OFFICE OF INSPECTOR GENERAL
City of Chicago

REPORT OF THE OFFICE OF INSPECTOR GENERAL:

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DEPARTMENT OF BUSINESS AFFAIRS AND CONSUMER PROTECTION TAXICAB REGULATORY COMPLIANCE AUDIT

MARCH 2015

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Joseph M. Ferguson
Inspector General

March 16, 2015

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

The City of Chicago Office of Inspector General (OIG) has completed an audit of the Department of Business Affairs and Consumer Protection's (BACP) administration of taxicab regulations in 2013. This audit focused on,

- the effectiveness of taxicab medallion auctions; and
- compliance with safety inspections, which BACP itself manages as distinguished from other municipalities such as New York City that have privatized that function.

Taxicabs are a vital component of Chicago's public transportation infrastructure, and BACP plays a central role in ensuring the safety of the City's taxicabs. In 2013, there were more than 6,800 taxicabs operating in Chicago, all of which were required to pass at least one BACP inspection. Taxicab regulation also generates a significant amount of revenue for the City– taxicab medallion transfer fees alone generated $6.5 million in 2013, while the 2010 medallion auction generated $11.9 million.

OIG found that BACP designed and implemented a medallion auction process that satisfies the requirements of the Municipal Code. However, OIG was unable to verify BACP compliance with all applicable rules and regulations in the auction process because BACP has not finalized sales from the 2013 medallion auction, closed approximately 17 months ago.

OIG also found that although BACP completed 2013 semiannual inspections at a rate that fulfilled Municipal Code requirements, weak quality assurance procedures preclude BACP from attesting to the quality of these inspections. OIG received an informed suggestion that the City's taxicab inspection facility is in need of repairs and new equipment. The audit found that broken equipment prevented BACP from completing brake tests according to its own standards. BACP has since stated that it will change its standard to no longer require the use of the equipment that we found broken. To address our findings, we recommend that BACP implement robust quality assurance processes, such as covert and overt audits used in other jurisdictions, and address broken equipment to ensure that all inspections meet BACP's own standards.

Finally, when OIG began the audit, BACP's system did not reliably track the date taxicabs were brought in for inspection after receiving a citation from an inspector in the field. BACP changed this process during the course of the audit in order to improve the Department's ability to track vehicles with known violations. However despite the new process, OIG identified record keeping

issues. We therefore recommend further improvements be taken to ensure that all vehicles with known violations are tracked and inspected in a timely manner.

BACP agreed with the findings of this audit and stated that it would take specific corrective actions to address any deficiencies. In order to address quality assurance shortfalls BACP plans to follow OIG's recommendation to augment its current system of supervisory oversight with overt audits. The Department stated it will update training protocols and implement an internal audit to ensure that all taxicabs are in compliance with required annual inspections. As noted above, BACP has also stated that it plans to remove the brake machine from its testing process and standards. It is BACP's prerogative to set its testing procedures and OIG did not examine the efficacy of testing mechanisms.

Finally, although the Department believes that its new method for transmitting Notices of Inspection is adequate, it states that it will examine ways to make the process more efficient including having supervisors review reports to ascertain if any taxicabs have failed to report for a required inspection.

We thank BACP management and the staff of the Public Vehicle Licenses and Permits division for their cooperation during this audit.

Respectfully,

Joseph M. Ferguson
Inspector General
City of Chicago

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I. EXECUTIVE SUMMARY

The Office of Inspector General (OIG) conducted an audit of the Department of Business Affairs and Consumer Protection's (BACP) taxicab regulation during 2013.[1] This audit focused on the medallion auction process and taxicab safety inspections. A taxicab medallion is "the metal plate, furnished by the [BACP] commissioner, for display on the outside hood of a taxicab, as the physical representation of a license to operate as a taxicab."[2] Regarding medallion auctions, Municipal Code of Chicago (MCC) § 9-112-480 states that "the commissioner shall promulgate regulations to set forth procedures by which all available taxicab licenses shall be distributed,"[3] and that this process "be designed to produce the maximum amount of revenues to the city consistent with serving the public interest." MCC § 9-112-050 further required that BACP inspect each taxicab at least semiannually.[4]

The objectives of the audit were to determine if,

1. BACP had an auction process that satisfied MCC § 9-112-480;
2. BACP inspected all taxicabs at least as often as required by MCC § 9-112-050; and
3. BACP accurately tracked whether taxicabs found to have safety violations were brought in for inspection in a timely manner.

We found that BACP employed an auction model that could reasonably be expected to maximize revenue. BACP provided OIG with documents detailing the auction design and implementation. OIG found these documents to be consistent with the requirements of the auction process detailed in the auction vendor's contract. However, BACP could not provide documents detailing the 2013 auction closing because, while bidding closed in October 2013, no sales had been finalized as of the time of this audit report. Therefore, while OIG was able to verify that the first two phases of the auction process were in compliance with the MCC's revenue maximization requirement, BACP could not provide evidence that it had followed all required procedures for revenue collected or medallions transferred to winning bidders.

In 2013, BACP completed the required inspections for 6,816, or 99.5%, of the 6,849 licensed taxicabs.[5] However, OIG found that BACP did not employ sufficient quality assurance procedures, such as covert and overt audits, to ensure that all inspections were conducted in accordance with the Department's inspection standards. In addition, BACP reported that the brake machine at the Public Vehicle Testing Facility (PV Facility) is frequently broken and

[1] OIG delayed completion of this audit for several months for two reasons: 1) OIG postponed testing the 2013 medallion auction process as we awaited the final results of the auction, which have still not been finalized (Finding 1); and 2) OIG decided to test changes BACP made to the Notice of Inspection transmission process as a result of the audit (Finding 4).
[2] City of Chicago, Municipal Code, § 9-112-010.
[3] BACP's "Taxicab Medallion License Holder Rules and Regulations" effective July 1, 2012 are available at http://www.cityofchicago.org/content/dam/city/depts/bacp/publicvehicleinfo/medallionowners/medallionlicenseholderrulesregsf20120626.pdf, accessed February 4, 2015.
[4] There was an exception to the semiannual inspection requirement for newer model vehicles, as described in the Background section of this report.
[5] The number of licensed taxicabs is based on BACP inspection records.

unusable, making it impossible to conduct certain required inspection elements in a manner that satisfies its own standards as described in the Public Vehicle Safety Inspection Guide.

