

OFFICE OF THE INSPECTOR GENERAL
City of Chicago



REPORT OF THE INSPECTOR GENERAL'S OFFICE:

DIRECT VOUCHER AUDIT REPORT

MAY 2010

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Inspector General

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To: Mayor Richard J. Daley
Members of the City Council

From: Inspector General Joseph Ferguson 

Re: Direct Voucher Audit

Date: May 18, 2010

The Inspector General's Office has completed an audit of the City of Chicago's Direct Voucher processes and procedures related to direct voucher disbursements between November 1, 2006 and October 31, 2007. A copy of the audit report is attached.

As you know, the direct voucher system operates as an exception to the otherwise generally applicable requirement under State and local law and procedures for competitive bidding in government procurement. The purpose of the audit was to test and evaluate activities incident to the payment of direct vouchers to ensure effective and efficient operations and compliance with stated City policies and procedures, as well as to evaluate the effectiveness of controls related to such payments.

The audit found that the City had appropriate controls for ensuring that the City received the goods/services for which it paid by the direct voucher method and that transactions had the appropriate approvals under the stated policy. However, the audit found that internal controls limiting direct vouchers to commodities exempted from generally and presumptively applicable competitive bidding requirements under the *Illinois Municipal Purchasing Act*, 65 ILCS 5/8-10, *et seq.*, were not adequate. Additionally, the audit determined that the City's internal controls for ensuring that City Departments adhere to the City's own Policy for Use of Direct Vouchers were not adequate.

The audit found as a consequence of the inadequacy of certain internal controls that the City's direct voucher processes and procedures for the audit period resulted in direct voucher disbursements of more than \$19 million for goods and/or services that were not eligible for procurement and payment by this method. More specifically, the audit found:

- Direct voucher disbursements were improperly utilized for approximately \$14.2 million for commodities and/or services that were not exempt under the *Illinois Municipal Purchasing Act*. As a result, the commodities and/or services should not have been procured by direct voucher, but rather should have been put out for competitive bid.

- Direct voucher disbursements of an additional \$5.5 million were made in violation of the City's *Policy for Use of Direct Vouchers* because the disbursements were for commodities related to existing contracts that the user departments were required to utilize for such purposes. The audit additionally determined that at a programmatic level:
- *Direct voucher disbursements were not transparent to the public.* In 2003, the City announced transparency in procurement as a stated policy objective. Since that time, the City, through the website of the Department of Procurement Services, has made substantial progress in achieving that stated objective. However, because direct vouchers do not pass through standard DPS controls, disbursements are not automatically identified and reported to the public. The audit found that, for the analyzed period, nearly \$769 million in direct voucher payments were processed without transparency to the public and that the City had no processes or procedures in place to ensure automatic disclosure and reporting of direct voucher processes and payments.
- *The City's Policy for Use of Direct Vouchers is out-dated and ineffective, leaving the City at a heightened risk of potential waste and mismanagement of assets.* The City's Policy was implemented in January 1996. Since that time, many of the controls described in the policy have deteriorated or have fallen into disuse either as a result of changes in technology or the evolution of the role of the Department of Procurement Services from active involvement to comparative non-involvement.

City management officials have acknowledged the audit findings and acted promptly to implement remedial measures responsive to specific audit findings and recommendations. As noted in the auditor's report, the management and staff of the Departments of Finance and Procurement Services provided full cooperation during the audit. Additionally, numerous other City departments have provided information and clarification regarding the use of direct vouchers which have facilitated the successful completion of the audit.

cc: Chief of Staff Raymond Orozco
 City Comptroller Steven J. Lux
 Chief Procurement Officer Jamie Rhee
 Budget Director Eugene Munin
 Director of Intergovernmental Affairs Joan Coogan

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AUDITOR'S REPORT:

The mission of the Inspector General's Office (IGO) is to root out corruption, waste and mismanagement, while promoting effectiveness and efficiency in the City of Chicago. The IGO Audit Unit conducts independent and professional audits, reviews, and evaluations of the operations of City departments, programs, functions, and those doing business with the City. These engagements focus on the integrity, accountability, economy, efficiency and effectiveness of each audit subject.

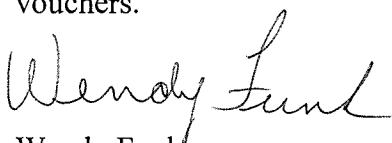
We completed an audit of processes and procedures related to direct vouchers paid between November 1, 2006 and October 31, 2007. The fieldwork was performed during the period December 2007 through May 2009. The authority to perform such an audit is established in the *City of Chicago Municipal Code §2-56-030* which states the Inspector General's Office has the power and duty to promote economy, efficiency, effectiveness and integrity in the administration of programs and operations, as well as identify any inefficiencies, waste and potential for misconduct.

Our purpose was to test and evaluate activities performed to ensure effective and efficient operations and compliance with policies and procedures, and to evaluate the effectiveness of controls related to the payment of direct vouchers. 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.

Based upon the results of our audit, we determined the following:

- Internal controls ensuring the City received the goods/services and transactions had proper approval were adequate;
- Internal controls limiting direct vouchers to commodities exempt from the competitive bidding requirements of the *Illinois Municipal Purchasing Act* were not adequate;
- Internal controls ensuring City Departments adhere to the *Policy for Use of Direct Vouchers* were not adequate.

We would like to thank the management and staff of the Departments of Finance and Procurement Services for their cooperation during the audit. Their assistance contributed significantly to the successful completion of the audit. In addition, we would like to thank all departments that researched and provided clarification regarding the use of direct vouchers.



Wendy Funk
Chief Auditor

EXECUTIVE SUMMARY:

We have completed an audit of processes and procedures related to direct vouchers paid between November 1, 2006 and October 31, 2007. The purpose was to test and evaluate activities performed to ensure effective and efficient operations and compliance with policies and procedures, and to evaluate the effectiveness of controls related to the payment of direct vouchers.

Based upon the results of our audit, we determined internal controls related to those direct vouchers within the audit scope were not adequate to prevent potential waste and mismanagement of assets as governed by the *Illinois Municipal Purchasing Act*, the *Chicago Municipal Code* or the *Policy for Use of Direct Vouchers*.

This summary highlights the key findings and auditee responses which are described in detail in the Audit Findings and Recommendations section beginning on page 22.

DISBURSEMENTS TOTALING MORE THAN \$14.2 MILLION WERE IN VIOLATION OF THE *ILLINOIS MUNICIPAL PURCHASING ACT*

Per policy, direct voucher disbursements are limited to commodities identified as “acceptable.” These acceptable commodities correspond to goods/services not adapted to award by competitive bidding, per the *Illinois Municipal Purchasing Act*. However, during the audit, we found more than \$14.2 Million of disbursements for commodities not deemed acceptable and without evidence of competitive bidding, thus in violation of the *Illinois Municipal Purchasing Act*.

Auditee Response: The City has updated the direct voucher policy to ensure direct voucher purchases are limited too eligible goods and services.

GOODS/SERVICES WITH EXISTING APPLICABLE CONTRACTS WERE PAID ON DIRECT VOUCHERS IN VIOLATION OF CITY POLICY

An additional \$5.5 Million of direct voucher disbursements were in violation of the *Policy for Use of Direct Vouchers* as they were made for commodities related to existing contracts. The *Policy for Use of Direct Vouchers* specifically requires user departments to search for and use existing contracts.

Auditee Response: The City has updated the direct voucher policy which includes provisions for ensuring no goods or services are purchased on direct voucher when existing contracts can be used.

DIRECT VOUCHER DISBURSEMENTS ARE NOT TRANSPARENT
TO THE PUBLIC

There are no processes or procedures to ensure the public is aware of nearly \$769 Million of direct voucher payments during the one-year audit scope.

Auditee Response: The City has begun posting all direct voucher payments online.

THE *POLICY FOR USE OF DIRECT VOUCHERS* IS INEFFECTIVE
AND OUT-OF-DATE

The *Policy for Use of Direct Vouchers* was implemented in January 1996. Since that time, many of the controls described within the policy have deteriorated or disappeared due to changes in technology and the regression of Department of Procurement Services' role regarding direct voucher processes.

Auditee Response: As noted, the City has updated the direct voucher policy.

BACKGROUND:

GOVERNANCE

There are three resources governing City of Chicago purchases. The first two—the *Illinois Municipal Purchasing Act* and the *Municipal Code of Chicago*—address the need for competitive bidding related to purchases, but do not differentiate between payment methods (i.e. the law is the same whether payments are made via order payment voucher, contract voucher, direct voucher, etc.). The third resource is the *Policy for Use of Direct Vouchers*, which governs City procurement of goods and services purchased by the direct voucher method.

Illinois Municipal Purchasing Act and Municipal Code of Chicago

The *Illinois Municipal Purchasing Act* (65 ILCS 5/8-10 *et seq.*) provides that purchase orders or contracts in excess of the threshold amount (\$10,000) be let by free and open competitive bidding after advertisement and those less than the threshold amount be let in the same manner when practicable or after solicitation of bids by mail, telephone or otherwise when not practicable. (§ 8-10-3) The *Municipal Code of Chicago* (§ 2-92-642) increases the threshold amount to \$100,000. A free and open competitive bidding process protects the interests of the public by:

- Increasing transparency of the procurement process,
- Allowing the City to obtain the lowest prices and identify cost-effective suppliers,
- Attracting a pool of qualified bidders,
- Minimizing expenditures while maximizing the quality of goods/services.

The *Illinois Municipal Purchasing Act* specifically § 8-10-4, exempts from the otherwise generally applicable competitive bidding requirements:

- Contracts for the services of individuals possessing a high degree of professional skill where the ability or fitness of the individual plays an important part;
- Contracts for supplies, materials, parts or equipment which are available only from a single source;
- Contracts for printing of finance committee pamphlets, comptroller's estimates, and departmental reports;
- Contracts for the printing or engraving of bonds, water certificates, tax warrants, and other evidences of indebtedness;
- Contracts for utility services such as water, light, heat, telephone or telegraph;

- Contracts for the purchase of magazines, books, periodicals and similar articles of educational or instructional nature, and the binding of such magazines, books, periodicals, pamphlets, reports and similar articles.

