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February 14, 2014

Honorable Toni Preckwinkle
and Members of the Forest Preserve District
of Cook County Board of Commissioners
118 North Clark Street
Chicago, Illinois 60602

Re: OIIG13-0061 (Forest Preserve District Site Inspections)

Dear President Preckwinkle and District Commissioners:

This letter is written in accordance with Section 2-289(c)(2) of the Independent Inspector General Ordinance, Cook County Ill., Ordinance No. 07-O-52 (2007) (the "OIIG Ordinance") in connection with site inspections of the Forest Preserve District's field offices (the "Site Inspections"). In accordance with the OIIG Ordinance, this statement is made to apprise you of the completion and results of the Site Inspections.

Background

The Cook County Forest Preserve District ("FPD") was established in 1914 to acquire, restore and manage lands for the purpose of protecting and preserving public open space. The FPD has more than 68,000 acres within its control and is the largest forest preserve district in the United States. The FPD currently employs approximately 475 employees and has nine departments (five are considered field operations).

The Office of the Independent Inspector General ("OIIG") objectives were to assess and evaluate the efficacy and efficiency of field operations in the FPD. As you know, we have previously conducted Site Inspections of the Cook County Department of Transportation and Highways and have identified similarities with FPD's operations based on prior OIIG investigations. We initiated the FPD Site Inspections in accordance with the OIIG legal mandate to detect, deter and prevent waste and mismanagement in the FPD.

The methodology employed included the dedication of resources to develop a thorough understanding of the FPD's mission and operations to assist with organizing and planning this project. We issued document production requests to FPD senior management seeking information related to employees, organizational structure, and operational needs and functions.

After reviewing key information, we established a scope and formulated a work plan to meet our objectives. The scope of the project was narrowed to field operations that are of the

nature to be susceptible to theft, waste and mismanagement and have revealed problem areas in prior OIIG matters. As such, the project scope included four field offices:

- Landscape Maintenance;
- Facilities and Fleet Maintenance;
- Recreation, Volunteer Resources & Permits; and
- Trails Management.

Each of the selected field offices was then subject to an inspection designed with the following defining objectives:

- Identify whether there are effective internal controls over payroll, inventory, vehicles, and fuel;
- Identify any safety concerns related to inventory, vehicles, fuel, or grounds;
- Determine whether there is waste related to labor and personnel;
- Identify any regulatory compliance matters; and
- Identify any deficiencies in staffing levels, equipment requirements, or materials.

When we planned the inspections to meet the stated objectives, we also recognized that the FPD consists of technical areas that we generally deferred to the FPD's management team due to their expertise. As such, the Site Inspections were conducted to assess general field operations and safety concerns that apply to any organization regardless of its subject matter. The following procedures were employed:

- Observed 16 field offices under the control and management of the four FPD departments in our scope;
- Interviewed 12 department heads, supervisors, and field office managers;
- Reviewed State and local rules and laws, FPD internal policies, and financial records; and
- Applied best practices based on guidance from the United States General Accountability Office ("GAO") internal control standards.

The U.S. Congress enacted legislation that imposed a duty upon the General Accountability Office to establish and enforce internal control standards in the federal government. These internal control standards provide the overall framework for establishing and maintaining internal control for efficient operations and effective public management.¹ The standards are designed to identify areas at greatest risk of fraud, waste, abuse, and mismanagement. The five standards of internal control are:

- Control Environment;

¹ "Standards for Internal Control in the Federal Government," GAO/AIMD-00-21.3.1 (11/99). This report was initially released by the United States General Accounting Office. This Office's name was later changed to the General Accountability Office. The U.S. Government Accountability Office (GAO) is an independent, nonpartisan agency that works for Congress to investigate how the federal government spends taxpayer dollars.

- Risk Assessment;
- Control Activities;
- Information and Communications; and
- Monitoring.

We applied the GAO's internal control standards during our assessment and evaluation of the FPD. Although these standards are not binding upon the FPD's operations, we use these standards to apply credible and impartial guidance for best practices related to the FPD. During our Site Inspections, we found that the FPD's current operations have severe internal control weaknesses in connection with Control Activities pursuant to the GAO Internal Control Standards.

Based on the GAO's standards, Control Activities are the policies and procedures that enforce management's plans, goals, objectives and directives. Additionally, Control Activities include approvals, authorizations, verifications, reconciliations, security measures, and relevant records that serve as evidence of execution of these Control Activities.