OIG found BACP's record keeping for taxicab safety monitoring between scheduled inspections inconsistent. BACP employs field inspectors who patrol high traffic areas checking for safety violations and regulatory compliance. If a field inspector discovers a safety violation, he issues a Notification of Inspection per program regulations. The vehicle must be brought to the PV Facility for inspection within two business days of receiving the Notification of Inspection. Initially, our audit could not test the rate of compliance with this two-day requirement because BACP did not accurately record the days on which Notifications of Inspection were issued and received at the PV Facility. Although BACP changed the manner in which field inspectors transmit Notifications of Inspection to the PV Facility during the course of this audit, OIG reviewed the new process and found that, while it was an improvement, there were still missing records. Without accurate and complete records, BACP cannot demonstrate that all unsafe taxicabs reported for inspection in a timely manner and resolved known issues.

The specific recommendations related to each finding, and BACP's response, are described in the "Audit Findings and Recommendations" section of this report.

II. BACKGROUND

A. BACP Public Vehicle Licenses and Permits Division

The Public Vehicle Licenses and Permits division of BACP is responsible for regulating the Chicago taxicab industry. BACP exercises its regulatory control through the distribution of taxicab medallions and the enforcement of taxicab safety standards. In 2013, there were 6,849 licensed taxicabs operating in Chicago.[6]

The total budget appropriation for BACP in 2013 was $17.8 million. Of this total, $2.4 million was allocated for salaries of 36 personnel in the division of Public Vehicle Licenses and Permits, which includes the staff involved in taxicab licensing and inspections. Taxicab and other public vehicle licensing occurs at the Public Vehicle Operations Facility, 2350 W. Ogden Avenue, while taxicab safety inspections are conducted at the Public Vehicle Inspection Facility, 2420 W. Pershing Road.

B. Taxicab Regulation Revenue Overview

The two sources of revenue from taxicab medallion sales are medallion auctions held by the City and transfer fees imposed on private party sales of medallions.[7] Both revenue sources are based on average market value—the average purchase price of medallions sold in arms-length transactions during the previous year.[8] Between 2006 and 2013, the average market value of a medallion rose from $49,883 to $351,990.

According to the MCC, a medallion owner may transfer ownership of a medallion (i.e., sell it) to another party pending BACP's approval. If approved, the recipient of the medallion must pay a transfer fee assessed as a certain percentage of average market value or of the medallion purchase price, whichever is higher.[9] The exact percentage level is determined by the amount of time the transferring party owned the medallion.[10]

BACP collected at least $2 million in transfer fees every year since 2006, with a peak of $9 million in 2012, as shown in the table below. Over the past ten years, BACP completed two medallion auctions—one in 2006 and the other in 2010. Both auctions featured fifty medallions for sale. The 2006 auction generated $3.9 million in revenue while the 2010 auction generated $11.9 million.

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[6] The number of licensed taxicabs is based on BACP inspection records. For news and alerts on the taxi industry see http://www.cityofchicago.org/city/en/depts/bacp/provdrs/vehic.html. For passenger information, including fares see http://www.cityofchicago.org/city/en/depts/bacp/supp_info/2012_passenger_information.html.

[7] "'Transfer of a license' means the buying, selling or assigning of a medallion license or medallion licenses or the buying, selling and assigning of more than 25 percent of the stock or other interest in a person that owns or controls a medallion license or medallion licenses, whether such ownership or control is through a subsidiary, successor or any other person." City of Chicago, Municipal Code, § 9-112-010.

[8] For average market value, see BACP website, "Taxicab and Medallion Information," accessed February 4, 2015, http://www.cityofchicago.org/city/en/depts/bacp/supp_info/medallion_owner_information.html.

[9] City of Chicago, Municipal Code, § 9-112-430.

[10] For more information on medallion transfer prices, medallion holders, and taxi laws, see http://www.cityofchicago.org/city/en/depts/bacp/supp_info/medallion_owner_information.html.

YEAR	Average Market Value	Transfer Fees Collected	Medallion Auction Proceeds
2006	$49,883	$2,793,551	$3,925,485
2007	$78,926	$2,350,187	
2008	$125,708	$3,089,593	
2009	$161,452	$4,367,562	
2010	$178,451	$3,482,528	$11,868,026
2011	$213,954	$4,205,394	
2012	$322,836	$9,029,360	
2013	$351,990	$6,498,666	

Source: BACP

C. Taxicab Medallion Auctions

All licensed taxicabs in the City of Chicago must display a medallion—a metal plate fastened to the hood of a taxicab—as proof of licensure. Although BACP has not increased the number of medallions in circulation in more than ten years, it occasionally recovers them by forfeiture or seizure. For example, BACP may revoke a medallion if it finds that a medallion licensee provided false information during the licensing process. When BACP determines that it has acquired enough medallions to warrant offering them for sale, it consults with the Office of Budget and Management to set a minimum starting bid price and then offers the medallions for sale through a public auction.[11]

The MCC defines the general manner in which BACP should distribute medallions:

> The commissioner shall promulgate regulations to set forth procedures by which all available taxicab licenses shall be distributed periodically (by sale, lease, or otherwise) pursuant to open and competitive bidding procedures. The procedures shall be designed to produce the maximum amount of revenues to the city consistent with serving the public interest, and to ensure that only applicants that are qualified under this chapter are awarded licenses.[12]

According to BACP, "serving the public interest" does not always align with "produc[ing] the maximum amount of revenue." For example, BACP determined that there is a public interest in Wheelchair Accessible Vehicles (WAV) based on evidence from other jurisdictions. Therefore in 2013, instead of auctioning all available medallions to the highest bidder, BACP reserved some medallions to serve the public's interest in wheelchair accessible taxicabs. BACP had 95 medallions available to auction and allotted 45 for the WAV lease program.[13] From this lot,

[11] Since April 2013, BACP has contracted with the Bronner Group for auction attestation services. The Bronner Group is a "professional services firm focused exclusively on government and the public sector;" City of Chicago, Contract Number 27492, December 19, 2012.
[12] City of Chicago, Municipal Code, § 9-112-480.
[13] The WAV lease program is an opportunity for drivers with a chauffeur license and an accessible vehicle to lease a medallion from the City; City of Chicago, Department of Business Affairs and Consumer Protection, "Public Vehicle Industry Notice, Notice No. 13-041," July 24, 2013, accessed February 4, 2015, http://www.cityofchicago.org/dam/city/depts/bacp/publicvehicleinfo/publicchauffer/publicvehiclenotice13041.pdf.

BACP dedicated one medallion to the annual Taxicab Driver Excellence award.[14] BACP sent the remaining 50 medallions to a "first-price, sealed-bid" auction, which is further described in Finding 1.

