

CITY OF CHICAGO
Inspector General's Office



Audit and Program Review Section
2013 Annual Plan

Approved by IG December 10, 2012

I. MISSION

The City of Chicago Inspector General's Office (IGO) is an independent, non-partisan oversight agency whose mission is to promote economy, efficiency, effectiveness and integrity in the administration of programs and operations of City government.

The Audit and Program Review (APR) section supports the mission of the IGO by conducting performance audits of City programs and operations, issuing public reports of its findings, and making recommendations to improve the efficiency and effectiveness of City programs as compared to established standards. All City department activities as well as contractors and vendors are subject to audit.

APR personnel primarily conduct performance audits as defined by generally accepted Government Auditing Standards (GAS or "Yellow Book," December 2011 revision) established by the Comptroller General of the United States, paragraph 2.10: "Performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria." APR may also conduct non-audit work such as descriptions of programs or other non-evaluative reports that do not fit the GAS 2.10 definition of performance audit.

II. PURPOSE OF ANNUAL PLAN

Beginning in 2012, APR will create an Annual Plan that expresses the priorities for the year and outlines a list of potential audit subjects and non-audit work subjects that fit those priorities.

The Annual Plan is a guiding document subject to change and does not prohibit the introduction of new priorities or audit subjects throughout the year.

The Annual Plan is drafted in consultation with senior IGO staff and the DIG presents it for final approval to the IG. The Plan should be reviewed and updated each December for the following year.

III. SELECTION OF SUBJECTS FOR INCLUSION IN ANNUAL PLAN

The IGO gathers potential audit subjects from a variety of sources including: questionnaires sent to City departments, complaints received through the IGO hotline, IGO investigations, IGO staff knowledge, other governments' performance audits, the City's audited financial statements, the City's internal audits and risk assessments, new City initiatives, City program performance targets and results, City hearings and proceedings, and public source information including media, professional and academic reports and publications.

The Annual Plan is based on a risk assessment of potential audit subjects, past IGO audit work and follow-up required, and available staff resources.

The subjects selected for inclusion in this Annual Plan reflect the criteria used by the IGO to prioritize projects officewide: the amount of money potentially at stake; whether or not it is a systemic problem across departments; the level of public interest and impact; the unique value added by the IGO; and how well it fits into the IGO's current workplan.

A. Risk Assessment

A risk factor is an observable or measurable indicator of conditions or events that could adversely affect an organization. It can measure inherent risk (such as a large organizational structure) or organizational vulnerability (such as inadequate internal controls).

APR's risk assessment of potential audit subjects is based on factors that reflect the nature of the City departments, vendors, and activities that may be audited. APR assesses risk based on information obtained from prior audits, questionnaires sent to City departments, discussions with City departments, information requested from City departments, and additional research. APR assesses a number of risk factors, including:

- Resources used to deliver service
 - Size (in dollars budgeted) of department/section
 - Number of staff working in department/section
- Number of residents, employees, and/or businesses affected/served
 - Customer satisfaction
- Amount, type, and volume of financial transactions
- Compliance with regulations
- Public interest (affects public safety, is of great importance to the public, or is high profile)
 - Issues of importance to City Council
- Quality of internal control systems, including:
 - Existence of robust operational policies and procedures
 - Existence and utilization of performance metrics tied to specific legislative policy objectives

APR weights these and other risk factors to reflect their relative importance. APR's risk assessment documentation ranks potential audit subjects by risk level. The risk assessment, past IGO audit work, and available staff resources are all critical to the development of the Annual Plan.

B. Past IGO Work and Follow-Up Reports

Past IGO work is used during the annual planning process to inform the risk assessment described above and to determine follow-up priorities for the coming year. Each completed project is evaluated six months after its publication date to determine if, when, and how a follow-up should be conducted. APR considers factors such as the nature of the original findings and recommendations, changes in management or staff structure, and external circumstances affecting the department in determining what follow-up action to take. For example, APR may decide to postpone follow-up an additional six months, conduct another full-blown audit with complete re-testing, or to simply request documentation of corrective actions from management.

Follow-up reports are an essential part of the oversight process because they are the means for determining whether or not action to correct problems identified in the audit were taken. For that reason, they are the highest priority in planning the activities of APR personnel. However, because the determination of how to best follow-up on a previous report is not finalized until at

least six months after its completion, the amount of staff resources needed for follow-up is not predetermined.