Summary of Findings

We initiated our Site Inspections in June 2013 and concluded in December 2013. During our Site Inspections, we held formal interviews with 12 FPD employees and interacted with numerous additional FPD employees as we inspected the different facilities. We found numerous FPD employees who were professional, knowledgeable and cooperative during our Site Inspections. Generally, we found sites that were very clean and well organized particularly the field offices for Landscape Maintenance, Trails Management and the Volunteer Resource Center. The Nature Centers' exhibits, programs and grounds were also particularly impressive. Overall, while we found a committed workforce and impressive facilities during the inspections, we did discover various issues that FPD's senior management needs to address in the near future. The following findings were identified in connection with the Site Inspections:

- During our Site Inspections, we discovered that the FPD has issued credit cards to various management level employees to be utilized for FPD purposes. We obtained information that revealed that many credit card transactions lacked adequate documentation to clearly demonstrate the FPD purpose for the transactions. Additionally, we identified credit card purchases that appeared to be for restricted items that required prior written approval from the CFO; however, there was no such written documentation establishing that approval was granted for many of the transactions. Certain other transactions appeared to be for items not permitted under the FPD credit card policy.

- The FPD has severe weaknesses in internal controls due to a lack of segregation of duties. We discovered that the Chief Financial Officer is also the Treasurer and has assumed the duties of Comptroller. Additionally, the FPD has discontinued the Internal Auditor position.
- The Volunteer Section of the FPD has a field house which is rented to users for a fee. It was noted that the fees were waived for approximately 17 users. The Department Head said these 17 users could have performed “in-kind” services to receive a fee waiver, there is no official agreement for this practice.
- Under the Illinois Vehicle Code, a County is exempted from State of Illinois vehicle safety inspections when a local ordinance has been passed to conduct its own safety inspections. During our Site Inspections, we found that the FPD does not comply with the FPD Ordinance that requires vehicle safety inspections to be performed not less than 3,000 miles for every vehicle. We received statements that the Fleets and Maintenance Department performs safety inspections when vehicle maintenance is conducted based on the suggested manufacturer’s mileage which ranges from 2,500 to 5,000 miles.
- The FPD has a Central Warehouse that receives and distributes certain equipment, supplies and materials to field locations throughout the County. During our Site Inspections, we found that the Central Warehouse could not produce a comprehensive and accurate inventory listing with correct quantities and values.

OIG Findings and Conclusions

Credit Cards

According to the GAO, all transactions need to be clearly documented and readily available for examination. Moreover, Control Activities should appear in management directives, administrative policies, or operating manuals. Supporting documentation may be in paper or electronic form, however, all records must be properly managed and maintained. *See GAO Internal Control Standards*, at 15.

During our Site Inspections, we discovered that the FPD provides credit cards to 27 management level employees. As part of our review, we obtained and analyzed the detailed

transactional data for credit card usage for the trailing twelve month period (October 1, 2012-October 1, 2013). This review identified 1,521 credit card transactions that totaled \$32,896.00.

In order to evaluate the efficacy of internal controls over credit card transactions, we subsequently reviewed the credit card policy and categorized the credit card transactions by transaction type pursuant to the policy. Transactions were categorized based on restricted items and those that exceeded \$750. From this pool of transactions, we selected a sample for further testing to determine whether users were complying with the credit card policy. Our sample comprised 36 credit card charges by 20 employees totaling \$20,125.00 of the \$32,896.00 total charges. Our sample covered 61% of the total credit card charges and 74% of the credit card users.

Generally, testing revealed that there exists internal control weaknesses because many of the credit card charges failed to have adequate documentation for review and did not have prior written approval for restricted transactions. Moreover, the CFO could only provide us with email correspondence requesting prior approval for a portion of the items.

\$750 Limitation

According to the credit card policy, FPD employees are prohibited from making purchases that exceed \$750.² During our review, we found 38 credit card charges that exceeded \$750 (e.g., international airline tickets, Apple Store electronic equipment). We selected 9 transactions for further review and 7 (77%) of those selected did not describe the nature of the expense. Since the credit card expenses did not have adequate descriptions, we could not determine whether the expenses were incurred for FPD purposes. Upon conducting follow up with the CFO, we later received email correspondence related to some of the transactions. However, this additional information was difficult to review because no key identifiers connecting the email correspondence to the transactions were evident.

Fuel and Food Charges

We also identified issues regarding credit card purchases related to fuel and food expenditures. According to the FPD credit card policy, FPD employees are prohibited from charging fuel and food expenses to their credit cards unless the CFO provides prior written approval.

Our analysis revealed that FPD employees incurred 17 fuel related charges (e.g., Shell Station, Exxon, etc.) on FPD credit cards. The lack of documentation supporting the transactions made it impossible to evaluate the nature and purpose of many of these transactions.

² During our interviews, we were provided varying interpretations of the credit card policy language. In connection with the \$750 prohibition, the policy uses mandatory language barring use of a credit card for transactions above this amount. The policy has also been interpreted by FPD officials to permit exceptions to this prohibition. While we believe statutory construction principles require honoring the mandatory language of the policy prohibiting transactions above \$750, the fact there are varying interpretations underscores the need for clarity in the policy itself.