The *Illinois Municipal Purchasing Act* addresses only the need for or exemption from the competitive bidding process. It does NOT address the need for, or exemption from, entering into a *contract*. Therefore, while certain commodities are exempt from competitive bidding, it is still in the best interest of the public to pursue a contract as written contracts ensure that the specifications/requirements are clear to both parties, the agreed upon pricing is documented and that there is accountability and transparency. The core processes designed to ensure the City of Chicago obtains the benefits of both competitive bidding and the use of contracts are housed within the City's Department of Procurement Services (DPS).

Policy for Use of Direct Vouchers

Finally, the *Policy for Use of Direct Vouchers* (see Appendix 1) addresses specific procedures to ensure direct vouchers are only used for acceptable commodities or approved exceptions. Among other things, the policy:

- Prohibits payments via direct vouchers except for the following commodities:
 - Real Estate (Rent/Lease and Purchase): Land, building, office space, parking lot, storage space, conference rooms, seminars, booths and exhibits
 - Public Utilities (Service and Bills): Water, Sewer, Electricity
 - Travel Reimbursement: Local and non-local
 - Telephone (Service and Bills): Local and long distance
 - Financial Transactions: Loans and grants, petty cash, wages/salaries
 - Books and Subscriptions: Newspaper, magazine, periodicals, professional journals, educational and instruction materials, etc.
 - Insurance and Risk Management
 - Miscellaneous Expenses: Fees, dues, postage meter and stamps, taxes, taxi cab coupons, settlement payments, reimbursements-benefits, salary/wage adjustments, parking, permits, licenses, etc.
- Requires that before considering a direct voucher, each City department or agency determine that the product or services required cannot be obtained through an existing City term agreement.

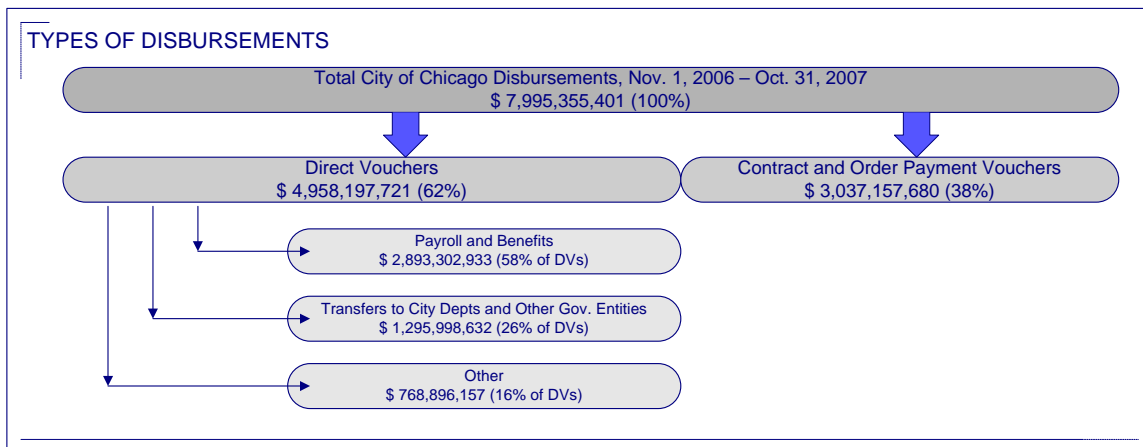
- Reminds City departments that the *Illinois Municipal Purchasing Act* mandates open and competitive bidding after advertisement for all procurements in excess of the threshold amount and bid solicitation by mail or telephone for all procurements less than the threshold amount.

TYPES OF PAYMENTS

There are three main types of disbursement vouchers used by the City of Chicago.

- *Order payment vouchers* are processed for payments **related to contracts** between the City and various **vendors**.
- *Contract vouchers* are processed for payments related to **grant funds**.
- *Direct vouchers* are payments that are “**unmatched**”, meaning there is no contract or purchase order attributable to the payment.

As detailed in the following graph, the amount of total disbursements during the audit scope period totaled nearly \$8 billion. Direct vouchers accounted for nearly \$5 billion, and included over \$4 billion of disbursements for payroll, benefits and inter- and intra-governmental transfers of funds. The remaining direct vouchers (nearly \$769 Million) were for other goods and services.



CONTROLS RELATED TO EACH VOUCHER TYPE

Order Payment Vouchers

Order payment vouchers are processed for payments related to contracts between the City and various vendors. These contracts culminate through methods of procurement within DPS designed to ensure the open, fair, and timely contracting of goods and services. These methods of procurement, per the City of Chicago Procurement Policy and Process Manual, are described as follows:

- Competitive Bids—Required under the *Illinois Municipal Purchasing Act* which mandates that, except as otherwise provided and with the exception of small purchase orders, all purchase orders or contracts of whatever nature for labor, services, or work, the purchase, lease, or sale of personal property, materials, equipment or supplies, must be let by free and open competitive bidding after advertisement, to the lowest responsible and responsive bidder.

A detailed bid specification or scope of service, as well as all terms and conditions and requirements of the contract must be included in the solicitation document. The document prepared to solicit competitive bids is referred as the “bid specification” or “bid document.”

Solicitations for competitive bids must be advertised at least 10 days, excluding Sundays and legal holidays, in advance of the published bid opening date.

On the published date for the bid opening, the bids are opened and publicly read aloud in DPS, Bid and Bond Room, located in Room 301, City Hall, 121 North LaSalle Street. Bids are evaluated based upon the lowest price and award is made to the lowest responsive and responsible bidder meeting all terms and conditions of the specification documents.

- Small Purchase Orders (under \$100,000)—As specified in the Chicago Municipal Code, section 2-92-642, small purchase orders are less than \$100,000 in value. Solicitations for small purchase orders are restricted to minority and women owned businesses certified by the City of Chicago (MBE and WBE), in accordance with the Chicago Municipal Code. Price quotations for small purchase orders may be solicited by telephone, fax and/or posted on the DPS website. In cases where no response is received from MBE or WBE firms certified in the applicable specialty area, a second solicitation is open to MBE and WBE firms certified in a wider range of specialty areas, which may be able to supply the required goods or services. If there is no response to the second solicitation, a third solicitation is open to the general public. The award is made to the lowest responsive and responsible bidder.
- Request for Qualifications (RFQ)—The *Illinois Municipal Purchasing Act* provides that certain contracts do not have to be competitively bid. The RFQ is a qualification based solicitation document prepared and advertised by the City requesting submittal of technical and professional qualifications. This procurement method is used to select the individual(s) or firm(s) most qualified to provide technical expertise. RFQs are commonly used for architectural/engineering design services and to hire other professional consultants.

Respondents are asked to submit resumes, certifications, licenses, references, record of previous experience, implementation plan and other qualifications necessary to evaluate their technical knowledge, skill and capabilities.

Subsequent to evaluation of each respondent's qualifications and/or oral presentations, the City Technical Review/Evaluation Committee selects the individual(s) or firm(s) most qualified, taking into consideration all evaluation factors stated in the Request for Qualifications. The City conducts negotiations with the selected individual(s) or firm(s) to finalize all deliverables, costs and other terms and conditions. The City then may enter into a Master Agreement. A firm or individual holding a Master Agreement may become part of a pre-qualified vendor pool, and be eligible to receive Task Orders periodically issued by the City for individual projects under the Master Agreement. In other cases, depending on the specific requirements, the City may conduct negotiations and enter into an agreement with one individual firm that is not part of a vendor pool. This type of Agreement may be of limited scope and may or may not be task-order based.

The Brooks Architects-Engineers Act is a Federal statute which specifically describes certain professional services for which contracts cannot be awarded on the basis of cost alone. Evaluations are made on the basis of competence and qualifications. For services identified in this statute, a determination must first be made that a firm is the "most qualified" and only upon the conclusion of that determination should the costs of the service be discussed. Qualifications and competence can typically be determined only by an evaluation of submissions made in response to an RFQ.

- Request for Proposals (RFP)—The *Illinois Municipal Purchasing Act* provides that certain contracts do not have to be competitively bid. The Request for Proposal method of procurement is used when available detailed specifications are not adequate to define the City's needs and/or parameters of the requirement are difficult to directly compare, so that award cannot be based solely on low price. The RFP is a solicitation document prepared and advertised by the City requesting proposals in response to the parameters and scope of professional services required, but does not specify in detail every aspect of how to accomplish or perform the required services.

Proposers are asked to submit proposals, qualifications, work plan and in most cases, cost proposals. The proposals are evaluated by a City Evaluation Committee based on a set of predetermined evaluation and selection criteria specified in the RFP. The cost proposal is only one evaluation criterion among several and "lowest cost" is not the only determining factor in the selection process. Selection is based on the best qualified firm(s) submitting the proposal most advantageous to the City taking into consideration all of the evaluation criteria. Price can be negotiated with the selected vendor(s).

This is the most commonly used method of solicitation of proposals for Professional Service contracts.

- Request for Information (RFI)—The RFI is an information request solicitation prepared and advertised by the City when the City seeks to obtain information about current or new technologies, innovations, products or services available in the market. This is a research tool that can assist the City in determining its requirements and developing a strategy or approach for implementing a project. No vendors are selected through the RFI process. Information obtained from responses to an RFI may assist the City in the development and issuance of an RFP to address specific project or program requirements.
- Emergency Procurement—Pursuant to the Chicago Municipal Code and the *Illinois Municipal Purchasing Act*, emergency contract authorization may be granted by the Chief Procurement Officer for emergencies, in an amount not in excess of \$250,000 without advertising or competitive bidding.

An “emergency” is defined as a situation posing a clear and imminent danger, requiring immediate procurement of services, supplies or equipment to prevent or mitigate the loss or impairment of life, health, property or essential public services and would not have been avoided by due care and diligence. An “emergency” is deemed to exist in situations in which: 1) a public calamity requires the immediate appropriation of goods or services to relieve the necessity of the municipality’s residents or to preserve the property of the municipality; 2) it is necessary to preserve or protect the public health or safety of the municipality’s residents; or 3) there is unforeseen damages to public machinery, equipment or other property.

