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

In February 2013, the City of Chicago Office of Inspector General (OIG) published an audit of the Department of Water Management's (DWM) Material Truck Haul Program (MTHP). The objectives of the audit were to determine whether,

- MTHP service requests were assigned to the lowest-priced contracted vendors;
- Invoices relating to MTHP services were appropriately reviewed, appropriately approved, and accurate; and
- Payments to the vendors were timely and accurate.

We found that DWM appropriately assigned service requests to vendors with the lowest prices and invoices were accurate. However, we also found that, for the year 2011, vendors were underpaid by \$612,589 and invoices totaling nearly \$10 million were paid late or remained unpaid more than seven months past the invoice date. Based upon the results of our audit, we recommended that DWM review the payment process and develop procedures to ensure vendors are paid both in a timely and an accurate manner. We also recommended that DWM update and maintain the Authorized Signature List to that ensure the delivery and pick-up of materials is properly validated. In its response to the audit, DWM described a number of corrective actions it would take.

This fall, the OIG inquired with DWM regarding the current status of those corrective actions. Based on the follow-up response, the OIG concludes that DWM has fully implemented the MTHP audit corrective actions. We have summarized the five original audit findings, their associated recommendations, and status of corrective actions below.

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

Respectfully,

Joseph M. Ferguson
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Follow-Up Results

This fall, the City of Chicago Office of Inspector General (OIG) followed up on a February 2013 audit of the Department of Water Management's (DWM) Material Truck Haul Program (MTHP). The original audit examined services invoiced during 2011. DWM responded by describing the corrective actions it has taken since receiving the original audit and provided supporting documentation. We have summarized the five original audit findings, their associated recommendations, and the status of their corrective actions below. The OIG's follow-up inquiry did not observe or test implementation of the new procedures and thus makes no determination as to their effectiveness, which would require a new audit with full testing of the procedures.

FINDING 1: MTHP Coordinator Appropriately Assigned Service Requests to the Lowest Priced Vendors

OIG Recommendation: No recommendation made.

Status of Corrective Action: No corrective action necessary.

FINDING 2: MTHP Invoices were Accurate

OIG Recommendation: No recommendation made.

Status of Corrective Action: No corrective action necessary.

FINDING 3: Invoices Totalling Nearly \$10 Million were Paid Late or Remained Unpaid More Than Seven Months Past Invoice Date

OIG Recommendation: To improve vendor relations and avoid negatively impacting vendors's cash flow, we recommended that DWM Finance take steps to ensure that vendors are paid within the 60-day period stated in their contracts with the City. We also recommended that DWM work with vendors to ensure the monthly summary amounts include grand totals, thus allowing DWM Finance to approve payments in a timely manner. Finally, we recommended that DWM track received yet unpaid invoices and not rely on vendors to identify the amount past due.

Status of Corrective Action: **Complete.** DWM stated that invoices are now paid within the 60-day period stated in the contracts. OIG corroborated that assertion by comparing invoice and payment dates for invoices submitted in June and July 2013. All payments were within 60 days. DWM also provided evidence that vendors have updated their monthly invoice format to include a grand total. Finally, DWM stated that they are

performing monthly reconciliations and independently tracking unpaid invoices.

FINDING 4: Vendors Were Underpaid by \$612,589

OIG Recommendation: To improve vendor relations and avoid negatively impacting vendors' cash flow, we recommended that DWM work with vendors to ensure the monthly summary amounts include grand totals, thus allowing DWM Finance to submit payment for the total monthly summary amounts. We also recommended that, until the monthly summaries are changed to include the grand total, DWM Finance perform monthly reconciliations to ensure the amount submitted for payment equals the amount actually paid.

Status of Corrective Action: **Complete.** Vendors now include a grand total with their monthly summary accounts, as noted in Finding 3 above. Furthermore, DWM Finance currently pays all invoices within the 60-day payment period. DWM reported that the outstanding balance due to all vendors as of October 2, 2013 was \$241,144 but that the entire amount consisted of invoices within the 60-day payment period.

FINDING 5: 94.8% of Signatures Confirming Delivery or Pick-Up Did Not Match the List of Authorized Signatures

OIG Recommendation: To avoid potential fraudulent transactions, we recommended that DWM create a new Authorized Signature List and ensure that list is used to validate the signatures on service request tickets. We also recommended that DWM management develop procedures to update the list periodically. Finally, we recommended that DWM management ensure authorized employees sign the service request tickets in the same manner in which they signed the authorized signature list.

Status of Corrective Action: **Complete.** DWM stated that it has,

- Created a new signature list;
- Implemented procedures to update the authorized signature list every few months;
- Established a single point of contact responsible for managing and updating the list; and
- Added employee initials to the Authorized Signature List.