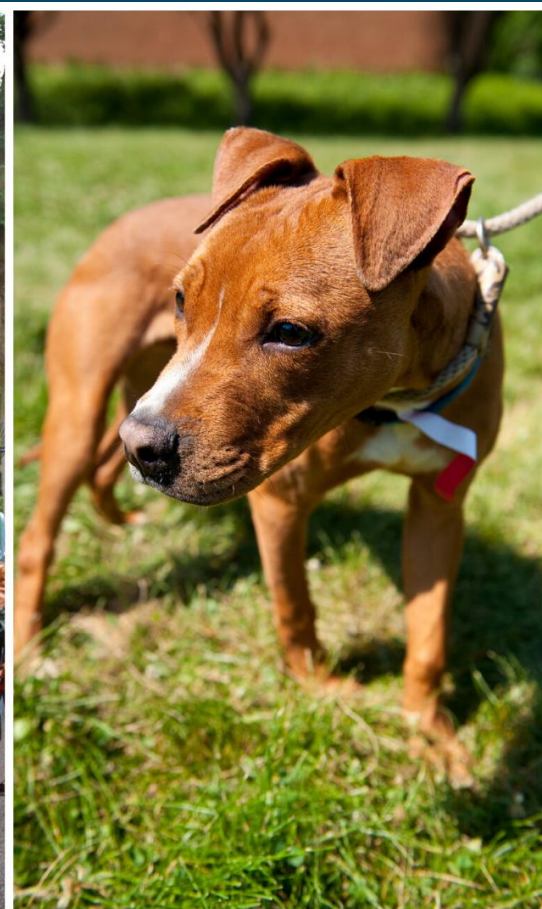


MARCH 2020

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# CITY OF CHICAGO OFFICE OF INSPECTOR GENERAL

## FOLLOW-UP ON OIG'S AUDIT OF THE CITY'S PROCESS FOR EVALUATING AND SETTING USER FEES





JOSEPH M. FERGUSON  
INSPECTOR GENERAL

CITY OF CHICAGO  
OFFICE OF INSPECTOR GENERAL  
740 NORTH SEDGWICK STREET, SUITE 200  
CHICAGO, ILLINOIS 60654  
TELEPHONE: (773) 478-7799  
FAX: (773) 478-3949

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**MARCH 10, 2020**

**TO THE MAYOR, CITY COUNCIL, CITY CLERK, CITY TREASURER,  
AND RESIDENTS OF THE CITY OF CHICAGO:**

The City of Chicago Office of Inspector General (OIG) has completed a follow-up to our June 2018 audit of the City's process for evaluating and setting user fees. Based on the Department's responses, we conclude that the Office of Budget and Management (OBM) has fully implemented four of the eight corrective actions related to the audit findings, partially implemented two, and not implemented two.

The purpose of the 2018 audit was to determine whether the City complied with its Financial and Budgetary Policies in evaluating and setting user fees, and followed national best practices embodied in the recommendations of the Government Finance Officers Association (GFOA). OIG found that the City did not adhere to its own policies or GFOA recommendations. We also found that the City did not perform accurate full-cost analyses. This created the risk that the City may not identify operational efficiencies because department leadership and City Council have no basis for knowing the actual cost of providing services to the public.

Based on the results of the audit, OIG recommended that OBM:

1. develop a fee policy and accompanying practices that align with GFOA recommendations;
2. create a complete list of all City fees and establish a schedule for their periodic review;
3. ensure that fee proposals are supported by full-cost analyses, ask departments to perform these analyses for OBM's review and validation, and develop templates and instructions to guide the departments in this task;
4. consider incorporating long-term forecasting in its process for evaluating and setting fees;
5. begin a pilot program for department-performed full-cost analyses and document the results of the pilot;
6. provide more information regarding fees to the public and present more opportunities for public feedback;
7. ensure that future full-cost analyses accurately account for all direct and indirect costs, as recommended by GFOA; and

8. consider developing an alternative Cost Allocation Plan, revising the current Plan, or setting indirect cost rates for each department.

In its response to the audit, OBM described corrective actions it would take related to several of OIG's recommendations. However, it disagreed with the recommendations to enhance public transparency, support fee proposals with full-cost analyses, and consider developing an alternative Cost Allocation Plan to support future full-cost analyses.

In November 2019, OIG inquired about the status of corrective actions taken by OBM. Based on OBM's follow-up response, OIG concludes that OBM has fully implemented four corrective actions, partially implemented two, and not implemented two. Specifically, OBM:

1. developed a fee policy and practices that align with GFOA recommendations;
2. developed a master list of fees and a periodic review schedule;
3. declined to ask departments to perform full-cost analyses, but did require them to provide complete direct and indirect cost information to OBM through a uniform template each time a fee is up for review;
4. declined to explicitly incorporate long-term forecasting, but did address some of the related risks by establishing a periodic fee review schedule;
5. did not begin a pilot program for department-performed full-cost analyses;
6. did not provide additional public information or opportunities for public feedback regarding fees;
7. ensured that fee analyses accurately account for direct and indirect costs by developing its cost information template and developing an indirect cost rate; and
8. developed a Citywide indirect cost rate for use in fee analyses, and added language to its fee policy requiring annual updates to this rate and allowing the use of more detailed indirect cost rates when necessary.