- Non-Competitive Procurement—The Non-Competitive Procurement method is used for the procurement of goods and services which by their nature are not adapted to award by competitive bidding, as specified in the *Illinois Municipal Purchasing Act*. A non-competitive procurement can be for any materials, supplies, equipment and/or services which are not suitable for competitive bidding for any of, but not limited to, the following reasons:
 - Patent or copyright restrictions;
 - Exclusive or unique capabilities;
 - Highly specialized skills, qualifications or technical expertise; and
 - Single source.

Requests for non-competitive procurement are initiated by the managing department and are subject to approval by the Chief Procurement Officer. The Non-Competitive Procurement Review Board (“The Board”) has delegated authority to act on behalf of the Chief Procurement Officer to review and recommend all non-competitive procurement requests. The Board, which consists of members from various City Departments appointed by the Chief Procurement Officer, decides whether or not the request meets established criteria for non-competitive award.

- Design-Build—The Design-Build method of procurement is sometimes used for projects of complex and unique design requirements, comprising schedules with milestone dates, budget constraints and/or other limitations. The managing department requesting such a contract would prepare performance requirements and a budget for the design-build project. The decision to use the design-build procurement method requires the fulfillment of certain legal requirements in addition to the availability of qualified design-build entities for the purpose of competition/selection. In most cases the managing department is required to secure the approval of the Chicago City Council for the specific design-build project in order for DPS to proceed with contracting activities.

In addition to the above procedures, a memo issued by DPS in November, 2005, described processes surrounding override requests. Overrides allow user departments to pay vendors for goods/services during the contract negotiation process. The memo indicated the department was “looking to significantly reduce the number of overrides processed to meet user department needs. It specifically stated the following:

“While we develop the buying plan and establish the necessary timelines, we will follow the guidelines provided below in the review of override requests:

- 1) Override requests will be considered if:
 - a) A gap in a contract has occurred, but we have received the necessary documentation from user department within a reasonable timeframe to proceed to correct the gap.
- 2) Override requests will not be considered if:
 - a) No documentation has been received from the user department to process a modification or to initiate a new procurement of the goods or services.
 - b) Incomplete documentation has been submitted, which does not allow DPS to move forward with the appropriate procurement transaction.
 - c) The required documentation was not submitted to procurement on a timely basis to avoid the gap in contracts.
 - d) A release was not entered during the life of the contract and services were performed by the vendor without the appropriate release.
 - e) The process was unduly delayed due to erroneous information provided by the user department.”

The following are the controls related to the processing of order payment vouchers payments as described in the Comptroller’s Payables Processes Desk Manual.

- Approval signatures are required for all payment documents and subject to the Voucher Sign Off Policy. This requires that:
 - “Certification of Contract Prices” for contract payments greater than \$50,000 be signed by the head of the user department;
 - “Certification of Receipt” on all contract payments regardless of amount be signed by an authorized individual with a signature card on file with the Comptroller; and
 - Signature authority for “Certification of Contract Prices” on contract payments of \$50,000 or less may be delegated by head of the user department, but requires a signature card on file with the Comptroller.
- Invoices are submitted as a completed payment voucher form, with hardcopies of suppliers invoice(s) and other appropriate back-up documentation attached.

Contract Vouchers

Contract vouchers are processed for payments related to grant funds. Grant funds, per the City of Chicago’s Grants Manual, are defined as payment of federal, state, and public/private funds or contributions to the City of Chicago for a specified purpose in accordance with prescribed standards and conditions governing their use. Executive Order 91-1 describes the City’s grant management process and the Grants Manual defines the primary roles of various City departments related to grant funds. These roles include, but are not limited to, the following:

- Department with Grant Funds
 - Research and apply for all applicable and available grants;
 - Execute programs and report to the grantor;
 - Manage delegate agencies;
 - Process disbursements;
 - Ensure compliance and monitoring of grants; and
 - Close out grants.
- Department of Law
 - Review any certifications and/or assurances required by the application and/or agreement;
 - Prepare and review agreements for contractual obligations; and

- Prepare ordinances.
- Comptroller's Office-Special Accounting Division
 - Serve as the official record keeping and fiscal reporting department;
 - Review grant applications and awards for overall fiscal sensibility, audit and billing/reporting requirements;
 - Verify administrative costs associated with the grant(s) including fringe benefits and indirect costs are applied and calculated correctly using current approved rates;
 - Oversee delegate agency contracting;
 - Ensure payrolls are charged to correct grants;
 - Ensure local match is identified on grant applications;
 - Process grant payments to vendors and delegate agencies (Disbursement Division of Comptroller's Office);
 - Oversee and facilitate the annual single audit.
- Office of Budget and Management
 - Review applications and awards to ensure guideline requirements are met, determine if fringe and indirect cost rates are correctly applied and calculated, confirm cash match availability, verify that necessary attachments are included, and coordinate with Law and Comptroller-SAD for approval;
 - Coordinate the mailing of the application and agreement to meet the grantor submission deadline;
 - Obtain approval of reductions in indirect cost rates as requested by the managing department due to grantor guidelines or grant competitiveness;
 - Comply with City Council's Non-Local funds report, Executive Order 91-1 report, and ordinances;
 - Ensure departments comply with contractual agreements as it relates to grant performance; and
 - Ensure grants are fully utilized.

- Department of Procurement Services
 - Participate in the review of Request for Proposals (RFP) submitted by departments.

The Grants Manual describes the following specific to the payment process:

- Vouchers are submitted by a Vendor or Delegate Agency to the administrating department to request reimbursement for expenditures incurred;
- Once the department approves the voucher for reimbursement, it is sent to the Comptroller's Office with supporting documentation;
- The Voucher, Auditing and Tracking Unit of the Comptroller's Office reviews the voucher for completeness before accepting it for payment;
- The Voucher is processed through the City's Financial Management and Purchasing System (FMPS).

Direct Vouchers

Direct vouchers are payments that are "unmatched", meaning there is no contract or purchase order attributable to the payment. While the *Policy for the Use of Direct Vouchers* describes several controls, we did not find these controls to be in place (See Finding 07-4). The controls related to the processing of direct voucher payments that were found are as follows:

- Direct vouchers greater than \$10,000 must be signed by the department head.
- Direct vouchers of \$10,000 or less may be signed by an authorized individual with a signature card on file with the Comptroller's Office.
- The voucher and supporting documentation are submitted to the Voucher Auditing unit of the Comptroller's Office.
- Voucher auditors validate that::
 - The address of remittance matches the supporting documentation;
 - The dollar amount of the voucher matches the supporting documentation; and
 - The voucher includes an authorized approving signature.
- Vouchers greater than \$10,000 also require the review and approval of the Managing Deputy Comptroller of the Department of Finance. This control is in

place to ensure the Managing Deputy Comptroller has the opportunity to make user departments aware that direct vouchers are not to be used as a normal payment avenue. A Direct Voucher Questionnaire is used, at the Managing Deputy Comptroller's discretion, to increase that awareness.

ORDER PAYMENT VOUCHERS VERSUS DIRECT VOUCHERS—A COMPARISON OF CONTROLS

A comparison of controls regarding order payment vouchers and direct vouchers revealed many controls related to order payment vouchers (OPV) that do not exist for direct vouchers (DV). The comparison was limited to these two voucher types as neither involve grant funds and thus, if a direct voucher was not available, an order payment voucher would be the alternative. The following chart lists the controls and highlights if the voucher process has (✓) or does not have (✗) the control. (Note: Controls related to direct vouchers were reviewed during the audit. Controls related to order payment vouchers were not reviewed as they were outside the scope of the audit. The controls listed are as described in the City of Chicago Procurement Policy and Process Manual.)

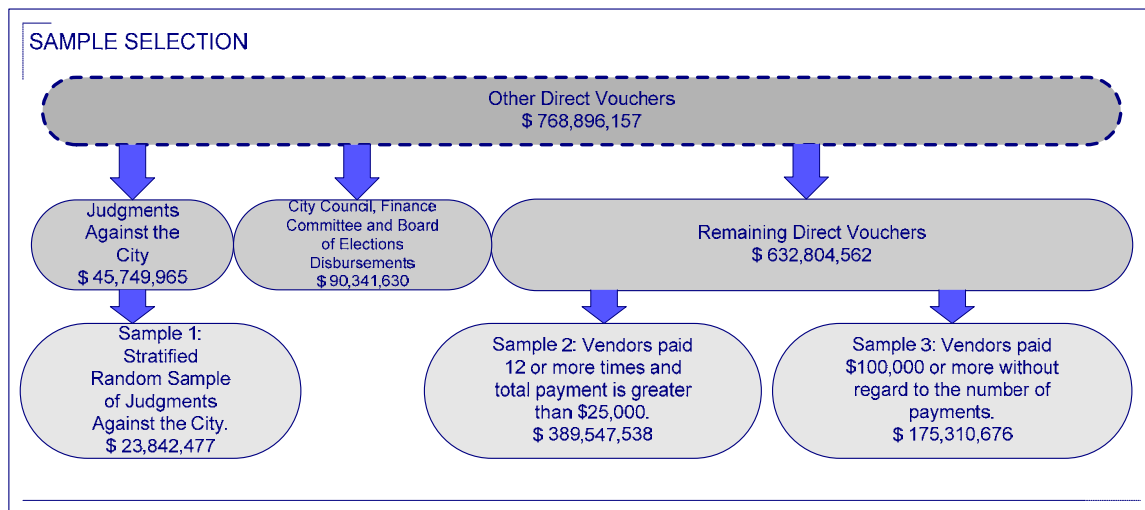
CONTROL:	OPV	DV
Purchase orders and contracts of whatever nature for labor, services, work, the purchase, lease, or sale of personal property, materials, equipment or supplies, are let by free and open competitive bidding after advertising, to the lowest responsible and responsive bidder.	✓	✗
Solicitations for competitive bids are advertised at least 10 days in advance of the bid opening date.	✓	✗
Price quotations for small purchase orders are solicited by telephone, fax, and/or posted on the DPS website.	✓	✗
Solicitations for small purchase orders are restricted to minority and women owned businesses certified by the City. In cases where no response is received from MBE or WBE firms, a second solicitation is open to MBE and WBE firms certified in a wider range of specialty areas.	✓	✗
For purchases that do not have to be competitively bid (per the <i>Illinois Municipal Purchasing Act</i>), a qualification-based solicitation (RFQ) document is prepared and advertised requesting submittal of technical and professional qualifications. (This procurement method is used to select the individual(s) or firm(s) most qualified to provide technical expertise.)	✓	✗
Respondents of qualification based solicitations are asked to submit resumes, certifications, licenses, references, record of previous experience, implementation plan and other qualifications necessary to evaluate their technical knowledge, skill and capabilities.	✓	✗
A City Technical Review/Evaluation Committee selects the individual(s) or firm(s) most qualified.	✓	✗
The City conducts negotiations with the selected respondent to finalize all deliverables, costs and other terms and conditions. The City may then enter into a Master Agreement.	✓	✗
Submissions made in response to an RFQ assist the City in determining qualifications and competence as related to the Brooks Architects-Engineers Act. The Brooks Architects-Engineers Act is a Federal statute which specifically describes certain professional services for which	✓	✗