The most recent medallion auction began in September 2013.[15] Interested bidders were instructed to submit their bid amount, along with a $10,000 deposit, to the Bronner Group, the vendor conducting the auction, no later than October 18, 2013. The 2013 medallion auction had an upset price (or minimum bid price) of $360,000. Historically, winning bids have been declared and sales finalized within one month of bid closing. At the close of the bidding in 2013, however, BACP exercised regulatory authority to extend finalization.[16] As of the date of this report, BACP had not finalized the 2013 auction.

D. Taxicab Inspections

BACP regulates taxicab safety through public vehicle inspections. BACP employs Public Vehicle Inspectors and field inspectors (officially titled Consumer Investigators) to ensure that taxicabs are in safe operating condition. Public Vehicle Inspectors inspect taxicabs during scheduled inspections, while field inspectors patrol the streets to make sure taxicabs remain in compliance with safety standards between scheduled inspections.

In 2013 the MCC required that all licensed taxicabs in Chicago pass two "qualifying inspections" each year.[17] However, BACP granted an exception for vehicles of a current model year or newer. BACP required these vehicles to pass only one qualifying inspection in the year they were placed into service.[18] For example, a 2013 model year vehicle first placed into service in 2012 would have been required to pass one qualifying inspection in 2012 and two qualifying inspections in 2013. In May 2014 MCC § 9-112-050 was amended to require that, "vehicles with a vehicle age of 2 years or newer must be inspected at least annually, and all older taxicab vehicles must be inspected at least semiannually."[19]

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[14] Taxicab Driver Excellence award recognizes drivers who provide outstanding service to the disabled community. One winner is selected annually and receives a medallion as the prize. City of Chicago, Department of Business Affairs and Consumer Protection, "Mayor Emanuel Awards Taxicab Driver A Taxicab Medallion For Outstanding Service to Disabled Community," March 26, 2014, accessed February 4, 2015, http://www.cityofchicago.org/city/en/depts/bacp/provdrs/vehic/news/2014/mar/taxicabemedallionaward.html.

[15] See Appendix B for the 2013 auction notification.

[16] Rule TX15.03 of the "Taxicab Medallion License Holder Rules and Regulations" allows the Commissioner to extend the period of time by which a successful bidder must complete the license application process. BACP, "Taxicab Medallion License Holder Rules and Regulations," 65, accessed January 13, 2015, http://www.cityofchicago.org/content/dam/city/depts/bacp/publicvehicleinfo/medallionowners/medallionlicenseholderrulesregsf20120626.pdf.

[17] There are six types of qualifying inspections: "first period," "second period," "change of equipment," "transfer," "change of affiliation," and "post-accident." If a taxicab passes two of these in a year, then it is considered compliant with MCC § 9-112-050. See Appendix C for an example of the inspection checklist.

[18] BACP, "Taxicab Medallion License Holder Rules and Regulations," 12, accessed February 4, 2015, http://www.cityofchicago.org/content/dam/city/depts/bacp/publicvehicleinfo/medallionowners/medallionlicenseholderrulesregsf20120626.pdf.

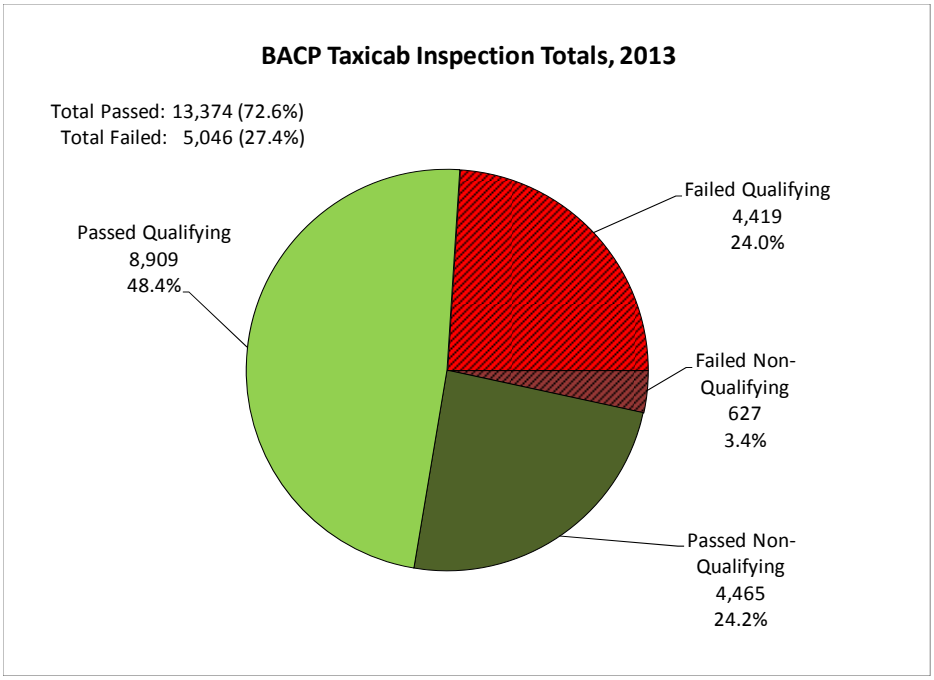
[19] City of Chicago, Municipal Code, § 9-112-050. MCC § 9-112-010 defines "vehicle age" as "the age of a vehicle computed by totaling the number of the years in between and including both the calendar year and the model year. For example a vehicle with a model year of 2009 has a vehicle age of 4 years in the 2012 calendar year (2009+2010+2011+2012)."

According to BACP's Public Vehicle Safety Inspection Guide, a qualifying inspection is comprised of nearly 100 tests. All tests must occur for the inspection to qualify towards the semiannual inspection requirement. Re-inspections, such as a follow-up to a failed test, only test that a specific problem has been fixed and therefore do not stand alone as a qualifying inspection.