Below, we summarize our two audit findings and associated recommendations as well as the Department's response to our follow-up inquiry.

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

Respectfully,



Joseph M. Ferguson  
Inspector General  
City of Chicago

## FOLLOW-UP RESULTS

In November 2019, OIG followed up on its June 2018 Audit of the City's Process for Evaluating and Setting User Fees.<sup>1</sup> OBM responded by describing the corrective actions it has taken and providing supporting documentation. Below, we summarize OIG's two findings, the associated recommendations, and the status of OBM's corrective actions. Our follow-up inquiry did not observe or test implementation of the new procedures; thus, we make no determination as to their effectiveness, which would require a new audit with full testing.

### FINDING 1:

**THE CITY DOES NOT EVALUATE AND SET USER FEES IN ACCORDANCE WITH ITS FINANCIAL AND BUDGETARY POLICIES OR GFOA RECOMMENDATIONS.**

#### OIG Recommendation 1:

OIG recommended that OBM develop a fee policy and accompanying practices that adhere to GFOA recommendations. Specifically, we recommended that OBM develop a fee policy that identifies the factors, including policy considerations, included in the evaluation of a fee. OIG suggested that the policy provide guidance on what types of fees are candidates for being set at more or less than the full cost of their related services and require an explanation of the rationale for subsidizing services when a fee is set below full cost.

#### Status of Corrective Action: **Fully Implemented**

OBM has developed a fee policy and associated practices that adhere to GFOA recommendations. The policy identifies factors to consider when pricing goods and services, including circumstances where the City may decide to recover less than the full cost. The policy also covers how fees will be levied and collected. When a fee is up for review, the policy requires the relevant departments to provide a justification without regard to whether they propose keeping the fee at the same level, raising it to the full cost of service, or setting it at a new level below full cost. OBM provided the fee policy to all departments during the 2020 budget process.

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<sup>1</sup> The 2018 Audit of the City's Process for Evaluating and Setting User Fees report is available on OIG's website: <https://igchicago.org/2018/06/21/audit-of-the-citys-process-for-evaluating-and-setting-user-fees/>.

### OIG Recommendation 2:

To aid the City in accomplishing the timely review of its fees, OIG recommended that OBM create a complete list of all City fees and establish a schedule for periodic review. We also recommended that OBM identify the parties within OBM and the various departments who will be responsible for ensuring that fee proposals and supporting documentation are submitted on schedule.

### Status of Corrective Action: **Fully Implemented**

OBM has developed a master list of fees and stated that it asked departments to review this list for accuracy during the 2019 budget process (conducted in 2018). OBM also stated that the list “will be updated on an annual basis by OBM in order to reflect recent changes and prepare for the upcoming budget cycle.”

OBM established a schedule for periodic review of all fees in the master list; it reviewed 50 fees in 2019. OBM’s user fee policy outlines its review procedure and specifies the information departments must provide for each review. OBM has also identified the parties responsible for ensuring that fee proposals and documentation are submitted and reviewed on schedule.

### OIG Recommendation 3:

OIG recommended that OBM ensure that fee proposals are supported by full-cost analyses and, to overcome its stated resource limitations, follow the lead of peer cities by asking departments to perform these analyses for OBM’s review and validation. To assist departments in this task, we recommended that OBM develop full-cost analysis templates and instructions, including guidance on how to account for indirect costs. We also recommended that OBM identify departments that may need additional support and provide them with training.

### Status of Corrective Action: **Partially Implemented**

In its response to the audit, OBM stated that it did not intend to implement this recommendation. It has not done so. However, its fee policy requires departments to complete a newly developed revenue and expenditure template for each fee that is up for review. The policy identifies specific sources of cost information, including an annually adjusted indirect cost rate, and states that OBM will review each template for accuracy and completeness.

In 2019, OBM provided training to departments on how to complete the revenue and expenditure templates.

#### OIG Recommendation 4:

To account for cost of service adjustments and price increases, OIG recommended that OBM consider incorporating long-term forecasting into its process for evaluating and setting fees.

#### Status of Corrective Action: **Partially Implemented**

OBM stated in its response to the audit that because it planned to establish a regular fee review schedule, this recommendation was redundant. In its response to OIG's follow up inquiry, OBM confirmed that view.

In the audit, OIG noted that accurate long-term forecasting could help the City avoid situations where fee rates fall significantly below intended cost recovery levels, thereby necessitating sudden and sharp increases. Regular fee review mitigates, but does not eliminate, the impact of OBM's lack of forecasting, especially for the 75% of fees scheduled for review only every five years.