C. Available Staff Resources

The number, experience, and specific expertise of staff available all affect the selection of project topics and scope. The IGO will not conduct work for which it does not have the required competencies available among its personnel. APR will request assistance from other IGO staff when their specialized expertise (e.g., legal or data analysis) is needed and will adhere to all GAS requirements for the use of such internal specialists.

To be maximally useful, performance audits must be timely (see GAS A7.02(g)). All projects should be completed within six months of launch and must be completed within twelve months. Unexpected delays caused by an auditee are noted as findings or limitations in published audit reports. Proper planning requires that the Deputy Inspector General and/or Chief Performance Analysts assign adequate staff or reduce audit scope to ensure timely completion of all projects.

IV. 2013 FOLLOW-UP REPORTS

The following seven reports will be evaluated for follow-up in 2013 (first consideration for follow-up is done six months after report publication):

1. Department of Family and Support Services (DFSS) Grant Monitoring Audit (April 2012). *This audit was already considered for follow-up at the six-month mark (October 2012) and APR decided it was too early to evaluate progress so it will be re-considered in April 2013).*
2. Chicago Police Department (CPD) Evidence and Recovered Property Section Audit (September 2012)
3. Department of Water Management (DWM) Inventory Process Audit (October 2012)
4. CPD Tuition Reimbursement Program Audit (December 2012)
5. Animal Care and Control Department Audit (early 2013)
6. Review of Opportunities for Civilianization in the Chicago Police Department (early 2013)
7. DWM Material Truck Haul Program Audit (early 2013)

An eighth report published in February 2012 on the Department of Business Affairs and Consumer Protection Business License Process was considered for follow-up in August 2012 but APR concluded that no follow-up was warranted because the single finding was minimal.

V. 2013 NEW PROJECTS

New audit and non-audit subjects are grouped into “Near-Term Launch” and “Later Launch” but are not in order of priority within these groups. Some are designated as Later Launch because they are important but should be considered later in 2013 or 2014 due to staff or other considerations. The descriptions below are broad; more detailed information and research is maintained separately in APR’s electronic planning folders.

As existing projects are completed and staff become available, staff will revisit the subjects below and conduct additional research to identify potential audit objectives. Each of the new

subjects requires more research prior to launch (launch is the official opening of an audit or non-audit project with the department), and some subjects may yield multiple projects. The final decision to launch a project requires approval of the IG in a “Phase II” committee meeting where the proposed project is presented for discussion. These decisions are made on a just-in-time basis prior to launch because circumstances affecting the decision of whether or not to launch a specific project are expected to change throughout the year.

A. Near-Term Launch Subjects

1. Variations in the Availability of Patrol Officers

Other cities have audited the availability of patrol officers to respond to 911 calls focusing on intra-city variations in patrol officer availability. A performance audit could evaluate data on response times to 911 calls throughout the City and determine if there are significant variations within the City.

2. Variations in the Availability of Fire and Emergency Medical Services

Other cities have audited the availability of fire and emergency medical service (EMS) personnel to respond to 911 calls focusing on intra-city variations in fire and EMS availability. A performance audit could evaluate data on response times to 911 calls throughout the City and determine if there are significant variations within the City.

3. CFD Civilianization

Prior IGO investigations have suggested that there are firefighters performing duties within CFD that do not require the skills and knowledge of firefighters. A performance audit could evaluate whether there are firefighters performing duties that could be performed by civilians and the potential savings from civilianizing these positions.

4. Number of Actual CPD Patrol Officers on Duty

The number of patrol officers employed at any one time by the City may not be an accurate reflection of the amount of patrol officers actually on duty due to officers taking paid leave. In particular, prior IGO work has noted the generous sick leave given to sworn officers. A performance audit could determine how many patrol officers are available for duty on average over a set time period and identify the reasons why officers are not on duty.

5. Department of Housing and Economic Development (DHED) Programs

The City’s website does not provide up-to-date or comprehensive information on all of its economic development programs, and the DHED has told the IGO that they themselves do not have a comprehensive listing of all the programs. As a precursor to the evaluation of these programs, APR could produce a primer including database/spreadsheet of all assistance given through these programs since 2008 and a map of what areas of the City have been targeted by these programs. The primer could serve as a resource both internally and to the public on basic information about the programs and a visual representation of where the City’s economic dollars are spent. It would provide a baseline of knowledge from which to develop performance audits in the future.