contracts cannot be awarded on the basis of cost alone. Evaluations are made on the basis of competence and qualifications.		
For certain purchases that do not have to be bid and for which detailed specifications are not adequate to define the City's needs and/or parameters of the requirement are difficult to directly compare, so that the award cannot be based solely on low price, the RFP method is used. A solicitation document is prepared and advertised by the City requesting proposals in response to the parameters and scope of professional services required, but does not specify in detail every aspect of how to accomplish or perform the required services.	✓	✗
Proposals, qualifications, work plan and in most cases cost proposals, are collected for the above described situations and evaluated by a City Evaluation Committee based on a set of predetermined evaluation and selection criteria. (Selection is based on the best qualified firm submitting the proposal most advantageous to the City.)	✓	✗
Regarding Emergency procurement, the Chief Procurement Officer must authorize disbursements (up to \$250,000).	✓	✗
Non-competitive procurement are subject to approval by the Chief Procurement Officer. The Non-Competitive Procurement Review Board has delegated authority to act on behalf of the Chief Procurement Officer to review and recommend all non-competitive procurement requests. The collective board decides whether or not the request meets established criteria for non-competitive award.	✓	✗
Procedures are in place to search for existing, applicable contracts prior to purchase.	✓	✗
Specific procedures are in place to review and approve or reject procurement override requests.	✓	✗
Approval signatures are required for payment documents per the Voucher Sign Off Policy.	✓	✓
Voucher auditors review supporting documentation to ensure the dollar amount and remit address match.	✓	✓

SCOPE AND METHODOLOGY:

To accomplish our objective, we performed the following procedures:

- Reviewed relevant regulations, policies and procedures.
- Interviewed management and staff from the Department of Finance (DoF) and DPS to gain an understanding of direct voucher processes.
- Documented and tested controls related to direct voucher processes.
- Obtained a data extract of direct vouchers processed between November 1, 2006, and October 31, 2007. (It should be noted that the majority of direct vouchers processed were not related to vendor payments, but were instead related to City payroll, employee benefits, interdepartmental fund transfers and payments to various government entities. These direct vouchers were not included in our review. Rather, our focus was on the remaining direct voucher disbursements totaling nearly \$769 Million, as indicated in the chart below.)
- Identified three samples of vendors paid via direct vouchers, as described in the graph below.
 - Sample 1: A random sample of direct vouchers processed due to litigation judgments against the City.
 - Sample 2: Vendors paid 12 or more times during the one year scope period with payments totaling more than \$25,000.
 - Sample 3: Vendors paid more than \$100,000 without regard to the number of payments.



- Documented and tested controls related to each sample.
 - Sample 1: Compared the direct voucher payment to the actual judgment against the City.
 - Samples 2 and 3: Contacted the various City departments to determine the reason direct vouchers were used and reviewed supporting documentation.

AUDIT FINDINGS AND RECOMMENDATIONS:

Finding 07-1: Disbursements in Violation of *Illinois Municipal Purchasing Act* **Potential Waste and Mismanagement of City Assets Occurred as More Than \$14.2 Million Direct Voucher Disbursements Were in Violation of the *Illinois Municipal Purchasing Act***

As mentioned previously, the *Illinois Municipal Purchasing Act* allows for the avoidance of competitive bidding for contracts which, by their nature, are not adapted to award by competitive bidding. Examples of such contracts are listed on page 8 of this document. During our review we found \$14,202,828 of direct voucher disbursements for commodities not deemed eligible for avoidance of competitive bidding. In addition, representatives from the departments that generated the direct vouchers indicated there was no evidence of competitive bidding. Thus, these disbursements are in violation of the *Illinois Municipal Purchasing Act*.

Some examples of these direct voucher disbursements include the following:

- \$460,909 to an organization describing itself as “the not-for-profit financial clearinghouse” for two conferences supported by [a] former commissioner. Supporting documentation included descriptions such as logistics services, registration services, food & beverage, speaker expense, decorator services, etc.
- \$392,401 for a security access system without “a contract in place at the time of installation”. The vendor, however, was “given notice to proceed” by the department. In supporting documentation, the Executive Director (at the time of payment) indicated, “I had no involvement in the execution of this agreement as it occurred before I became Executive Director.”
- \$366,209 for “liability claims management and cost recovery services” after a contract extension covering these services was rejected by DPS.¹
- \$310,991 for office supplies, office furniture and the rental of furniture, linens and table skirting for various City events.
- \$275,741 to vendors after the expiration of City contracts and prior to (or without) the initiation of a new procurement process.
- \$192,808 for the purchase of gift cards from retailers including Dominick’s, Jewel, and Target.

¹ Twelve (12) payments were made between December 14, 2006 and October 16, 2007. A representative from the user department indicated a contract from another department was initially used. However, after that contract ended in February of 2006, the user department was instructed by DPS to use direct vouchers while another procurement process was initiated. According to the representative, the new procurement process was initiated in April of 2007. According to the City’s Contract Finder database, a new procurement process was not initiated until February of 2008.

At one time, there were procedures in place to ensure unacceptable commodities were not purchased via direct voucher. The *Policy for Use of Direct Vouchers*, defined in 1995, included the following controls:

- A systematic validation of commodities resulting with an error message for vouchers with unacceptable commodities;
- The ability for authorized personnel in the Comptroller's Office and DPS to approve the voucher and override the error message;

These procedures, however, no longer exist as a) the current technology (Financial Management and Purchasing System (FMPS)) does not include commodity validation and b) DPS no longer plays a role in approving direct vouchers. Therefore, there are no controls to ensure direct vouchers are processed for acceptable commodities only, as governed by the *Illinois Municipal Purchasing Act* and the *Policy for Use of Direct Vouchers*.

Although DPS issued the policy (jointly with DoF and the office of Budget and Management) and had a significant role in the defined processes within, DPS representatives at the time of the audit indicated they were not aware of the policy and believe direct vouchers to be the responsibility of DoF. While they could not explain the regression of their role (from significant involvement in direct voucher approval to total absence from the process), they indicated it was probably due to turnover of high-level positions within the Department. This creates a control gap in which there is no authoritative oversight to ensure open and competitive bidding is conducted for procurement paid via direct vouchers.

There are also no controls within DoF to ensure direct vouchers contain only acceptable commodities as staff indicated the main control was simply to ensure the vouchers had authorizing signatures. In addition, DoF management indicated, while it has procedures to deter the use of direct vouchers (the use of a Direct Voucher Questionnaire and required Managing Deputy Comptroller approval for direct vouchers greater than \$10,000), they felt obligated to process payments to avoid the risk of lawsuits as the delivery of goods and/or performance of services had already occurred.

RELATED RESULTS—FRAUDULENT BILLING PRACTICES AND MINORITY/WOMAN-OWNED BUSINESS ENTERPRISE REPORTING

Fraudulent Billing Practices

In addition to the unacceptable commodities identified during the audit, a recent investigation identified direct voucher payments related to fraudulent billing practices. In this case, a City department used the services of a consultant. There was no contract. In order to pay this consultant, the City department, the consultant and a vendor agreed to the following processes:

1. Consultant performs work for the City, but invoices third-party vendor.
2. Third-party vendor (who has no connection to the consultant outside of these transactions) invoices the City. The invoice amount includes the consultant's invoice amount as well as a premium to the third-party vendor for acting as a pass-through invoicing body.
3. The City issues a direct voucher² payment to the third-party vendor.
4. The third-party vendor keeps the premium *fee* and issues payment to the contractor.

The investigation identified 13 direct vouchers, totaling \$24,550, used for this practice. Of that amount, \$4,001 was strictly premium fees paid to the third-party vendor solely to act as an invoicing body.

Minority and Woman-Owned Business Enterprise Reporting

Per the City of Chicago's website, by promoting contracting opportunities to minority and woman-owned business enterprises (M/WBE), the City's growth and economic stability is enhanced. During the audit scope period the City's goals for contracting participation by M/WBEs were 16.9% (MBE) and 4.5% (WBE). In 2008 and 2009, DPS issued press releases summarizing the City's M/WBE participation. These participation results were based upon awarded contracts, and therefore do not consider the amount of purchases made by direct voucher. If, however, the controls from the Policy for Use of Direct Vouchers were still in place, the majority of these exceptions would be recognized, routed through the procurement process and, thus, be included in the participation results reported by the Department of Procurement Services

If the City's participation goals were applied to the \$14,202,828 in purchases with no contract (reported above), the City would expect more than \$3 Million in purchases from minority and woman-owned businesses. However, our review found less than \$1 Million in such purchases as noted in the following chart.