Additionally, a FPD manager informed us that refueling should occur at a FPD location thereby eliminating the need to incur charges for fuel. This practice not only saves on fuel costs but also benefits the FPD because it can track the vehicles and their fuel usages when fuel is provided directly from FPD locations.

Our review also identified expenditures that appeared to be for food purchases because of the origin of the transactions (e.g., Applebee's). Since the FPD could not produce sufficient and clear documentation that explained the types of expenses and their FPD purposes, we have no way to determine whether the expenditures were for restricted items or otherwise appropriate.

Finally, it is important to note that the FPD employees being given credit cards for FPD use are management level staff. These individuals should be relied upon to set the tone for the entire organization and ensure compliance with FPD policy pertaining to financial management.

Supporting Documentation

Our sample revealed that 29 of the 36 expenses (80%) selected for testing were not supported by adequate expense descriptions. Moreover, 9 of the 36 items (25%) did not have an invoice or receipt for the charges. The CFO provided email correspondence requesting approval for only a portion of our sample charges.

Lack of Segregation of Duties

According to the GAO, Control Activities include implementing and maintaining "Segregation of Duties" for key operations. Control Activities require that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. Importantly, the GAO specifically states, "no one individual should control all key aspects of a transaction or event."

During our review of credit cards, we discovered a substantial weakness in internal controls that exists in the Finance Department. Specifically, the FPD's Finance Department does not have a segregation of duties for key financial functions. The Chief Financial Officer is also the Treasurer and has assumed the responsibilities of the Comptroller. Additionally, the FPD does not have an internal control monitoring function because the Internal Auditor position is currently vacant.

Typically, a CFO is primarily responsible for high-level financial planning. In contrast, a comptroller is responsible for the accounting and record keeping for financial transactions within an organization. A treasurer performs cash management duties including the cash collection and disbursement functions. The internal auditor plays a very important role by reviewing accounting records to ensure transactions have the proper documentation, comply with the policies, and provide reasonable assurance there is no fraud or theft – internally and externally. Segregating these positions provides a sound internal control framework for an organization.

The FPD has combined three separate financial roles and currently lacks an internal audit capacity. As a mitigating factor, we have been informed that this combination of duties is only temporary in relation to the Comptroller position. In our view, however, the FPD should have appointed an interim Comptroller to maintain an adequate internal control framework. Although there are occurrences where some of these positions are combined in private industry, it is an anomaly that one person performs all of these duties, and the risk is compounded by the fact the internal audit function is not in place.

Permits

According to the permit rules, the Forest Preserve District provides a 50% discount for nonprofit organizations with a 501(c)(3) status. During our Site Inspections, we received statements indicating this fee was arbitrarily waived for certain nonprofit organizations. Specifically, we discovered that approximately 175 groups rented a FPD facility and paid more than \$36,000.00. Of that 175, there were approximately 17 groups who received *de facto* waivers in fiscal year 2013.

According to management, some of these groups provided “in-kind” services in lieu of the rental fee. However, the FPD does not maintain documentation to reflect these circumstances. We received information that an initiative was started last summer to enter into memoranda of understanding (“MOU”) with each nonprofit organization seeking a fee waiver for in-kind services. As of December 2013, we learned that only one MOU exists for room rental fee waivers in exchange for in-kind services.

Vehicles

During our Site Inspections, we discovered that no FPD vehicles displayed a State of Illinois Safety Inspection sticker. We requested and obtained the FPD safety inspection policy from FPD General Headquarters. We were informed that the FPD was exempted from external safety inspections because the FPD passed a local ordinance that required FPD to internally conduct safety inspections.

According to the FPD Ordinance, FPD vehicles are required to undergo safety inspections not less than every 3,000 miles. We discovered that the FPD performs safety inspections when the vehicles receive their maintenance inspections and that FPD vehicles do not uniformly undergo safety inspections at the same mileage. Based on the information provided, the FPD vehicles receive maintenance inspections based on the suggested manufacturer’s mileage. FPD maintenance personnel informed us that vehicles receive maintenance anywhere from 2,500 to 5,000 mile intervals. We recognize that there is a logical reason to support the deviation from the Ordinance. However, the FPD’s vehicle safety inspections should be undertaken in compliance with the FPD Ordinance or seek its amendment.

Central Warehouse – Inventory

During the planning stages of our Site Inspections, we discovered that the Central Warehouse is responsible for ordering, receiving, and distributing certain equipment, materials and supplies for the other field offices. According to the GAO, an organization needs to periodically count inventory and compare such inventory counts to accounting records in order to safeguard assets and properly value such assets.