6. Departmental Performance Measures

Publicly-reported performance measures are one way for the City Council, taxpayers, and the media assess a department's effectiveness. The Mayor's office has stated that the City is in the process of developing a new performance measurement system for City departments. A performance audit could evaluate the existing public performance measures (if any) of a department against measures used by similar departments in other cities, including the measures collected by benchmarking projects such as the International City/County Management Association and the North Carolina Benchmarking Project. The goal would be to determine which measures are likely provide meaningful information to the City Council and the public. We would select one department, such as the Department of Buildings, for this first evaluation.

7. Head Start

Head Start is the largest program in DFSS, with a 2013 budget of approximately \$125 million,¹ and it provides services to thousands of children in the City. It is already audited by other government agencies, so more research will be required to avoid duplication. However, an IGO performance audit could evaluate the accuracy of agencies' invoices (e.g., are they billing for vacant Head Start slots, or inflating administrative costs?), or it could determine whether or not the City is effectively and accurately evaluating delegate agencies against performance measures.

8. Chicago Public Library (CPL) Efficiency and Effectiveness

CPL provides a very visible service to City residents, with CPL branches often serving as community centers. There are a number of potential ways to evaluate the efficiency and effectiveness of the CPL. A performance audit could compare CPL to industry standards or to other jurisdictions on metrics such as cost per book circulated, cost per internet hour used by library patrons, average annual number of visits by patrons. It could also evaluate the book and supplies contracting functions of CPL, or map the services CPL provides and the populations served to show any disparities of services across the City.

9. Street Paving and Patching

Numerous other cities have audited the efficiency and effectiveness of their street paving and patching practices. A performance audit could compare the efficiency of City vs. private sector paving costs per lane mile, examine the existence of and adherence to industry standards for road maintenance, or related issues.

10. Red Light Traffic Cameras

The City installed red light traffic cameras with the stated objective of improving safety at intersections. The cameras have also become an important source of revenue, and their operation is outsourced. Numerous other cities have audited the performance of their cameras, which are of great public interest and visibility. Performance audit subjects could include comparing crash

¹ City of Chicago, Office of Budget and Management, "2013 Budget Recommendations," November 2012, 493, accessed November 19, 2012, http://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/2013%20Budget/2013BUDGETRECFINAL.pdf.

data before and after camera installation to test whether the cameras have achieved the city's traffic calming objectives, examining the revenue flows to ensure that the City is collecting the full amount of revenue it is due and related issues.

11. Fueling Stations

The City's Department of Fleet and Facilities Management provides fuel for City and some sister agency vehicles. A performance audit could examine the strength of security and other controls in place to prevent unauthorized use of fuel, accuracy of billing to departments and sister agencies, or related issues.

12. Asset Procurement and Inventory Controls

City departments procure items needed to perform their work in different ways. For example, they may maintain a warehoused inventory of parts and tools for distribution to workers, or they may purchase directly from suppliers on a just-in-time basis without maintaining a City inventory. Prior IGO audits have revealed gaps in warehouse inventory practices, and complaints made to the IGO have alleged that poor controls over just-in-time ordering and a lack of labeling to identify City-owned property present an opportunity for theft of City property. A variety of performance audits could be designed to evaluate the sufficiency of controls to prevent loss or theft of City property, accurate asset tracking to prevent wasteful purchasing, accurate asset valuation for year-end financial statements, or related issues.

13. 311 Service Request Response Times

City residents and the City Council are concerned about whether City services are delivered equitably to the City's different neighborhoods. A performance audit could evaluate data on response times to various 311 service requests throughout the City and determine if there are significant variations.

14. Overtime

A previous IGO audit of overtime usage at the Department of Aviation found abuse and lack of adherence to collective bargaining agreements. Previous IGO investigations have found evidence that overtime is overused in some departments, perhaps due to an insufficient number of employees. A performance audit could compare overtime usage across City departments, benchmark certain departments to peer cities, compare overtime usage to collective bargaining agreements or the cost of additional employees, or examine related issues.