	MBE	WBE
Goal Percentage	16.9%	4.5%
Actual Percentage	3.1%	2.0%
Difference	-13.8%	-2.5%
Goal Dollar Amount	\$2,400,278	\$639,127
Actual Dollar Amount	\$436,797	\$285,227
Difference	(\$1,963,481)	(\$353,900)

² This practice was not limited to direct vouchers. Order Payment Vouchers were also used to pass-through an additional \$140,000 of payments to the consultant, which included an additional \$19,600 of premium fees for the third-party vendor. However, this report focuses on direct voucher processes and how proper controls can prevent such abuses.

While we did not review whether or not non-certified vendors used certified M/WBE subcontractors, we did find that there are no controls to track such practices related to direct vouchers.

Recommendation 07-1:

To ensure direct voucher purchases are limited to acceptable commodities, we recommend DPS and DoF develop approval procedures similar to the controls detailed in the original policy. These should include, but not be limited to the following:

- Systematically reviewing all direct voucher commodities to identify those deemed unacceptable (or manually reviewing commodities if a system change is cost prohibitive);
- Requiring user departments to provide evidence to DPS verifying that the direct voucher procurement is due to a special circumstance and warrants immediate action and that good faith efforts were made to use an existing term agreement;
- Developing procedures to identify and use alternative avenues of payment that exist through DPS, such as small purchase orders, emergency procurement, non-competitive procurement, override requests, etc;
- Developing procedures to approve or reject the use of direct vouchers;

As mentioned previously, DoF representatives expressed that they felt no choice but to pay vendors after goods/services had been delivered/performed, whether the commodities were acceptable per policy or not. They also indicated that the Department of Law suggested they pay such invoices to reduce the risk of a lawsuit against the City. This, in effect, allows user departments and vendors to use direct vouchers on a continual basis. To address these concerns and reduce the number of direct vouchers for unacceptable commodities, we suggest the following additional procedures:

- When an exception to the policy is approved (following procedures in the revised policy recommended in Finding 07-4), a direct voucher payment is distributed to the vendor.
- At the time of this payment, a communication is sent to both the user department and the vendor. This communication should be drafted and agreed upon by both DoF and the Department of Law and should notify the recipients of the following:
 - The commodity is not an acceptable commodity per policy.
 - The commodity requires competitive bidding and, therefore, the purchase should be channeled through DPS.

- The communication serves as notice to both the user and the vendor.
- All future requests for payment via direct voucher will be denied.

Auditee Response:

The City agrees that additional procedures should be implemented to ensure direct voucher purchases are limited to eligible items/expenses. In fact, the City has updated the direct voucher policy (see the response to Audit Finding #4) and the additional procedures included are:

- A form where the department will identify a pre-approved category for the direct voucher,
- If the disbursement does not relate to a pre-approved category the payment will be sent to Procurement to determine the appropriateness of the direct voucher;
- If the use is deemed inappropriate, a notification of violation will be sent to both the department and the vendor that future invoices will not be paid;
- Annual training will be conducted on procurement and invoicing procedures, including direct vouchers.

In addition, the City has reviewed the \$14,202,828 of disbursements noted as being commodities that do not fall under the current direct voucher policy. It should be noted that payments in the amount of \$5,864,944 were made to credit card service vendors whose contracts had expired while the new contracts as part of an RFP process were being negotiated. Those vendors enable the City to accept payments via credit cards. Those contract negotiations took a significant period of time, and since the City needed to be able to accept credit card payments, the existing vendors were utilized.

The City agrees that consideration should always be given to M/WBE participation goals. However, without being able to identify if certified M/WBE vendors were used as sub-contractors, the City was not able to validate the amount of the difference estimated in the finding.

As part of the updated direct voucher policy, language has been included that any direct voucher purchase should include consideration whether M/WBE participation is available.

Finding 07-2: Goods/Services with Existing Applicable Contracts were Paid on Direct Vouchers in Violation of City Policy

Although the *Policy for Use of Direct Vouchers* requires departments to search for and use existing contracts, we identified direct voucher payments totaling \$5,502,067 were made to vendors with whom the City had an existing applicable contract. Discussion with Department of Finance (DoF) representatives indicated the user departments were responsible for determining if there was an applicable contract for commodities. User departments either had no explanation or indicated direct vouchers were used because they were not aware of a contract or believed the contract had expired.

Because direct voucher payments are not monitored (see Finding 07-1), the contract amount awarded during the procurement process can be exceeded with the use of direct vouchers. It should also be noted, although it was not reviewed during the audit, the potential exists that the City could pay a price other than the negotiated price when paying via direct vouchers.

Services paid via direct voucher although an applicable contract was available include the following:

- \$2,478,971 for renewable energy credits and services paid by direct voucher because the department was “unaware the new contract was online.”
- \$472,200 for the printing and mailing of water bills. The Deputy Commissioner could not explain the reason direct vouchers were used, but indicated he knew a contract existed.

At one time, there were procedures in place to ensure existing contracts were identified and used. The *Policy for Use of Direct Vouchers*, defined in 1995, included the following control:

- A requirement of user departments to provide evidence to the Purchasing Agent verifying that the procurement was due to an emergency or special circumstance which warranted immediate action and that good faith efforts were made to use an existing term agreement and/or attempts were made to contact DPS for assistance.

However, because DPS are no longer involved in the direct voucher process (as mentioned in Finding 07-1), this control no longer exists.

Recommendation 07-2:

To ensure direct vouchers do not include payments for commodities with existing applicable contracts, we recommend DPS and DoF develop approval procedures similar to the controls detailed in the original policy. The original policy included requiring user departments to provide evidence to DPS that good faith efforts were made to use an existing term agreement.

Auditee Response:

The City agrees that approval procedures include user departments providing evidence that efforts were made to use an existing agreement. The revised policy requires the departments to check the link to the Department of Procurement's intranet site to view relevant available contracts before proceeding. If there are no available contracts and the expense does not fall under one of the pre-approved direct voucher categories, the policy requires the Department of Procurement Services to provide final approval for use of a direct voucher for the payment. Inappropriate direct vouchers will trigger a letter being sent to the department and vendor, warning them that the use of direct voucher was unauthorized, and that no further payments of this type will be approved.

In addition, while the City encourages Departments to use relevant available contracts, there are some exceptions. For instance, debt service payments are identified on Exhibit A of the revised policy (see Finding #4), and as such are pre-approved for direct voucher usage. However, such payments will actually have a related contract, in this case with the bondholders, that is disclosed in the bond ordinance.

Finding 07-3: Direct Voucher Disbursements are not Transparent to the Public

In a 2003 press release, the Chief Procurement Officer for the City of Chicago stated, “It is our goal to make the procurement process as transparent as possible, and the internet has been a major component of that goal.” Toward that goal, the website of DPS provides public access to a searchable database of contract awards, including specification/contract number, name of awardee, and the amount awarded. It also includes online access to vendor information, contract modifications, disclosure documents, payments, an opportunity list, and bid tabulations.

However, not all procurement transactions are funneled through DPS. As mentioned earlier, direct voucher transactions have none of the standard controls that order payment vouchers have within DPS. Therefore, there are no standard procedures to include direct vouchers in the City’s goal of transparency. During the audit period no direct voucher payments were processed in a manner that was transparent to the public. This included \$768,896,157 in direct vouchers which would have been of interest to the public, including the \$700,859,240³ identified through audit procedures related to the following:

Acceptable Commodities	\$418,626,010
Disbursements from City Council, Finance Committee and Board of Elections ⁴	90,341,630
Direct Payments to Subcontractors	62,337,642
Contracts/Agreements Outside of the DPS	56,944,428
Judgments Against the City	45,749,965
Violations of Policy ⁵	20,023,791
An Active Procurement Process	<u>6,835,774</u>
TOTAL	\$700,859,240

This transparency issue is not limited to the issues identified in Finding 07-1. There are no transparency procedures for *any* direct vouchers, including those for acceptable commodities, approved exceptions to the policy, those related to agreements or contracts initiated outside of DPS, and those made directly to subcontractors.

NOTE: Our purpose in listing the various types of direct voucher transactions in this finding is to create awareness and to describe the volume of such transactions. By describing the various types of transactions in this document, we are not suggesting that every type be reported publicly. It may make business sense to keep certain transactions confidential. This is City management’s decision to make. However, we suggest the majority of transactions should be transparent. Currently there is no process by which the City decides whether a direct voucher transaction should be reported to the public or not: therefore *no* direct vouchers are automatically transparent to the public.

³ The difference represents those direct vouchers that fell outside the audit samples.

⁴ Not reviewed during the audit.

⁵ Described in Audit Finding 1.

Acceptable Commodities and Approved Exceptions to the Policy

As mentioned on page 8 of this report, the *Policy for Use of Direct Vouchers* identifies *acceptable* commodities as those “not adapted to award by competitive bidding” as described by the *Illinois Municipal Purchasing Act*. Because these commodities are not adapted to award by competitive bidding, the impact of paying by direct voucher is diminished. However, with the use of direct vouchers, the public loses the transparency of such transactions. Regarding acceptable commodities, this means the public has no easy avenue of awareness related to over \$418 Million of purchases during the audit scope period. The transactions identified during our review include the following:

<u>CATEGORY⁶</u>	<u>AMOUNT</u>
Financial Transactions	\$252,603,461
Public Utilities	88,997,755
Real Estate	38,838,208
Miscellaneous	15,120,716
Books & Subscriptions	8,512,248
Telephone	7,291,820
Insurance and Risk Management	6,891,253
Travel Reimbursement	<u>370,549</u>
TOTAL	\$418,626,010

Payments Made Directly to Subcontractors

Contracts exist between the City of Chicago and the various airlines which relate to capital projects such as terminal improvements, relocations of service areas, construction of baggage screening areas, lobby redesigns, etc. Such capital projects are typically funded by federal grants awarded to the City. The City delegates, through the use of the contracts, the responsibility of such capital projects to the airlines. Such contracts indicate that “the City will make direct payments only to [Airline] or Contractors in privity with [Airline.]”