BACP releases an annual inspection schedule that assigns each active taxicab two inspection dates, roughly six months apart.[20] In addition to regularly scheduled, semiannual inspections, vehicles found to be in violation of safety standards during a field inspection may need to be brought in for further inspection at the PV Facility. BACP assigns field inspectors to high traffic areas (e.g., O'Hare and Midway airports, Union and Ogilvie train stations) to do onsite visual inspections. If a field inspector finds a taxicab that violates safety standards, he issues a Notification of Inspection stating that the vehicle must be brought in for inspection within two days. BACP may also order an inspection if it receives a customer complaint against a taxicab. In some cases, the vehicle is inspected only on the aspect that elicited the complaint or field inspection notice. Other times, the vehicle receives a full inspection. In either case, taxicabs that are not presented for inspection in a timely manner will be placed on the police suspension list and are not permitted to operate until an inspection is completed.[21] If a vehicle fails an inspection, the licensee is required to return with the vehicle for re-inspection on a date scheduled by BACP, and pay a re-inspection fee. The BACP Commissioner may also suspend or revoke a license if the taxi is not brought in for an inspection. In 2013, BACP performed 18,420 taxicab inspections, with an average of 2.7 inspections per taxicab. As illustrated below, qualifying inspections accounted for 13,328, or 72.4%, of all inspections. A total of 4,419 vehicles, or 33.2% of those submitted for qualifying inspections, failed. The total fail rate across all inspection types was 27.4%.

[20] For an example of the yearly inspection schedules, see http://www.cityofchicago.org/content/dam/city/depts/bacp/publicvehicleinfo/publicvehicle/2013taxicabvehicleinspectiondateandtime.pdf. For yearly inspection schedules for other years, see http://www.cityofchicago.org/city/en/depts/bacp/supp_info/medallion_owner_information.html.

[21] The police suspension list is a list of taxicabs that did not report for inspection. While performing their normal duties, police officers and field inspectors look out for taxicabs that are on the list. If found, they remove the medallion, take the taxicab medallion license card ("hard card"), and issue a citation.



Source: BACP

III. OBJECTIVES, SCOPE, AND METHODOLOGY

A. Objectives

The objectives of the audit were to determine if,

1. BACP had an auction process that satisfied MCC §9-112-480;
2. BACP inspected all taxicabs at least as often as required by MCC §9-112-050; and
3. BACP accurately tracked whether taxicabs found to have safety violations were brought in for inspection in a timely manner.

B. Scope

MCC §9-112-480 requires that "taxicab licenses shall be distributed periodically" through "open and competitive bidding procedures" that produce "maximum revenue" while also "serving the public interest." OIG did not evaluate the extent to which BACP's method for distributing licenses serves the public interest. OIG reviewed BACP's 2013 medallion auction to determine if the Department was in compliance with the medallion auction process. BACP has yet to finalize the 2013 auction, and, thus, could not provide OIG with data confirming its compliance with closing procedures. OIG also reviewed taxicab inspections that occurred in 2013, and whether taxicabs that received a Notification of Inspection between June and August 2014 were brought to the inspection facility on time.

C. Methodology

To review BACP's process for distributing medallions through auction and achieving "the maximum amount of revenues to the city," OIG reviewed the rules of the auction to identify the auction type. To understand the auction process, OIG relied on interviews with BACP and the language of the Bronner Group contract. OIG then surveyed economic literature to determine if the auction type used by BACP would, in theory, maximize revenue.

To determine if all taxicabs received all required inspections, OIG analyzed BACP's records for all the taxicab inspections conducted in 2013.

OIG assessed BACP's quality assurance practices related to taxicab inspections by observing operations at the PV Facility, interviewing BACP staff, and researching quality assurance procedures in other jurisdictions.

OIG reviewed physical copies of Notifications of Inspections issued by BACP field inspectors in June, July, and August 2014 and compared these to electronic inspection records to determine if vehicles with known violations received the necessary inspections.[22] BACP implemented a new method for tracking Notifications of Inspection at the beginning of June 2014, due to inquiries stemming from our audit. OIG's review of the new method is included in Finding 4.

D. Standards

We conducted this audit in accordance with generally accepted Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

E. Authority and Role

The authority to perform this audit is established in the City of Chicago Municipal Code §2-56-030 which states that the Office of Inspector General has the power and duty to review the programs of City government in order to identify any inefficiencies, waste, and potential for misconduct, and to promote economy, efficiency, effectiveness, and integrity in the administration of City programs and operations.

The role of OIG is to review City operations and make recommendations for improvement.

City management is responsible for establishing and maintaining processes to ensure that City programs operate economically, efficiently, effectively, and with integrity.

[22] The Integrated Revenue Information System (IRIS) is the database the City uses for licensing and permitting of businesses. Taxicab inspectors use a submodule of IRIS to record taxicab inspection information. The module that the taxicab inspectors use does not have the same functionality of the City's main IRIS subsystem. OIG assessed the reliability of the IRIS data by interviewing BACP employees knowledgeable about the data. OIG determined that the data were sufficiently reliable for the purposes of this report.

IV. FINDINGS AND RECOMMENDATIONS

Finding 1: BACP designed and implemented an auction process that should result in maximum revenue; however, OIG could not fully verify this because BACP has yet to finalize the 2013 medallion auction.

MCC § 9-112-480 states that the Commissioner of BACP "shall promulgate regulations to set forth procedures by which all available taxicab licenses shall be distributed periodically (by sale, lease, or otherwise) pursuant to open and competitive bidding procedures" and that such procedures "shall be designed to produce the maximum amount of revenues to the city consistent with the public interest."[23] BACP's procedures are described in Section XV of the Taxicab Medallion License Holder Rules and Regulations issued by the Department. Pursuant to the MCC and these rules, BACP uses an auction process consisting of three phases: design (pre-auction), implementation (auction), and closing.

OIG verified that BACP's design and implementation phases for the 2013 medallion auction were in compliance with the MCC. Based on a review of the Department's auction process, OIG determined that BACP uses a "first-price, sealed-bid" auction to maximize revenue.[24] A review of economic literature confirmed that first-price, sealed-bid auctions are an effective method for achieving maximum revenue.[25] OIG also analyzed available auction data and found that the 2013 auction process complied with standards set forth in the Taxicab Medallion License Holder Rules and Regulations and the Bronner Group contract for planning the auction, announcing the auction, receiving bids, and recording bids.[26]

We could not verify full compliance with MCC requirements because BACP has not finalized any medallion sales from the 2013 auction. In past auctions, BACP finalized auction sales and released results approximately one month after the end of bidding. Although bidding for the 2013 medallion auction ended in October 2013, the Department had not finalized the sale of any of the auctioned medallions as of the date of this report.

