processes related to the Downtown Affordable Housing Density Bonus program.¹ The purpose of the program is to increase the availability of affordable housing in Chicago through the provision of density bonuses that give developers additional square footage for development projects. In return, the developer provides a specified number of on-site affordable housing units or contributes to a special fund that supports the construction or rehabilitation of, or rental subsidies for, affordable housing. This audit examined a sample of development projects initiated between June 2005 and July 2008. The purpose of the audit was to review, test and evaluate the density bonus program processes to determine whether the Department of Housing and Economic Development (DHED) and its predecessors had effective controls as well as adequate policies and procedures in place for the program.

RESULTS OF ORIGINAL AUDIT

Based upon the results of the original audit, we determined that internal controls were not adequate to ensure a) proper review of development projects prior to the issuance of building permits and b) adequate training of individuals with core responsibilities respecting the collection of payments. However, we did find the internal controls ensuring the collection of density bonus payments related to affordable housing were adequate. We have summarized the audit findings and recommendations below.

Finding	Recommendation
<p>1. Planned Development projects were not appropriately reviewed for compliance with ordinance.</p> <ul style="list-style-type: none">a. Two, or 5% of projects sampled, had building permits issued without the required zoning review.b. We could not confirm proper zoning review for 12, or 31% of projects sampled. These projects were divided into subareas, and there was no documentation of review for 26 subareas.	<p>1. Complete the proper reviews for:</p> <ul style="list-style-type: none">a. The two buildings issued permits without a zoning review; andb. The 26 subareas with no documentation of review.

¹ The 2011 audit report is available on the IGO web site: <http://chicagoinspectorgeneral.org/publications-and-press/audits/igo-releases-downtoan-affordable-housing-density-bonus-process-audit/>

2. A training issue resulted in a gap in controls related to collection of payments.	2. Train any individuals related to the process. Update current documentation of related procedures.
3. There were no controls to ensure consistency in the overlapping review processes of DHED and the Department of Buildings (DOB) and that the review process fully complied with the Zoning Ordinance.	3. Review overall processes to ensure adequate controls and efficient operations related to compliance with both the Zoning and Planned Development Ordinances.

CURRENT STATUS OF RECOMMENDATIONS

To determine the status of the above recommended actions, in May 2012 we inquired with DHED. The department responded, “Many changes have come about since the audit related to the Downtown Affordable Housing Density Bonus, most specifically an awareness to process.” DHED also explained that, since the audit, the DHED Zoning Administrator, DOB Commissioner, and DOB Deputies have been meeting monthly to coordinate review of the building permit process and define procedures to ensure that all necessary plan reviews are properly identified and conducted. In addition, DHED noted that a new software system (EPlan) will be launched soon, allowing all reviews to be conducted electronically and ensuring that zoning review is conducted prior to permit issuance.

The following table summarizes the results of the follow-up inquiry. The table attached to this letter details each finding, recommendation, and status of corrective action.

<u>Recommendation</u>	<u>Status of Corrective Action Taken</u>
1. Complete the proper reviews for: <ul style="list-style-type: none"> a. The two buildings issued permits without a zoning review; and b. The 26 subareas with no documentation of review. 	1a: <u>Incomplete</u> . Difficulty obtaining the final set of plans for the two buildings without a zoning review has precluded DHED from completing the reviews. DHED continues to work with DOB to obtain the original plans. 1b: <u>Reasonable Progress</u> . Regarding the 26 subareas, DHED determined, because of staff constraints, that a sample of the sites would be audited before a review of all 26 is undertaken. DHED found that some of the subareas were constructed prior to the adoption of related Planned Development Ordinances or that nothing had been built yet. In those instances, no review would be required.

2. Train any individuals related to the process. Update current documentation of related procedures.	2. <u>Complete</u> . Training of the one person with whom the control lies was conducted during the audit. Inadequate procedural documentation was removed and DHED solely relies on the Zoning Ordinance for guidance on this issue.
3. Review overall processes to ensure adequate controls and efficient operations related to compliance with both the Zoning and Planned Development Ordinances.	3. <u>Significant Progress</u> . Coordination meetings between DHED and DOB are conducted monthly (sometimes weekly). All projects (except for Easy Permit projects) require DHED's approval prior to DOB's review or permit issuance.

Based on the follow-up responses, the IGO concludes that the City has adequately addressed the findings of the original audit with respect to future projects. The holistic process review conducted by DHED and DOB allows for changes in procedures and the implementation of controls that may reasonably be expected to resolve the core issues noted in the original audit (lack of communication and a division of responsibility).

It is important to note that the IGO did not observe or test implementation of new policies and procedures and thus makes no determination as to their effectiveness. Such a determination would require a new audit with full testing of the procedures.

We thank the leadership of DHED and DOB for their cooperation during the original audit and responsiveness to our follow-up inquiries.