15. Revenue

There are a variety of ways in which the City may be failing to collect all of the revenue it is due on a timely basis. Numerous performance audits could examine issues such as internal controls over cash handling, aging of receivables (indicating late collections), monitoring of rebates or exemptions (e.g., senior citizen or non-profit organization rebates), or controls over arrangements with third parties (e.g., law firms, currency exchanges) who conduct revenue transactions on behalf of the City. Recent IGO audit reports on the Police Department's Tuition Reimbursement Program and collection of debts from employees have found problems in the City's timely collection of amounts owed to it.

16. Construction Contract Modifications and Change Orders

Construction projects often require change orders or contract modifications due to unforeseen problems or other contingencies that arise. There is potential for abuse of this inherent unpredictability. A performance audit could examine the strength of and adherence to policies and procedures for modifications and change orders, addition of work outside of scope that should be separately procured, patterns of cost overruns associated with certain contractors, or related issues.

17. Information Technology Security

The City's information technology systems are highly decentralized and the level of security for high-risk systems is currently unknown to the IGO. A number of performance audits to assess IT security on critical systems such as FMPS could be conducted, starting with relatively straightforward issues such as security access and segregation of duties as we learn more about these systems.

18. Grid-Based Garbage Collection Cost Savings

According to the Department of Streets and Sanitation (DSS), the City will complete the transition to grid-based garbage collection in 2013. Based on interviews with DSS, the initial implementation of the grid system is resulting in a 10 to 20 percent reduction in the number of crews needed to deliver collection services. Although significant, this reduction will not reduce the costs of the City's collection system by \$100 per ton (the current cost is over \$200 per ton), which was the number cited by the Office of Budget and Management as how much more expensive the City's collection costs were than the costs of Boston or Los Angeles.² Thus, after the implementation of grid-based collection, the City's garbage collection system is still likely to be more expensive than the systems of other cities. A performance audit could compare actual savings to projected savings, or compare current collection costs to those of benchmark cities.

B. Later Launch Subjects

1. CPD Crime and Performance Statistics

The accuracy and consistency of crime statistics is a matter of great public interest and debate. There have been reports in other cities of inaccurate crime statistics. There are organizations such as the Chicago Crime Lab and national benchmark organizations that could be a source of information. A performance audit of CPD's crime statistics tracking could examine the accuracy of Chicago's reporting and compare it to other cities or to national standards.

² City of Chicago, Office of Budget and Management, "Budget Director Discusses 2012 Budget Proposal with City Council," October 19, 2011, accessed November 19, 2012, http://www.cityofchicago.org/city/en/depts/obm/provdrs/city_budg/news/2011/oct/budget_director_discusses2012budgetproposalwithcitycouncilbudget.html.

2. Licensing of Abandoned Buildings

The City's building code was amended in late 2011 to require that mortgagees, as well as owners, of vacant properties register them with the City and pay registration fees. Registrants must also make the building available for inspection by the City, enclose and secure the building in accordance with a detailed list of conditions, post a sign listing contact information for the owner or authorized agent located in Cook County, and obtain liability insurance. Newspaper reports have suggested that many vacant properties are not registered. A performance audit could examine how well the ordinance is being enforced. However, the Federal Housing Finance Authority filed a lawsuit against the City regarding this ordinance. The suit may be resolved in 2013, so we will wait to launch an audit. This will also give the City more time to establish an enforcement program.

3. Department of Water Management's (DWM) New Water Main Installation Strategy

DWM divides the city into three districts for its water main installation work. Beginning with contracts being let in 2013, DWM will divide the city into six geographies in order to attract more minority and small businesses to bid on the work. DWM will also provide 10 percent of the project cost to the contractor before they do any work so that they have the capital to purchase any necessary equipment and commodities. By requesting a smaller scope of work and providing upfront capital, DWM hopes that it will mitigate cost concerns for small and minority-owned contractors. These are three-year contracts with a total value of between \$30 and \$50 million, so the cost of ineffectiveness or waste of this strategy could be large. A performance audit could evaluate whether or not the new strategy attracts more small and minority contractors to bid than did previously.

4. Sick Time Usage and Potential Abuse

The City used to track sick time usage by department and review it at departmental performance management meetings. These meetings are no longer held and the IGO is unaware if sick time is still monitored for suspicious usage suggesting abuse. A performance audit could examine patterns of sick time usage that would suggest manipulation or unauthorized use (e.g., excessive usage on Friday or Monday). The IGO DATA team is exploring ways to analyze sick time usage and intends complete an analysis by mid-2013. We will wait until DATA has made progress before launching a performance audit of sick time usage.