When the City made a payment to the airline directly, the typical process would be to pay it via an order payment voucher and “match” that payment to the contract. However, when the City made payments to the contractors of the airline, direct vouchers were used. During the audit scope period, \$62,337,642 of direct voucher disbursements were processed to contractors of the airlines. Because there are no procedures to ensure direct vouchers are reported on the website, these transactions were not transparent to the public. In addition, three of the contractors, paid more than \$11 Million via direct vouchers, had recently been charged fines by the City for failing to hire enough women, minorities and Chicagoans on other contract work.

⁶ The various categories are as defined by the *Policy for Use of Direct Vouchers* and described on page 8 of this report.

Contracts or Agreements Created Outside DPS

During the audit, we contacted the various departments to understand the reasons direct vouchers were processed. Three departments (the Department of Law, the Mayor's Office of Special Events, and the O'Hare Modernization Program) cited legislation granting them the authority to enter into contracts/agreements. This legislation includes the Municipal Code of Chicago §2-60-020 (regarding the Department of Law), a 2007 Mayoral Ordinance (regarding the Mayor's Office of Special Events) and an Ancillary Agreements Ordinance (regarding the O'Hare Modernization Program). Relevant excerpts from each are detailed in Appendix 2.

Correspondence with Department of Law representatives indicated, "Despite the authority granted by ordinance to conduct the City's law business, the Law Department does strive where possible to purchase more generic goods and services pursuant to contract." Regarding litigation support, however, they indicated it was to the City's advantage to protect vendor's identity from opposing law firms. "Many times, for strategic reasons, these services are obtained on a confidential basis allowed by state and federal court rules, which confidentiality would be lost if made part of the procurement process." The audit revealed direct voucher disbursements from the Department of Law included the following:

Outside Counsel for actual and potential litigation ⁷	\$38,863,691
Collection Services ⁸	4,147,350
Human Resource services related to hiring monitor	654,566
Design of Police star, badge, patch and car	<u>85,698</u>
TOTAL	\$43,513,517

Representatives from the Mayor's Office of Special Events cited Mayoral ordinances granting them authority to enter into contracts for talent, technicians, promotion and event management. The audit revealed direct voucher disbursements from the Mayor's Office of Special Events included the following:

Talent, technicians, promotion and event management	\$5,501,104
Taste of Chicago vendor payments	4,129,617
Big Ten Conference Tickets and Transportation	<u>272,765</u>
TOTAL	\$9,903,486

Representatives from the O'Hare Modernization Program cited the Ancillary Agreements Ordinance granting them authority to enter into contracts for projects related to O'Hare

⁷ Outside Counsel included representation during litigation, consulting regarding potential litigation as well as legal consulting related to various projects such as the City of Chicago Goal Setting Project, Vendor Review Project, Solid Waste System MRRF Project, and the Inventory and Discovery Preparedness Review. It also includes disbursements from other departments for outside counsel retained by the Law Department on behalf of those departments. The departments include the O'Hare Modernization Program, the Department of Planning and Development and the Department of Revenue.

⁸ Collection agencies were retained by the Department of Law for the Departments of Revenue and Water Management.

Modernization. The audit revealed direct voucher disbursements from the O'Hare Modernization Program included the following:

Design services related to cargo facility replacement	\$518,085
Engineering and Construction Observation related To "North Runway 90 Relocation"	<u>273,414</u>
TOTAL	\$791,499

Another department (Administrative Hearings) indicated the payments were to individual adjudicators and, while they had attempted to identify a method of payment through DPS, they found the process to be impractical for paying individuals (versus businesses). They also indicated, however, that they had met with DPS and Law representatives to determine the best solution for payment. During the audit period direct voucher disbursements totaling \$2,588,708 Million were processed for 43 different adjudicators.

Recommendation 07-3:

While we understand that some direct voucher disbursements warrant confidentiality, we also understand that the public interest is best served when City transactions are transparent to the community. Therefore, we recommend the City develop a system allowing direct voucher disbursements to be posted online in similar fashion to the order payment vouchers that are currently reported. In addition, for direct voucher disbursements judged to be confidential in nature, the system should require a justification of confidentiality to be exempt from transparency.

Auditee Response:

The City agrees and, as part of our ongoing transparency efforts, has been considering posting direct voucher payments online for some time. While there have been some personal privacy and proprietary concerns, we believe these concerns have been addressed.

The City began posting online all direct voucher payments made since January 1, 2010.

Finding 07-4: Ineffective and Out-of-Date Policy

The Potential for Waste and Mismanagement of Assets Exists as the *Policy for Use of Direct Vouchers* is Ineffective and Out-of-Date

The *Policy for Use of Direct Vouchers* was issued to all City of Chicago Department Heads November 17, 1995, and became effective January 1, 1996. It was issued collectively by DPS, DoF and the Office of Budget and Management. A review of the policy revealed it includes out-of-date references such as the following:

- The policy describes a specific approval process required when user departments absolutely must use direct vouchers for unacceptable commodities. As explained in Finding 07-1, this process is no longer in place. Therefore the associated controls no longer exist.
- The policy refers to procedures related to previous technology although direct vouchers are now processed via FMPS.
- The threshold amount defining the type of competitive bidding required (advertisement versus telephone, for example) is listed as \$10,000 although the *Chicago Municipal Ordinance* raised the amount to \$100,000.
- The policy refers to procedures no longer in place (e.g. the involvement of DPS in the direct voucher process) and doesn't include new procedures (e.g. Direct Voucher Questionnaire).
- The policy explains user departments should search for existing contracts with the quarterly Active Term Agreement Report rather than the Contract/Vendor database available via the website of DPS.
- Exhibit 3 of the policy, Commodity Assignment List, lists employees of DPS who have since ended their employment.

Again, DPS representatives could not explain the termination of their involvement with the direct voucher approval process. DoF representatives indicated there was once an initiative to reduce the volume of direct vouchers, understand the need for submitted direct vouchers and design updates to the *Policy for Use of Direct Vouchers*. This initiative was led by a representative from the Mayor's Office, but ended when the representative left the position.

In addition, correspondence received from user departments indicated the policy was ineffective. For example:

- Eight departments were not aware of a policy regarding direct vouchers.
- Six departments misunderstood policies related to direct vouchers and the procurement process. This included the belief that direct vouchers do not require bidding and confusion regarding threshold amounts.

- Seven departments indicated they paid via direct vouchers because contracts, initiated by another department, ended and they believed the initiation of a new procurement process was the responsibility of the other department.
- Five departments processed direct vouchers because the item or service was needed quickly.

Because the policy is out of date and ineffectively communicated, user departments have no guidance regarding direct voucher purchases and compliance with the *Illinois Municipal Purchasing Act*.

Recommendation 07-4:

We recommend the City of Chicago appoint a clear owner of policies and procedures related to using direct vouchers for payment. To provide clear and definitive direction to the various City of Chicago departments, we recommend DPS and DoF revise and reissue the *Policy for Use of Direct Vouchers*. See Appendix 2 for specific comments regarding the existing policy. At a minimum, the revision should include the following:

- An explicit statement limiting the use of direct vouchers to purchases of acceptable commodities and those approved via the recommended approval process of Finding 07-1.
- Clear and definitive language detailing the mandate of the *Illinois Municipal Purchasing Act* regarding open and competitive bidding requirements and that unapproved direct vouchers are in violation of the Act.
- Reference to specific procedures developed as a result of this audit. Including:
 - Approval procedures to ensure direct voucher purchases are limited to acceptable commodities;
 - An explicit statement that user departments must complete a review for existing applicable term agreements and clear directions on how to complete that review.

After developing a revised policy, DoF and DPS should also develop a training program (perhaps as part of Procurement 101) to educate City departments on the use of direct vouchers. In addition, to ensure the policy remains accurate and relevant, procedures should be developed to periodically review the policy. The revised policy should also be accessible via the City of Chicago intranet.

Auditee Response:

The City agrees and has issued an updated policy that:

- Clearly states the requirements of the Municipal Purchasing Act;
- Provides a list of pre-approved goods or services that can be procured via direct voucher;
- Prior to procuring goods, departments must check the Department of Procurement Services to determine whether or not a contract is available to procure the goods or services;
- If a direct voucher is determined to be inappropriate, notification of the violation will be given to the department and a letter will be sent to the vendor informing the vendor that the city will not pay any future invoices without a fully executed contract.

APPENDIX 1

Policy for Use of Direct Vouchers



MEMORANDUM

To: All Department Heads

From:

[Signature]
Alexander Grzyb
Acting Purchasing Agent

[Signature]
Barbara A. Lumpkin, Comptroller
Department of Finance

[Signature]
Diane Aigotti, Budget Director
Office of Budget & Management

Date: November 17, 1995

3092
Subject: Policy for Use of Direct Vouchers

Effective January 1, 1996, the practice of procuring various supplies, equipment, work and/or services from any vendor other than those under contract or purchase order with the City of Chicago and paying them by direct voucher will not be permitted except for specific commodity and service classes of items as listed in Exhibit 1. Attempts to enter a direct voucher (PD) transaction for commodities other than those in Exhibit 1 will result in an error message and the transaction not being accepted on the EPS/CAPS system. Under certain circumstances, the error message can be overridden by authorized personnel in the Comptroller's Office and the Purchasing Department.

Direct vouchers with an error message will be approved under the following circumstances:

1. The items requested are specifically excluded from the direct voucher policy and thereby fall into one of the categories listed in or subsequently added to Exhibit 1 which includes, but is not limited to, building or office space lease/rental, land acquisition, public utilities, telephone service, books and subscriptions, travel reimbursement, insurance, benefits, wages & salaries, and miscellaneous expenses;
2. The total value of items (product and/or services) is under \$500.00 for a single order (not multiple orders for same requirement) and no term agreement exists for the item(s);
3. If over \$500.00 in value, the Using Department can provide evidence to the Purchasing Agent verifying that the procurement was due to an emergency or special circumstance which warranted immediate action and that good faith efforts were made to use an existing term agreement and/or attempts were made to contact the Purchasing Department for assistance.