Respectfully,



Joseph M. Ferguson
Inspector General
City of Chicago

Finding	Description	Recommendation(s)	<u>Status</u> (Note: Information in <i>italics</i> was obtained during the response to the original audit. All other information is from the follow up responses received in 2012.)
08-01	"Planned Development Projects Were Not Appropriately Reviewed for Ordinance Compliance."	<p>"We recommend that P&D complete the Part II Reviews for the two buildings issued permits without a zoning review as well as the 26 subareas mentioned above. Additionally, we recommend that the Zoning Administrator, working with both P&D and DOB, should review and revise the procedures related to Zoning Ordinance §17-13-0610. This review should include, but not be limited to, consideration of the following:</p> <p>[1] The group with responsibility, per ordinance, to review each project to ensure compliance with the Planned Development Ordinance relies on another group (DOB) to inform it when such a review is necessary. Therefore, it is imperative DOB personnel receive training to understand when a Part II Review is necessary, who is authorized to complete Part II Reviews and the difference between Part II Reviews and other reviews completed by the same group (special use reviews, etc.). In addition, DOB personnel should not correlate payment of a review fee with review approval, but should be trained to identify the proper documentation that provides evidence of review approval.</p> <p>[2] Because P&D relies on DOB to inform it when a Part II Review is necessary, it is easy for P&D to attribute the lack of review to the fact that DOB did not request the review. Likewise, DOB can send a project to P&D and have it returned as approved, without realizing that the entire project may not have been reviewed.</p> <p>[3] There are no controls to ensure 100% of subareas for a particular project are reviewed.</p> <p>[4] While Part II Reviews can be conducted in a piecemeal fashion (subarea by subarea), the permits are issued to the project address without regard to subareas. There is no method to identify that a particular permit included or excluded particular subareas."</p>	<p>"The Plan Development Division of the Department of Housing and Economic Development has been unable to conduct a final Part II review for the 2 buildings in PD 1057 and PD 326 as we have had difficulty obtaining the final set of plans required to do that review. We continue to work with the Department of Buildings to get the original drawing to conduct a new review.</p> <p>In regards to the 26 others, it was determined internally because of staff constraints that we would audit a number of the sites before undertaking a review of all 26. Of the sites audited we have discovered that just because a Part II doesn't exist, doesn't mean building permits weren't pulled. Buildings could have been constructed prior to the adoption of a PD. We also found locations where nothing was built and the sub area or site is vacant. In these instances no Part II's would be issued.</p> <p>Since the audit the Zoning Administrator along with the Commissioner and Deputies at Buildings have been meeting monthly to coordinate the process. Since December of 2011, both Departments have gone thru extensive process mapping and training to ensure all plans are sent to Zoning for review first (except EPP). Staff have been trained to launch EPlan in early July where all reviews will only be done electronically by both departments further insuring the zoning review will be completed first."</p>
See last page for a guide to acronyms.			

<p>08-02</p>	<p>"A Training Issue Resulted in a Gap in Controls Related to Collection of DAHDB Payments and a Consequent Undercollection of Payments for One Development Project."</p>	<p>"We would normally recommend the department improve training, ensuring all employees involved in the process were aware of correct procedures. However, as a result of this audit, the one individual with whom this control lies is now aware of the Zoning Ordinance requirement. In addition, she has reinstated the 'hold' within Hansen for this particular project. Therefore, if this developer should ever apply for a new permit, the remaining funds will be collected before that permit is issued.</p> <p>We do recommend, however, training any individuals who act as a backup for this individual when she is away from the office. Also, to ensure any future employees are aware, we recommend that the department update its current documentation in the Administrative Regulations and Procedures. While procedures related to the Affordable Housing Density Bonus are currently documented therein, Zoning Ordinance §17-4-1003-E is not specifically addressed."</p>	<p><i>"In response to finding 08-02, the Department of Housing and Economic Development staff will maintain the referenced Hold in the Hansen system to ensure that full payment is received, if additional building permits are applied for on this site."</i></p> <p>"The Housing Bureau of the Department of Housing and Economic Development has removed the administrative regulation sheet from DHED's website. Reliance should be exclusively on the appropriate code sections."</p>
<p>08-03</p>	<p>"No Controls to Ensure Review Processes were Consistent between DHED and DOB and Comply with Ordinance."</p>	<p>"To ensure adequate controls and efficient operations, we recommend DHED and DOB work together to review the overall processes related to compliance with both the Zoning and Planned Development Ordinances. At a minimum, the following should be considered during the review:</p> <p>[1] Current processes to review compliance with the ordinances exist within two different departments and are performed by three different groups. While there may be significant discussions regarding individual projects, there is little communication between the three groups regarding the process as a whole. The review should include an assessment of whether these functions should continue to reside with the various groups and, concomitantly, whether the process should be streamlined within a single department component group.</p> <p>[2] Whether it is decided that these functions continue to reside where they currently exist or not, training should be conducted for all employees involved in the process. This training should, at a minimum, convey each function involved and the purpose of each function, and who has authority to perform each function. It is important that this training approach the process as a whole and avoid treating each group as a silo of responsibility. Without understanding the various roles in relation to the whole, the process is susceptible to control gaps. Furthermore, consistent policies and procedures should be documented and shared with all groups.</p> <p>[3] Amend the Chicago Zoning Ordinance to explicitly and accurately portray the responsibilities and authority of each department. Currently, the Zoning Ordinance does not accurately reflect the City's processes."</p>	<p>"During the monthly (sometimes weekly) coordination meetings with the Department of Buildings, it was determined that all projects (except for EPP Easy Permit) require the Department of Housing and Economic Development (zoning) approval prior to the Department of Buildings review/issuance. All as of right projects (specifically those requesting bonuses) are exclusively being reviewed by a supervisor in Zoning. EPlan will insure this process remains in place.</p> <p>No amendments have been made to the existing ordinances in order to address results of the audit."</p>

Acronyms

DHED	Department of Housing and Economic Development
DOB	Department of Buildings
EPP	Easy Permit Process
PD	Planned Development Project
P&D	Planning and Development Group within Department of Housing and Economic Development