[23] OIG did not evaluate the extent to which BACP's method for distributing licenses serves the public interest.
[24] In a first-price sealed-bid auction, bidders submit sealed bids (not shared with other bidders) and the highest bidder wins the auction. R. Preston McAfee and John McMillan, "Auctions and Bidding," *Journal of Economic Literature* 25, no. 2 (June 1987), 702.
[25] William Vickery, "Counterspeculation, Auctions, and Competitive Sealed Tenders," *Journal of Finance* 16, no.1 (March 1961); Glen W. Harrison, "Theory and Misbehavior of First Price Auctions," *The American Economic Review* 79, no. 4 (September 1989); Paul Milgrom, "Auctions and Bidding: A Primer," *Journal of Economic Perspectives* 3, no. 3 (Summer 1989); Tanjim Hossain and John Morgan, "A Test of the Revenue Equivalence Theorem using Field Experiments on eBay," (unpublished manuscript, August, 2003); Roger B. Myerson, "Optimal Auction Design," (discussion paper 362, Northwestern University, Evanston , IL, September 1979); John G. Riley and William F. Samuelson, "Optimal Auctions," *American Economic Review* 71, no. 3 (June 1981).
[26] BACP provided OIG with confidential information supporting BACP's compliance with parts of the auction closing procedures. OIG cannot release the information due to its impact on medallion sales.

Finding 2: In 2013, BACP inspected 99.5% of taxicabs at least as often as required by the Municipal Code.

During 2013, there were 6,849 taxicabs licensed to operate in Chicago.[27] Of these, 6,816 (99.5%) received an appropriate number of inspections as required by MCC § 9-112-050. The remaining 33 taxicabs (less than 1%) did not receive all required inspections and were in violation of MCC requirements.[28]

According to MCC § 9-112-050, "licensees must submit all their taxicab vehicles for inspection at least semiannually as scheduled by the department." OIG found that BACP completed more than 99% of required inspections in 2013. For the 33 taxicabs that received fewer than the required number of inspections, BACP had taken enforcement action—issued a citation or placed the license in "violation" status—against 12 vehicles. The Department could not provide clear explanations or documentary evidence as to why the remaining 21 received fewer than the required number of inspections without BACP taking appropriate action.

Recommendation:

BACP should take action to ensure that it can account for all required taxicab inspections either by completing the inspections or taking enforcement action against all noncompliant vehicles. This may include identifying and closing any gaps in its processes and recordkeeping.

Management Response:

"Public safety is our highest priority. We appreciate the time the OIG took in performing this audit as we are confident it will lead to process improvements that will lead to greater safety.

The OIG audited vehicle inspections of taxicabs scheduled at the BACP Public Vehicle Inspection Facility during the 2013 calendar year to determine if taxicabs underwent the mandated number of inspections in 2013. The OIG stated in its report that 6,816 (99.5%) taxicabs did receive the appropriate number of inspections as required by MCC § 9-112-050.

BACP reviewed in greater detail the records of the 21 taxicabs that the OIG identified with evidentiary deficiencies. Of those 21 taxicabs, BACP found that 1 of those 21 taxicabs only required one inspection in 2013. That 1 taxicab medallion had a 2013 model year vehicle associated with it in 2013, the year the audit focused on. Therefore, at that time, that taxicab medallion only required one scheduled inspection. However, the medallion license holder subsequently replaced the 2013 vehicle with a 2010 model year vehicle, which would have otherwise required it to have two inspections. However, since the vehicle was a 2013 vehicle at the time of inspection, it only required one inspection. With respect to the records of the remaining 20 taxicabs, BACP found data entry errors as the cause for the evidentiary lapses.

[27] The number of licensed taxicabs is based on BACP inspection records. The City of Chicago Data Portal features datasets and graphs relating to Public Passenger Vehicles. For more information see https://data.cityofchicago.org/browse?q=Taxi&sortBy=relevance&tags=taxis&utf8=%E2%9C%93.

[28] Not all of the 6,816 compliant taxicabs received two inspections in a year. BACP satisfactorily explained why some taxicabs received one or fewer inspections during the year. For example, a vehicle for which the medallion had been surrendered half way through the year might only receive one inspection.

BACP will be implementing updated training protocols to prevent data entry errors. Further, we will be adding an internal audit, where every two weeks, BACP management will review the vehicle inspections completed by taxicabs, in comparison to the list of all taxicabs due for inspection during that period, to ensure that all taxicab vehicles are in compliance with performing their required annual inspections.

BACP will continue to cite any taxicab vehicle not in compliance with vehicle inspections for failing to appear for the required inspection and the taxicab vehicle will be placed on the police suspension list."

Finding 3: BACP did not employ inspection quality assurance best practices and did not conduct all brake tests in accordance with the standards of its Public Vehicle Safety Inspection Guide.

BACP stated to OIG that it has a "zero tolerance policy" for failure to identify public safety issues at the PV Facility. However, OIG interviews and observations revealed weak quality assurance procedures and broken equipment at the PV Facility. BACP does not employ quality assurance best practices that would help safeguard against ineffective inspections. In addition, inspections could not be completed according to the standards of the Public Vehicle Safety Inspection Guide because BACP's brake inspection machine was broken. The Guide explicitly requires the use of this brake machine for inspections.

OIG assessed BACP's quality assurance methods, but it did not physically test individual inspections. To promote the effectiveness of vehicle inspections, inspection administrators in other jurisdictions rely on quality assurance procedures, including testing the quality of inspections. One of the most common ways to assess inspection quality is through covert and overt audits that review an inspector's work to determine if it was completed according to inspection standards.[29] Jurisdictions that use covert or overt audits as quality assurance procedures during vehicle inspections include the State of Illinois and the State of Massachusetts.[30] The vendor contracted to perform inspection services for the New York Taxi and Limousine Commission, and the states of Missouri, Rhode Island, and Wisconsin, also uses covert and overt audits to ensure inspections are done correctly.[31] Without quality assurance procedures, BACP cannot ensure that taxicab inspections are completed according to the standards of the Public Vehicle Safety Inspection Guide.