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City of Chicago
Richard M. Daley, Mayor

Department of Purchases,
Contracts and Supplies

Alexander Grzyb
Acting Purchasing Agent

City Hall, Room 403
111 North LaSalle Street
Chicago, Illinois 60602-1284
(312) 744-4900
(312) 744-2949 TDD

Direct Voucher Policy
Rev. 10-1-95 W. P. 10. 10/21/07



City of Chicago
Richard M. Daley, Mayor

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Contracts and Supplies

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121 North LaSalle Street
Chicago, Illinois 60602-1284
(312) 744-4900
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The Purchasing Agent has the sole authority to enter into and execute a contract or purchase order on behalf of the municipality pursuant to 65 ILCS 5/8-10-18 of the Municipal Purchasing Act which states:

"No department, office, institution, commission, board, agency or instrumentality of any such municipality, or any officer or employee, thereof, shall be empowered to execute any purchase order or contract as defined in Section 8-10-3 except as herein specifically authorized, but all such purchase orders or contracts shall be executed by the Purchasing Agent in conformity with the provisions of this Division 10."

Further, 65 ILCS 5/8-10-3 of the Municipal Purchasing Act mandates open and competitive bidding after advertisement for all procurements in excess of \$10,000 and bid solicitation by mail or telephone for all open market procurements of \$10,000 or less. Award is made by the Purchasing Agent to the lowest responsible bidder.

Direct vouchers will be considered unauthorized procurements in violation of the Municipal Purchasing Act unless the information needed for approval to override the error message can be provided by the Using Department. All City Departments are cautioned to adhere to the direct voucher policy and notify all appropriate staff handling purchasing and payment functions within the department. A weekly listing of direct vouchers will be reviewed to ensure compliance with this direct voucher policy.

Since many vendors will not be aware of this policy, it is important that all City staff be aware of the direct voucher limits. The City has a responsibility to ensure good business relationships with vendors and each City Department must take the necessary internal steps to avoid situations where vendors deliver products and/or services in good faith without a signed City contract or purchase order only to have payments withheld due to direct voucher authorization problems. The Purchasing Department or the Comptroller will not be responsible for such unauthorized procurements.

Before considering a direct voucher, each City Department or agency must check to see if the product or services required can be obtained through an existing City term agreement. A computer generated *Active Term Agreement Report* is printed quarterly and available to all City Departments by the Purchasing Department. For your information and convenience, a brief help guide which explains how to participate in existing Term Agreements and how to initiate a contract purchase by requisition is attached as Exhibit 2.

If any assistance is needed, contact the Purchasing Contract Administrator/Negotiator assigned to handle specific commodity or service items as shown on Exhibit 3 (Commodity Assignment List).



EXHIBIT 1

ACCEPTABLE DIRECT VOUCHER COMMODITIES

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The following commodity categories are excluded from the direct voucher policy pursuant to Section 8-10-4 of the Municipal Purchasing Act:

Real Estate (Rent/Lease & Purchase)
Land, Building, Office Space, Parking Lot,
Storage Space, Conference Rooms,
Seminars, Booths & Exhibits

Travel Reimbursement
Local & Non-Local

Financial Transactions
Loans & Grants, Petty Cash
Wages/Salaries

Miscellaneous Expenses
Fees, Dues, Postage Meter & Stamps,
Taxes, Taxi Cab Coupons, Settlement
Payments, Reimbursements-Benefits,
Salary/Wage Adjustment, Parking,
Permits, Licenses, etc.

Public Utilities (Service & Bills)
Water, Sewer, Electricity

Telephone (Service & Bills)
Local & Long Distance

Books & Subscriptions
Newspaper, Magazine, Periodicals
Professional Journals, Educational
& Instruction Materials, etc.

Insurance & Risk Management

EXHIBIT 2

PROCEDURES FOR TERM AGREEMENT VS. ONE TIME PURCHASES

I. TERM AGREEMENTS

Term Agreements are fixed price contracts where the quantities and the actual dollar value will vary depending upon the requirements of the various participating City Departments. Terms Agreements usually run for a period of 1 or 2 years with renewal option years. Further, the City is under no obligation to order any minimum quantities. The advantages of term agreements are:

1. The City can achieve more favorable pricing and contract terms by combining the annual estimated quantities of several City Departments for like commodities and/or services into one bid solicitation.
2. It is a more efficient method of procurement in terms of convenience, time saving and cost savings. By soliciting one bid for the annual Citywide needs in lieu of processing individual one-time purchase requisitions throughout the year, the bid solicitation, evaluation and award process is done once instead of each time the need arises. The City realizes a savings in terms of administrative staff time and cost saved by not having to process multiple requisitions for the same requirement. Once the term agreement is awarded, any City Department can order any quantities, when and as needed, throughout the term of the contract by entering a Suborder Release (PG) transaction.
3. Since term agreements are awarded as Depends Upon Requirements (DUR) contracts, the budgeted funds for each participating City Department remain unencumbered until the Suborder Release (PG) transaction is entered when the need arises. The PG transaction encumbers the funds and a copy of the PG print is sent to the vendor authorizing delivery of the goods and/or services. The unencumbered funds gives City Departments the flexibility to transfer monies into other accounts to cover other expenditures throughout the year.
4. The value of committed pricing and availability for an extended term is realized in emergency situations, when the City can call upon the vendor to immediately provide a service, commodity, or work at pre-emergency pricing.

If the total value of the product or service exceeds \$500.00 and a term agreement exists or one does not exist, but a new term agreement is required to meet the need on a regular basis throughout the year, the following procedures must be followed:

A. Procedure for Participation in Existing Term Agreements

1. Check to see if your department code (2 digit number) appears on the Term Agreement Department Spending Limit (TADL) table for each term agreement you wish to participate in.
2. If the department code appears on TADL, no further action is required to participate; enter a Term Agreement Suborder Release (PG) transaction into the Extended Purchasing System (EPS). NO REQUISITION (RX) TRANSACTION IS NEEDED TO PARTICIPATE IN A TERM AGREEMENT.

51.

A. Procedure for Participation in Existing Term Agreements (Continued)

Note: For computer hardware/software or system related procurements, Information Technology (IT) Steering Committee approval must be obtained before entering a suborder (PG) transaction.

3. If your department code is not on TADL, send EPS Form F-28 (Request New Participation or Change to Department Spending Limit) to the Purchasing Department, Room 403, City Hall. The same form can be used if you wish to change your budgeted spending limit on each term agreement.

B. Procedure for Requesting New Term Agreement

If after reviewing the report, you still require products or services on a regular basis throughout the year, but no current term agreement exists to meet the need, you can request creation of a new term agreement by completing EPS Form F-26 (Request Creation of New Annual Term Agreement), then send the form to the Purchasing Department, Room 403, City Hall.

II. ONE-TIME PURCHASES

If the product or service is required on a one-time basis only, the following procedures must be followed:

A. Procedure for One-Time Purchases

1. Before requisitioning, verify if the product or service can be purchased off an existing term agreement. (If yes, follow the Procedure for Participation in Term Agreements)
2. If no term agreements exists and the requirement is still needed on a one-time basis only:
 - a. Obtain any requisition special approvals required per EPS Form F-10 or obtain an IT Steering Committee Approval Form for computer hardware/software purchases, as applicable.
 - b. Enter a requisition (RX) transaction into the Extended Purchasing System (EPS) using the appropriate National Institute of Governmental Purchasing (NIGP) commodity codes. Use the 900 series for services and the 005 to 898 series for supply commodities.

Note: The requisition (RX) transaction should be entered for items within the same or like commodity classes. For example, a requisition entered for landscaping services, power drills and office furniture would not be accepted. In this case, the Using Department would need to enter separate requisitions for each commodity and/or service.

- c. Send to Purchasing Department all necessary attachments and support documents (ie. Detailed Specifications, Samples, Drawings, EPS Form F-10, etc.)
3. EPS will automatically assign RXs valued under \$10,000 to the Purchasing Department Small Purchase Order Unit and RXs valued \$10,000 or more to the appropriate Purchasing Contract Administrator/Negotiator listed by 5 digit commodity code in Exhibit 3.

CITY OF CHICAGO DEPARTMENT OF PURCHASES COMMODITY ASSIGNMENT LIST
 AUTOMOTIVE, HEAVY EQUIPMENT AND SUPPLIES UNIT
 CLAUDE HUMPHREY, DIRECTOR OF PURCHASE CONTRACT ADMINISTRATION - 744-7216

PETER VITONE: 744-7519		CHERYL STRAUGHTER: 744-0787	
CC: # 055/065	Automotive: Automobiles, Trucks & Vans (P&S)	CC: 055/065	Automotive: Automobiles, Trucks & Vans (P&S)
060/070	Automotive: Vehicles, Trucks & Vans (P&S)	060/070	Automotive: Vehicles, Trucks & Vans (P&S)
070	Fire Fighting Equipment	070/760	Heavy Equipment: Parts & Services
075/863	Automotive: Vehicles, Trucks & Vans (P&S)	400	Castings & Forgings
120/929	Boat & Marine: Supplies and Services	560/565	Heavy Machinery: Parts & Services
630/635	Paint		
THADDEUS PANNELL: 744-7283		ANDREW HYZY: 744-4910	
CC: # 445	Tools: Hand & Power	CC: # 280	Wire, Cable, Chain & Wire rope
450	Hardware: General	285	Light Apparatus: Electrical Batteries
460	Hose, Hose Fittings, Gaskets, etc.	550	Meter: Parts & Services
550	Poles, Pedestals & Attachments	570	Metal: Parts & Services

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CITY OF CHICAGO DEPARTMENT OF PURCHASES COMMODITY ASSIGNMENT LIST
 GENERAL EQUIPMENT AND SUPPLIES (CONT'D)
 SUE ALBRECHT, DIRECTOR OF PURCHASE CONTRACT ADMINISTRATION 744 9772