During our Site Inspections, we learned from Central Warehouse personnel that the Warehouse contains a large amount of obsolete inventory. We were told, for example, “40% of the plumbing inventory in room #4 is obsolete.” We have been informed though that FPD plans to develop a policy to address obsolete inventory by donating and recycling inventory items.

Importantly, the Warehouse is in the process of implementing an electronic perpetual inventory system. In the interim, the FPD maintains a spreadsheet that tracks inventory purchases and disbursements at the Warehouse. Warehouse personnel, however, acknowledged serious problems that currently exist. Specifically, we were told that the staff did not know everything in inventory or where specific inventory was located.

During our Site Inspections, we performed a physical inventory count to test the Warehouse’s inventory spreadsheet. We learned that the inventory listing shows inventory receipts and inventory disbursements. Therefore, we performed a sample test count to determine whether the inventory report contains the correct inventory count. Specifically, we selected rain suits (size medium) for a test count. Then, we entered the warehouse and tried to identify the rain suits (size medium). The inventory spreadsheet revealed there were 8 rain suits (size medium) in stock; however, we were only able to count 3 rain suits (size medium) on the shelves.

We also discovered another problem related to inventory values at the Central Warehouse. Specifically, there are no values associated with the inventory listing. As such, there is no way of determining the value of inventory that exists in the Warehouse. It is absolutely critical for an organization to safeguard and account for inventory to detect and prevent inventory problems.

OIG Recommendations

Based on all of the foregoing, we recommend that the FPD consider the following remedial action to improve operations:

- As a threshold matter, it is absolutely critical for the FPD to require management employees to provide adequate documentation for their credit card purchases. This is particularly a problem for restricted items requiring prior written approval by the CFO and expenses that exceed \$750. In cases where employees fail to provide such

documentation, the Finance Department should require employees to reimburse the FPD for these credit card purchases. The rejection of unsupported and unauthorized expenses is consistent with best practices for expense reimbursement because there is no way to determine whether the subject transactions were for legitimate FPD purposes. Since the FPD intends to expand the usage of its credit card program, there is a heightened degree of urgency to strengthen internal controls and clarify the policy to avoid greater problems in the future. Finally, we recommend the FPD strictly enforce the policy and administer disciplinary/remedial action when violations occur with the goal of ensuring compliance.

- There is a significant deficiency in the FPD's current internal control framework because the Chief Financial Officer is also the Treasurer and has assumed the duties of Comptroller. This is compounded by the FPD's discontinuance of the Internal Auditor position. The FPD needs to identify a competent and dedicated professional to fill the Comptroller position as soon as possible in order to create a sound internal control framework consistent with best practices. We have been informed the FPD is currently in discussions with the Cook County Auditor to provide audit services for FPD operations. We believe this is a very positive development that should be given full consideration.
- The Volunteer Section of the FPD has a field house which is rented to users for a fee that has been arbitrarily waived for approximately 17 users. The FPD needs to discontinue this practice and require that every group pay the rental fee. Alternatively, the FPD could implement a policy for groups to perform "in-kind" services to receive a fee waiver that should be documented in a Memorandum of Understanding with the FPD. This policy should be applied fairly and contain sufficient guidance to avoid the potential for favoritism in its application.
- The FPD needs to either amend the Ordinance for vehicle safety inspections or change its current schedule for performing safety inspections. Currently, the Ordinance stipulates that vehicle safety inspections must be performed not less than every 3,000 miles. Despite this fact, the FPD performs safety inspections when vehicle

maintenance is conducted based on the suggested manufacturer's mileage which ranges from 2,500 to 5,000 miles.

- The Central Warehouse should be provided sufficient resources to enable a physical inventory count, process obsolete inventory, and conclude implementation of the perpetual inventory system. From our Site Inspections, it appears that the Warehouse personnel have taken steps to improve these conditions; however, they need additional assistance to timely and effectively implement permanent changes.
- This review did not include a substantive review of procedures related to bond reporting. However, based on the findings herein, correction of the current weaknesses in internal controls should be remedied in light of the \$150,000,000 bond issue that was executed during 2012 and all future offerings.

Finally, in accordance with Section 2-285(e) of the OIIG Ordinance, this Office respectfully requests notification within 30 days of any action taken in response to the foregoing recommendations. Thank you for your cooperation and assistance with this matter. Please do not hesitate to contact me if you have questions.

Very truly yours,



Patrick Blanchard
Inspector General

cc: Ms. Kimberly Foxx, Chief of Staff to the President
Ms. Ms. Tasha Cruzat, Deputy Chief of Staff, Office of the President
Ms. Laura Lechowicz Felicione, Special Legal Counsel to the President
Mr. Arnold Randall, Superintendent, Forest Preserve District
Mr. Dennis White, General Counsel, Forest Preserve District
Ms. Jennifer Lin, Director of Compliance, Forest Preserve District
Ms. Shelly A. Banks, County Auditor