The Public Vehicle Safety Inspection Guide provides specific instructions and standards for the administration of a "brake equalization" test, and specifies that testing must be done through use of the Hunter Brake Model R611 brake machine.[32] In order to pass inspection, "braking force difference between Front Left and Right axle and Rear Left and Right axle must be within 25% of each other." If it is not, then the vehicle fails inspection because it poses a safety risk. During our visits to the PV Facility, OIG observed that the brake machine was broken. Department staff told OIG that the machine breaks down frequently and that when it is broken, PV Facility staff

[29] During an overt audit, a vehicle inspector is aware that the department is auditing her performance by observing her perform an inspection. During a covert audit, an inspector does not know her performance is being evaluated. In this scenario, the department presents a vehicle for inspection that has mechanical problems and bases its evaluation on whether the inspector detects the problems.
[30] Illinois Environmental Protection Agency, Bureau of Air, Division of Mobile Source Programs, "Illinois State Implementation Plan: Revisions to the Illinois Vehicle Inspection and Maintenance Program," October 5, 2012, 37-38, accessed February 4, 2015, http://www.epa.state.il.us/public-notices/2012/vim-sip-revisions/vim-sip-revisions.pdf; Commonwealth of Massachusetts, Department of Environmental Protection, "2013 Annual Report: Massachusetts Vehicle Check Inspection and Maintenance Program," August 2014, 19-23, accessed February 4, 2015, http://massvehiclecheck.state.ma.us/program-reports/EPA_2013_Annual%20Report_Final.pdf.
[31] OPUS Inspections, "Quality Assurance," accessed February 4, 2015, http://opusinspection.com/emission/quality-assurance/.
[32] For brake testing criteria, see pages 14-15 of the Public Vehicle Safety Inspection Guide Version 2.1, accessed February 4, 2015, http://www.cityofchicago.org/content/dam/city/depts/bacp/publicvehicleinfo/medallionowners/publicvehicleinspectionguide21.pdf.

test brake equalization by driving the vehicle into the garage and stepping on the brake pedal. This method does not meet the explicit standards of the Public Vehicle Safety Inspection Guide, which requires use of the brake machine.[33]

Recommendation:

BACP should implement procedures to provide reasonable assurance that it is completing inspections accurately. The Department should consider quality assurance procedures that are cost-effective and feasible for its operations, which may include covert or overt audits used in other jurisdictions. In addition, BACP should repair or replace the broken brake machine at the PV Facility in order to complete inspections according to its Public Vehicle Safety Inspection Guide or revise the Guide to specify brake test procedures in the absence of the machine.

Management Response:

"BACP maintains quality control at the Public Vehicle Inspection Facility with hands-on oversight of all facets of the inspection process. Supervisors are always present on the floor to observe and assist in inspections. At times, there are two inspectors (inspector and supervising inspector) evaluating the same taxicab vehicle at every inspection station. This provides a system of checks and balances that could not be achieved by using only one inspector as supervisors also identify infractions or problems with a vehicle to determine if an inspector(s) has recognized and recorded the infraction.

Going forward, BACP will supplement these existing checks and balances with an overt audit program. This overt audit program will require the supervisors to shadow an inspection from start to finish. The supervisors will then grade the performance of each inspector and review any quality issues they identify.

BACP intends to remove the brake machine from the inspection process and update the Public Vehicle Inspection Guide accordingly. Instead, BACP will continue to use the brake inspection method that was developed by BACP staff, which includes two certified Automotive Service Excellence (ASE) specialists in brakes, and management in accordance with industry safety standards.

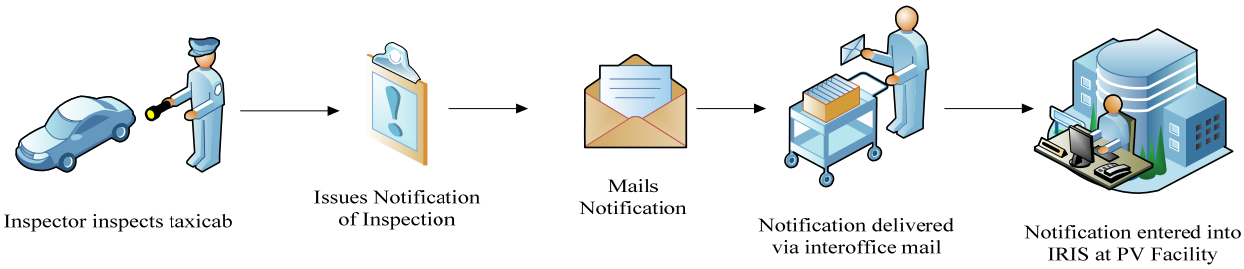
The three part inspection process that was developed for taxicab vehicle brake inspections includes on-the-ground performance and effectiveness tests, as well as visual and mechanical examinations of all brake and brake-related systems.

This process will be fully outlined in the Public Vehicle Inspection Guide and the updated guide will be posted at BACP's web page."

[33] OIG did not evaluate the efficacy of the inspection tests and makes no finding regarding the safety of the vehicles inspected.

Finding 4: BACP did not reliably track evidence of compliance with the two-day inspection reporting requirement following issuance of a Notification of Inspection.

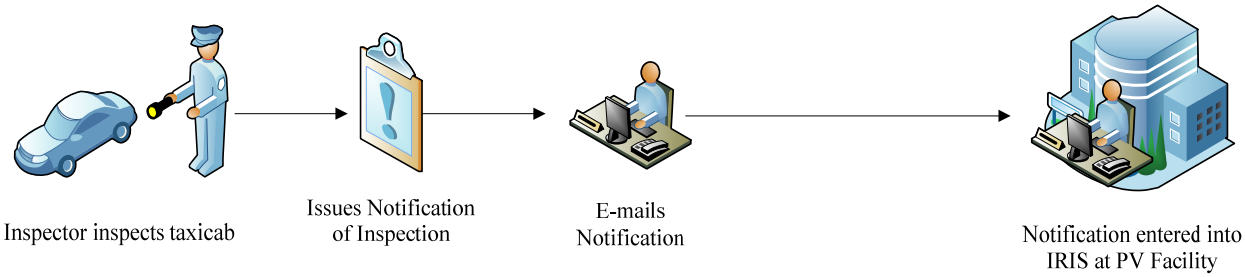
When a BACP field inspector issues a Notice of Inspection to a noncompliant taxicab, the vehicle has two days to report to the PV Facility for an inspection.[34] However, at the start of the audit, OIG found that BACP did not maintain accurate records of the dates Notifications were issued and taxicabs arrived for inspection. Interviews with BACP staff revealed that field inspectors were not equipped to electronically record and transmit the date a Notification of Inspection was issued. Instead, field inspectors sent the Notifications of Inspection to the PV Facility via interoffice mail. PV Facility staff would not know that a Notification of Inspection had been issued until they received it in the mail, which was sometimes more than two days after the Notification was issued. According to BACP, PV Facility staff would manually key the information from the Notification of Inspection into the Integrated Revenue Information System (IRIS) when it arrived at the PV Facility.[35]



This system resulted in inconsistent recording and coding of Notifications in IRIS. PV Facility staff did not consistently code inspections prompted by a Notification, therefore such inspections could not always be distinguished from other types of inspection records. Even when a Notification of Inspection was correctly coded in IRIS, the date associated with the event in IRIS was the date it was entered, not the date the Notification of Inspection was issued or the date of the corresponding inspection. Thus, BACP could not produce records demonstrating the time between when a Notification of Inspection was issued and when a taxicab was brought in for inspection.