SHEILA BLACK: 744-0854			SHEILA BLACK: (CONTINUED)		
CC: #	085	Bags, Bagging, Ties	CC: #	790	Seed, Sod, Soil and inoculants
	225	Coolers, Drinking Water		805	Sporting and Athletic Goods
	265	Draperies, Curtains and Upholstery Material		870	Venetian Blinds, Awnings and Shades
	270/271	Drugs, Pharmaceuticals and Biologicals and Biologicals and sets		931*	Equipment Maintenance, Reconditioning and Repair Services - Furniture
	335	Fertilizers and Soil Conditioners		983*	Rental or Lease Services of Equipment-Lawn
	410	Furniture: Health Care and Hospital Facility		988	Roadside, Grounds and Park Area Services
	420	Furniture: Library			
	425	Office Furniture			
	435	Germicides, Cleaners and Related Sanitation			
		Products for Health Care Personnel			
	465/475	Hospital and Surgical Equipment, Supplies, ETC.			
	595	Nursery Stock, Equipment and Supplies			

CITY OF CHICAGO DEPARTMENT OF PURCHASES COMMODITY ASSIGNMENT LIST
 GENERAL EQUIPMENT AND SUPPLIES (CONT'D)
 SUE ALBRECHT, DIRECTOR OF PURCHASE CONTRACT ADMINISTRATION - 744-9772

STEVE GEOCARIS 744-4915	STEVE GEOCARIS (CONTINUED)
CC: # 135 Bricks and Other Clay Products	640 Paper and Plastic Products, Disposable
150 Builders Supplies	
	700 Printing Plant Equipment & Supplies (Except Paper)
195 Clocks, Timers, Watches	745/750 Road & Highway Building Materials
287 Electronic Components, Replacement Parts and Accessories	780 Scales and Weighing Apparatus
305 Engineering Equipment, Surveying Equipment, Drawing Instruments & Supplies	803 Sound Systems, Components & Accessories: Gro Intercom, Music, Public Address, Etc.
345 First Aid and Safety Equipment	840 Television Equipment and Accessories
430 Gases, Containers, Equipment: Laboratory & Medical	898 X-Ray & Other Radiological Equipment & Suppli (Medical)
550 Markers, Plaques, Signs & Traffic Control Devices	962 Moving Services
575 Microfiche & Microfilm Equipment, Accessories and Supplies	980 Rental or Lease Services of Equipment - Televisio
	990 Security, Fire, Safety & Emergency Services

PURCHASE ORDER UNIT

MARK POPELSKI, PURCHASING MANAGER - 744-4909

CITY OF CHICAGO DEPARTMENT OF PURCHASES COMMODITY ASSIGNMENT LIST

JOHN SYKES: 744-4919		WALTER BRUEGGEN: 744-4935	
CC: #	031 Air Conditioning, Heating & Ventilation	CC: #	055 Automotive Accessories for Automobiles, Buses, Trucks, Etc.
	045 Appliances and Equipment, Household Type		060 Automotive Maintenance Items & Parts
	150 Builder's Supplies		075 Auto Shop Equipment & Supplies
	360 Floor Covering & Installation		200 Clothing, Apparel & Uniforms
	365 Floor Maintenance Machines, Parts, and Accessories		285 Electrical Equipment & Supplies
	400 Castings & Forgings		325 Feed, Bedding, Vitamins and Supplements for Animals
	450 Hardware and Related Items		340 Fire Protection Equipment & Supplies
	545 Machinery & Hardware		345 First Aid & Safety Equipment
	570 Metals		475 Hospital Surgical, and Related Medical Accessories
	720 Pumping Equipment		560 Material Handling and Storage Equipment
	895 Welding Equipment & Supplies		680 Police Equipment & Supplies
	910 Building Maintenance & Equipment		990 Security, Fire, Safety & Emergency Services
	+ (Maintenance, T.A.'s & Miscellaneous)		+ (Maintenance, T.A.'s & Miscellaneous)

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CITY OF CHICAGO DEPARTMENT OF PURCHASES COMMODITY ASSIGNMENT LIST

AVIATION UNIT

AMF O'HARE, P.O. BOX 565511, CHICAGO, ILLINOIS 60666

PAUL SPIELES, ASSISTANT PURCHASING AGENT - 894-3600

GUSTAVO GIRALDO, DIRECTOR OF PURCHASE CONTRACT ADMINISTRATION - 894-3601

JEANETTE CYGAN, ADMINISTRATIVE ASSISTANT II - 686-3607

LINDA TERRAN, SECRETARY - 894-3611

FAX # 894-3606

JESSICA ALPRIN: 894-3609		STEVEN DAVIS: 894-3602	
CC: #	968/13 Construction (Airport/Aviation Related Services) (Airport/Aviation Related Services)	CC: #	900 Professional Services (Airport/Aviation Related Services)
MATHIAS GARTNER: 894-3747		HABIB REHMAN: 894-3616	
CC: #	968 Construction/Maintenance Airport Supply Contracts (Airport/Aviation Related Services)	CC: #	968 Construction (Airport/Aviation Related Services)
ANTHONY GEORGIAN: 894-3603		LARRY WASHINGTON: 894-3613	
CC: #	070 Automotive (Airport/Aviation Related Services)	CC: #	968/13 Airport/Aviation Facilities Maintenance & Repair
MICHAEL KINCAID: 894-3604			
CC: #	900 Professional Services/Construction (Airport/Aviation Related Services)		
RONALD SMITH: 894-3608			
Construction/Aviation Facilities Maintenance (Airport/Aviation Related Services)			

CHICAGO OF CHICAGO DEPARTMENT OF PURCHASES CONTRACT & SUPPLIES

COMMODITY ASSIGNMENT LIST

PROFESSIONAL SERVICES (CONT'D)

JOHN O'BRIEN, ASSISTANT PURCHASING AGENT - 744-4922

WILEY KRAPE 744-4923			CYNTHIA LAWSON 744-9760		
CC: #	900	Professional Services	CC: #	900	Professional Services
		Construction Management			Employee Benefits (PPO, HMO, Vision, Dental, Term Life)
		Urban Planning			Drug Testing
	906	Architecture & Engineering			Medical/Physical Exams
	971	Real Estate Asset/Property Management			Prescription Drug Card
					Insurance Broker Services
O. RENEE MILTON 744-4925			CHARLENE WORTMAN 744-4917		
CC: #	900	Professional Services	CC: #	900	Professional Services
		Community Recycling			Environmental Assessment
		Infectious Waste Disposal			Waste, Disposal & Recycling
		Miscellaneous Professional Services			

APPENDIX 2

Municipal Code of Chicago §2-60-020 regarding the Department of Law:

“The corporation counsel shall perform the following duties:

(a) Superintend and, with his assistants and clerks, conduct all the law business of the city;”

2007 Mayoral Ordinance regarding the Mayor’s Office of Special Events:

“Section 11. The Executive Director is authorized, after evaluation of qualifications and proposals submitted in response to publicly advertised requests for proposals (“R.F.P.”), or, in the case of food vendors, in response to an R.F.P. or some other publicly disseminated solicitation, such as the mailing of applications to qualified restaurants, as determined by the Executive Director’s discretion, to enter into and execute agreements for up to two years containing a maximum of two extension options of one year each under the same terms and conditions with vendors, contractors and professionals (consultants) including but not limited to: souvenir vendors, art vendors, providers of amusement games and rides and for hospitality, supply of signage, protocol gift and floral services, maintenance services, security services, fireworks and food vendors for Events. All agreements shall provide the City the right to terminate such agreements early. When evaluating responses to an R.F.P. or other solicitation, the Executive Director will consider such facts as the firms’ cost proposals, compliance with the requirements of the R.F.P. or solicitation, qualifications to perform or provide the required service, experience in performing or providing the service, ability to exercise flexibility to meet the City’s needs, ability to address issues relating to health, safety and sanitation, and other factors the Executive Director deems important for the successful operation of the Events.”

“Section 13. The Executive Director is authorized to enter into and execute agreements for up to two years containing terms and conditions that the Executive Director deems appropriate, and containing a maximum of two extension options of one year each under the same terms and conditions, with one or more firms to design, assemble, transport, mount, erect, dismantle, store or manage the storage of temporary displays or booths at Events or provide Event preparation, management, coordination or supervision.”

O’Hare Modernization Program Ordinance:

“WHEREAS, The implementation of the O.M.P. will require the City to coordinate with and obtain the cooperation of various local, state and federal governmental entities and agencies, utility companies, railroads and air carriers (collectively, “O.M.P. Ancillary Agreement Parties”) including, without limitation, the entities listed on Exhibit A to this ordinance, which Exhibit A is hereby incorporated in this ordinance by this reference; and

WHEREAS, The physical and operational complexities of the O.M.P. will require relatively simultaneous negotiation, execution and implementation of a broad range of agreements, including, but not limited to: intergovernmental agreements; amendments to certain easements and licenses; reimbursement and cost-sharing agreements for design

and construction of new and relocated capital improvements; environmental and construction permits; relocation and modification of utility and other infrastructure improvements; acquisition of air rights and other similar agreements which are necessary or desirable in order to implement the O.M.P. agreements which are necessary or desirable in order to implement the O.M.P. (collectively, “O.M.P. Ancillary Agreements”) including without limitation, the agreements generally described on Exhibit A to this ordinance; and

WHEREAS, The management of the O.M.P. is being carried out by its designated executive director (the “Executive Director”), and it is in the City’s interest that the Executive Director have the authority to negotiate and expeditiously execute O.M.P. Ancillary Agreements; and

WHEREAS, In order to implement the O.M.P., it may also may be necessary to amend the Water Purchase Agreement between the Northwest Suburban Municipal Joint Action Water Agency (“J.A.W.A.”) and the City (the J.A.W.A. Water Purchase Agreement”) and the Facilities and Reservoir Site Lease and Grant of Related Easements between the City and J.A.W.A. (the “J.A.W.A. Lease” and together with the J.A.W.A. Water Purchase Agreement, “J.A.W.A. Agreements”); and

WHEREAS, The City wishes to authorize the expenditure of funds in this ordinance for any payments or expenses required under the O.M.P. Ancillary Agreements;