#### OIG Recommendation 5:

OIG recommended that, in implementing the recommendations related to full-cost analyses, OBM may wish to begin with a pilot program covering a single department or a subset of departments. If it launched such a program, we recommended that OBM document the results, identify lessons learned, and design any changes needed to implement the practices Citywide. When selecting a department or subset of departments for a pilot, we recommended that OBM consider,

- the number of fees levied by the department(s);
- the capacity of department staff to perform financial analyses;
- the complexity of cost accounting in the department(s); and
- the expected level of fee subsidization.

#### Status of Corrective Action: **Not Implemented**

In its response to the audit, OBM stated that it did not intend to support fee proposals with full-cost analyses. It has not done so.



### OIG Recommendation 6:

OIG recommended that OBM provide more information regarding fees to the public and present more opportunities for public feedback regarding fees. Based on the GFOA recommendations, and a review of other jurisdictions, we recommended that OBM,

- publish and maintain a complete list of fees on its website;
- develop and implement procedures to solicit public feedback regarding the establishment of new fees or the modification of existing fees; and
- consider providing both the estimated cost required for providing the service and the estimated amount of revenue for each proposed new fee and fee modification.

### Status of Corrective Action: **Not Implemented**

OBM stated in its response to the audit that it did not intend to implement this recommendation. It has not done so.

## FINDING 2:

THE CITY INACCURATELY CONDUCTED FULL-COST ANALYSES, RESULTING IN A POTENTIAL OVERESTIMATION OF NET ANNUAL RESIDENTIAL REFUSE COSTS BY \$45.2 MILLION AND UNDERESTIMATION OF NET ANNUAL VEHICLE BOOTING OPERATIONS COSTS BY \$1.0 MILLION.

### OIG Recommendation 7:

OIG recommended that OBM ensure that future full-cost analyses accurately account for all direct and indirect costs, as recommended by GFOA. To avoid the specific errors found in the vehicle boot fee and residential refuse collection fee analyses, we recommended that OBM use, and direct departments to use, actual cost data whenever possible. Further, we recommended that departments make reasonable efforts to estimate the time allocated to programs and services.

### Status of Corrective Action: **Fully Implemented**

The cost data template developed by OBM for department use during fee reviews requires both direct and indirect cost information. For direct costs, OBM's fee policy directs departments to provide the most recent

full year of actual expenditures and the current year's budgeted expenditures.<sup>2</sup>

For indirect costs, OBM's fee policy directs departments to use a rate developed by OBM, unless a department has a federally approved indirect rate. The fee policy states that OBM is responsible for updating the indirect cost rate annually. It also states that OBM "may determine to use a more detailed indirect cost estimate when necessary."

#### OIG Recommendation 8:

OIG recommended that OBM consider developing an alternative cost allocation plan (CAP), or revising the current CAP, to support future full-cost analyses. The purpose of the new or updated CAP would be to allocate all City costs across departments and thereby facilitate accurate full-cost analyses. As part of this endeavor, we recommended that OBM seek to simplify the CAP to aid departments' understanding of the process and facilitate the CAP's use for full-cost analyses. Alternatively, we recommended that OBM work with the Department of Finance and/or a vendor to develop indirect cost rates for each department based on the CAP.

#### Status of Corrective Action: **Fully Implemented**

OBM has developed a Citywide indirect cost rate and committed in its fee policy to update this rate annually. OBM further states that it "may use a more detailed indirect cost estimate" when necessary.

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<sup>2</sup> If a department is proposing a new service, it may provide budgeted expenditures. However, OBM's fee policy also requires departments to provide explanations of how they calculated the costs and why they could not provide actual expenditures.



## MISSION

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

- administrative and criminal investigations by its Investigations Section;
- performance audits of City programs and operations by its Audit and Program Review Section;
- inspections, evaluations and reviews of City police and police accountability programs, operations, and policies by its Public Safety Section; and
- compliance audit and monitoring of City hiring and employment activities by its Hiring Oversight Unit.

From these activities, OIG issues reports of findings and disciplinary and other recommendations,

- to assure that City officials, employees, and vendors are held accountable for violations of laws and policies;
- to improve the efficiency and cost-effectiveness of government operations; and
- to prevent, detect, identify, expose, and eliminate waste, inefficiency, misconduct, fraud, corruption, and abuse of public authority and resources.

## AUTHORITY

OIG's authority to produce reports of its findings and recommendations is established in the City of Chicago Municipal Code §§ 2-56-030(d), -035(c), -110, -230, and 240.

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### PROJECT TEAM

SAM NAIK, PERFORMANCE ANALYST  
DARWYN JONES, CHIEF PERFORMANCE ANALYST  
LISE VALENTINE, DEPUTY INSPECTOR GENERAL

### PUBLIC INQUIRIES:

NATALIE A. KURIATA: (773) 478-8417 | [NKURIATA@IGCHICAGO.ORG](mailto:NKURIATA@IGCHICAGO.ORG)

TO SUGGEST WAYS TO IMPROVE CITY GOVERNMENT, VISIT:  
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