Since OIG's initial engagement with BACP, the Department implemented a new method for transmitting Notifications of Inspection. Beginning in June 2014, field inspectors now scan Notifications at the end of the day and transmit them to the PV Facility electronically rather than sending Notifications of Inspection via interoffice mail. This process reduces the delay between when a Notification of Inspection is issued and when the PV Facility receives it. If the PV Facility receives the scanned Notification of Inspection on the day it is written, and the taxicab is not brought in for inspection within two days, then, in theory, staff are made aware immediately that the taxicab has missed its inspection deadline and can take timely enforcement action.

[34] See Appendix A for an example of a Notification of Inspection.
[35] IRIS is the database system the City uses for licensing and permitting of businesses. Taxicab inspectors use a submodule of IRIS to record taxicab inspection information.



OIG used BACP documentation for June, July, and August 2014 to assess whether the Department inspects vehicles with known violations within two business days as required by the Notification of Inspection and found,

- 61 out of 74 vehicles (82.4%) that received a Notification of Inspection during the review period complied with the two business days deadline;
- 13 out of 74 vehicles (17.6%) did not comply with the two business days deadline; and
- 10 vehicles had missing records, making measurement impossible.

After reviewing the inspection records maintained under the new transmission method, OIG still found inconsistencies in recordkeeping. Specifically, we found differences between the number of Field Notifications recorded in IRIS and the number of hardcopy Notifications of Inspection present. IRIS records reflected 10 instances of inspections prompted by a field inspection during the testing period that did not have a corresponding Notification of Inspection. Without a corresponding paper copy, it is not possible to determine if a vehicle has met or exceeded the inspection deadline.

Recommendation:

BACP should develop a process to ensure that all Notifications of Inspection are submitted to the PV Facility and entered in a timely manner and that the issue date of the Notification is recorded to ensure that taxicabs do not exceed the two-day inspection deadline. Documenting the issue date will allow the Department to identify taxicabs that have not reported for required inspections with greater certainty and to take timely enforcement action.

Management Response:

"The Department reviewed more closely the 10 missing records that the OIG identified. Of those 10, one was a duplicate record and five were for taxicabs that were inspected but for which field inspection notices were missing. Upon review, it was determined that these five field inspection notices were issued during the weekend dates of May 30 or May 31, 2014 and the inspections were performed in the first week of the following month of June 2014. Because only records from the months of June through August were reviewed for the audit, these five May taxicab field notifications initially appeared to be missing. The remaining four records in question appear to be the result of errors in the process.

BACP believes that the new protocols that were developed during the audit, which require BACP field investigators to e-mail the issued taxicab field inspection notices each day, instead of sending via inter-office mail, adequately facilitate the timely transmission of field inspection notifications to the Public Vehicle Inspection Facility. Nevertheless, the Department will examine options for making this process more efficient by leveraging technology, as we have in many other areas of our operations.

Further, BACP supervisors will generate and review reports on a regular basis to ascertain if any taxicabs have failed to report for a required field inspection BACP will continue to cite and place on the police suspension list taxicab vehicles that fail to appear for field inspections after being notified."

V. APPENDIX A: EXAMPLE OF A NOTIFICATION INSPECTION

As reported in Finding 4, a field inspector will issue a "Notification of Inspection" if he finds a taxicab that is unsafe.

[redacted]

CITY OF CHICAGO

DEPARTMENT OF BUSINESS AFFAIRS AND CONSUMER PROTECTION

PUBLIC VEHICLLE INVESTIGATIONS

NOTIFICATION OF INSPECTION

Public Passenger Vehicle License Number: [redacted]

Name of Licensee: [redacted]

You are hereby notified that the above listed Public Passenger Vehicle must be presented for inspection at the Public Vehicle Testing Facility at 2420 W. Pershing Road. The following item(s) been found to be in a failed or unfit condition:

[redacted]

You must complete repairs to correct these conditions and present the vehicle for inspection within *two (2) working days of this notice!* The inspection time for this notification will begin the following working day after *3:30 P.M.* If you are unable to present this vehicle for inspection within two working days of this notification, you must notify the Public Vehicle Testing Facility at (312) 744-7921. **FAILURE TO PRESENT YOUR VEHICLE FOR INSPECTION IN A TIMELY MANNER WILL RESULT IN YOUR VEHICLE BEING PLACED ON THE POLICE SUSPENSION LIST.**

If you have any questions concerning your vehicle inspection or this notification, contact the Public Vehicle Testing Facility at (312) 744-7921. fax# (773) 247-2758.

Investigator: [redacted] Badge#: [redacted]

Date: [redacted] Time: [redacted]

Chauffer's Name:(printed): [redacted]

Chauffer's Signature [redacted]

Chauffer's License Number [redacted]

VI. APPENDIX B: 2013 AUCTION NOTIFICATION

City of Chicago
Business Affairs & Consumer Protection

PUBLIC VEHICLE INDUSTRY NOTICE

September 16, 2013 Notice No. 13-046

City of Chicago Taxicab Medallion Auction

The Department of Business Affairs and Consumer Protection ("BACP") announces the sale of fifty (50) City of Chicago taxicab medallions by a bid auction.

The 2013 Taxicab Medallion Auction begins September 16, 2013 and ends October 18, 2013.

The upset price, the minimum bid allowable, is $360,000.00 U.S. per taxicab medallion.

The following two forms are available at www.cityofchicago.org/bacp:

1. The 2013 Taxicab Medallion Auction Instructions and Requirements
2. 2013 Taxicab Medallion Auction Bid Form

Bids must comply with 2013 Taxicab Medallion Auction Instructions and Requirements, the Municipal Code of Chicago, applicable rules and regulations regarding taxicab medallion licenses in the City of Chicago and must be postmarked no later than October 18, 2013.

The information contained in this Notice supersedes any information pertaining to the medallion auction that may have appeared in other sources.

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- For questions, comments, or to join the City of Chicago's Department of Business Affairs and Consumer Protection-Public Vehicle Operations (BACPPV) e-mail list to receive industry notices and other news, send an email to BACPPV@cityofchicago.org.
- Rules and Regulations governing City of Chicago licensed public vehicles and public chauffeurs are available at www.cityofchicago.org/bacp.
- The Municipal Code of Chicago is available at www.amlegal.com.

Public Vehicle Operations Division • 2350 W. Ogden, First Floor, Chicago, IL 60608
BACPPV@cityofchicago.org • 312-746-4300 • www.cityofchicago.org/bacp

VII. APPENDIX C: BACP TAXICAB INSPECTION CHECKLIST

DEPARTMENT OF BUSINESS AFFAIRS AND CONSUMER PROTECTION
PUBLIC VEHICLE INSPECTION
CITY OF CHICAGO, RICHARD M. DALEY, MAYOR
NORMA I. REYES, COMMISSIONER

Inspection Date: 07-01-2010 09:00 AM | Inspection Type: 2nd Period | Safety Device: SAFETY SHIELD

Company / Owner | VIN | Make / Model / Year: FORD CROWN VICTORIA 2006

PV Nbr Affiliation: YELLOW_CAB | Color: YELLOW | Meter: ------ | Serial Nbr | Advertising: ROOFTOP / SIDE /

Comment | Mileage | Time In | Time Out

VISUAL INSPECTION STATION

Radio	Pass	Fail
Telephone Nbr	Pass	Fail
Safety Equipment	Pass	Fail
Braille Card	Pass	Fail
Information Sheet	Pass	Fail
City Sticker Nbr	Pass	Fail
Top Light	Pass	Fail
Side Marker	Pass	Fail
High or Low Beams	Pass	Fail
Parking	Pass	Fail
Brake	Pass	Fail
Tail	Pass	Fail
Turn Signals	Pass	Fail
Back-up Lights	Pass	Fail
Dash Warning Lights	Pass	Fail
Windows	Pass	Fail
Doors & Latches	Pass	Fail
Wipers & Washers	Pass	Fail
Mirrors	Pass	Fail
Horn	Pass	Fail
Interior	Pass	Fail
Seat Belts	Pass	Fail
"Not For Hire"	Pass	Fail
Body Condition	Pass	Fail
Paint Condition	Pass	Fail
Trunk Condition	Pass	Fail
Affl. Sticker	Pass	Fail
Gas Cap	Pass	Fail
OBD Scan	Pass	Fail
Insurance Sticker	Pass	Fail
State Registration	Pass	Fail
Transfer Papers	Pass	Fail
Hard Card	Pass	Fail
Car Wash	Pass	Fail
Bolt in Medallion/ No Hole in Hood	Pass	Fail
Rear Vent Hose	Pass	Fail
License Plate/Lights	Pass	Fail

Inspected By _____

MECHANICAL INSPECTION STATION

Control Arms	Pass	Fail
Springs	Pass	Fail
Torsion Bars	Pass	Fail
Exhaust System	Pass	Fail
Manifold	Pass	Fail
Muffler	Pass	Fail
Tailpipe	Pass	Fail
Floor Boards	Pass	Fail
Tires	Pass	Fail
Wheel Alignment	Pass	Fail
Tie Rods	Pass	Fail
Front Whl. Bearings	Pass	Fail
Ball Joints	Pass	Fail
Shocks & Struts	Pass	Fail
Transmounts & Motormounts	Pass	Fail
Idler Arm	Pass	Fail
Pitman Arm	Pass	Fail
Center Link	Pass	Fail
Universal Joints	Pass	Fail
Fuel Filter Secured	Pass	Fail
ABS Cable Connected	Pass	Fail
Fluid Leaks	Pass	Fail
Belts & Hoses	Pass	Fail
Frame & Frame Bushings	Pass	Fail
Wheel Bind	Pass	Fail
Trailing Arms	Pass	Fail
Electrical	Pass	Fail
Rotors	Pass	Fail
Water Pump	Pass	Fail
Battery	Pass	Fail
Hood Struts	Pass	Fail
Rims/Axles	Pass	Fail
Radiator	Pass	Fail
Undercarriage	Pass	Fail
Fuse Box	Pass	Fail
Engine Won't Start	Pass	Fail
Power Steering	Pass	Fail
Engine Noise	Pass	Fail
Air Cleaner Assembly	Pass	Fail

Inspected By _____

METER INSPECTION STATION

A/C and/or Heater	Pass	Fail
Taxi Meter Check	Pass	Fail
Meter Receipt	Pass	Fail
Meter Serial Nbr		
Meter Seal Nbr		
Speedometer	Pass	Fail
Cover/Buttons/ Lights	Pass	Fail
Printer	Pass	Fail
Swipe Card	Pass	Fail

Inspected By _____

BRAKE INSPECTION STATION

Gear Indicator	Pass	Fail
Steering Column	Pass	Fail
Brakes	Pass	Fail
Parking Brakes	Pass	Fail
Equalization	Pass	Fail
Brakes LF	Pass	Fail
RF	Pass	Fail
LR	Pass	Fail
RR	Pass	Fail
Total Force	Pass	Fail

Inspected By _____

PASSED (Enter Remarks on Back) ☐ FAILED (Enter Remarks on Back) ☐ NO SHOW ☐

6

CITY OF CHICAGO OFFICE OF INSPECTOR GENERAL

Public Inquiries	Rachel Leven (773) 478-0534 rleven@chicagoinspectorgeneral.org
To Suggest Ways to Improve City Government	Visit our website: https://chicagoinspectorgeneral.org/get-involved/help-improve-city-government/
To Report Fraud, Waste, and Abuse in City Programs	Call OIG's toll-free hotline 866-IG-TIPLINE (866-448-4754). Talk to an investigator from 8:30 a.m. to 5:00 p.m. Monday-Friday. Or visit our website: http://chicagoinspectorgeneral.org/get-involved/fight-waste-fraud-and-abuse/

MISSION

The City of Chicago Office of Inspector General (OIG) is an independent, nonpartisan oversight agency whose mission is to promote economy, efficiency, effectiveness, and integrity in the administration of programs and operations of City government. OIG achieves this mission through,

- administrative and criminal investigations;
- audits of City programs and operations; and
- reviews of City programs, operations, and policies.

From these activities, OIG issues reports of findings, disciplinary, and other recommendations to assure that City officials, employees, and vendors are held accountable for the provision of efficient, cost-effective government operations and further to prevent, detect, identify, expose, and eliminate waste, inefficiency, misconduct, fraud, corruption, and abuse of public authority and resources.

AUTHORITY

The authority to produce reports and recommendations on ways to improve City operations is established in the City of Chicago Municipal Code § 2-56-030(c), which confers upon the Inspector General the following power and duty:

> *To promote economy, efficiency, effectiveness and integrity in the administration of the programs and operations of the city government by reviewing programs, identifying any inefficiencies, waste and potential for misconduct therein, and recommending to the mayor and the city council policies and methods for the elimination of inefficiencies and waste, and the prevention of misconduct.*