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January 14, 2013

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

Dr. Ramanathan Raju, Chief Executive Officer  
and Board of Directors  
Cook County Health and Hospitals System  
1900 West Polk  
Chicago, Illinois 60612

Re: IIG11-0055 (Surplus and Obsolete Government Property)

Dear President Preckwinkle, Dr. Raju and Members of the Boards:

This letter is written in accordance with Section 2-289(c)(2) of the Independent Inspector General Ordinance, Cook County, Ill., Ordinances No. 07-0-52 (2007) (OIIG Ordinance) in connection with an inquiry assessing the effectiveness of Cook County and the Cook County Health and Hospitals System (CCHHS) in managing their re-utilization and disposal of surplus and obsolete government property. The following is a summary of the investigation:

**SUMMARY**

Cook County government supports approximately 23,000 employees and had a 2011 budget of \$3 billion. CCHHS has approximately 6,638 employees and had an approved 2011 budget of approximately \$935,996,088. Large organizations such as Cook County and CCHHS require sound management in maintaining inventory, re-utilizing assets and disposing of property. In order to assess their effectiveness in these areas, the OIIG initiated an inquiry. The inquiry revealed instances of mismanagement, waste, abuse and fraud-related issues. Based upon numerous interviews and inspections of surplus and obsolete government property at various locations, we have determined that Cook County and CCHHS lack a proactive, institutionalized strategy in the managing surplus and obsolete property. Cook County and CCHHS lack sufficient data needed to effectively (1) manage their inventory, (2) detect losses or inefficiencies and (3) respond to those losses and inefficiencies with corrective action initiatives.



As a result of the OIIG inquiry and its findings, the OIIG has several recommendations for improving Cook County and CCHHS's existing efforts in the three key areas: a) overall emphasis on accountability of inventory from purchase to disposal; b) implementation of internal controls, and c) turning surplus and obsolete government property into a cost savings and/or revenue stream. Our review considered the failure to manage, from a "birth to grave" perspective, County property, as well as the value lost by failing to recognize the positive value in salvage along with the costs associated with long-term warehousing of obsolete property.

### **OIIG INVESTIGATION**

OIIG investigators initially focused their inquiry on two County warehouses in Chicago, one located at 2323 S. Rockwell ("Rockwell Warehouse") and the other at 4545 W. Cermak Road ("Hawthorne Warehouse"), as well as the Oak Forest Hospital. Investigators learned through various sources that surplus and obsolete government property had been in storage at these three facilities for years.

#### **Site Inspections**

At the Rockwell warehouse, some of the government property inspected had shipping dates on the boxes dating back to 1990. Most of surplus property inspected as part of this review at the Hawthorne warehouse had been in storage for at least seven years. The following is a sampling of the surplus government property that the investigators discovered at the three government facilities:

##### *Rockwell Warehouse*

- Approximately 30 new office cubicles still in their boxes that were purchased by the Highway Department and shipped during 1995. Total cost of the contract was \$78,096.
- 25 boxes of Xerox ink cartridges and toners in their boxes that were never opened. Shipping label reflected they were ordered by Juvenile Probation. They could have been returned for a refund, but it is too late to do so now.
- Pallet full of electronic telephone equipment still in their unopened boxes that should have been returned to the vendor for a refund for \$20,000. However, due to the equipment's age, the company would not accept them.

##### *Hawthorne Warehouse*

- Pallets/boxes containing new light bulbs.
- Pallets/boxes containing recess lighting fixtures.
- Boxes containing new ceramic tile.

*Oak Forest Hospital*

- Re-usable metal shelving units.
- Water damaged boxes containing medical records with evidence of mold.
- Unopened box with shipping label date of January 2001 containing new office cabinet.

Interviews of Cook County Employees

Interviews with various County employees revealed that warehouse personnel never received any formal training in the management of surplus and obsolete government property. One employee stated that the warehouse literally became a “dumping ground” for government property over the years. There were “flash dumpers” (department personnel) who unloaded their unwanted government property on the loading docks and left without providing any documentation. This practice reportedly continued for years until the fire department threatened to fine the County \$10,000 a day in May 2010 for creating a fire hazard and unsafe working conditions. There was no policy that regulated the transferring of and/or disposal of surplus or obsolete government property. The Salvage Unit used “word of mouth” in getting the message out to the departments that they had property that could be “re-used.” There was no comprehensive systemic county-wide program in the collection of scrap metal or other waste streams. Reviewing the Salvage Units records for revenue collected from sales of scrap metal and computer related equipment dating back to 1994 through 2008 revealed the Salvage Unit collected a total of only \$227,092.96 for that 14 year period.

According to one employee, the Office of the County Auditor had previously conducted annual audits and test counts of government property. However, this is no longer a function of that office due to being understaffed.

Another employee noted that the Office of the Procurement Officer does not maintain an inventory of property purchased. If any inventories are maintained, the individual departments maintained their own.

The Bureau of Administration assigned a Special Assistant to the Salvage Unit in March 2010 to address various issues. At that time, the Salvage Unit at the Rockwell Warehouse was found to be in complete “disarray.” The loading dock and warehouse were cluttered with piles of discarded government property which allegedly resulted in the Fire Inspector citing the County with 48 fire violations. One County employee stated that numerous problems associated with the warehouse multiplied over the years due to neglect, lack of policies and organization, and lack of training and expertise for the personnel assigned to the Salvage Unit. In some cases, government property was stored unnecessarily at the warehouse for years which resulted in lost opportunities (re-utilization or return for refund) for the County. He stated that the “Salvage Unit became the garbage can and dumping ground for years.”

An employee noted that incremental progress has been made since the Special Assistant was assigned to the Salvage Unit. Some of this progress includes: (1) placing five dumpsters at various Highway Department facilities and one dumpster at the Rockwell Warehouse that resulted in the collection and selling of approximately \$118,000 worth of scrap metal to a salvage contractor; (2) hiring a recycling contractor for the County's electronic waste, (3) transferring 100 stand-up shelving units from the surplus property at Oak Forest Hospital to the County Clerk's Office.

### **Interviews of Cook County Health and Hospitals System Employees**

An employee in Materials Management at Oak Forest Hospital stated that not all fixed assets at the hospital are tagged for identification and inventory purposes. This employee believed that the hospital lacked adequate policies and procedures regarding procurement, inventory and disposal of government property. The employee confirmed that over the course of several years the hospital had accumulated an excessive amount of surplus and obsolete hospital equipment and property. As a result, CCHHS has reportedly contracted with the Centurion Service Group (CSG) to inventory the obsolete equipment and property for eventual removal and disposal stored at the Oak Forest Hospital.

An employee in the office of the CCHHS Internal Auditors stated that the office is understaffed which prevents it from taking a more proactive, as opposed to reactive, role in carrying out its auditing responsibilities. The employee believed that increased staffing would allow his office to become more instrumental in the design, implementation, and monitoring of internal controls needed to reduce fraud, waste and abuse of government property. The office reportedly conducted a preliminary audit of fixed assets for the CCHHS for 2010. The objective of the audit was reportedly to assess controls as part of long term planning for fixed asset needs, budgeting, financial reporting, safeguarding and disposal processes. In summary, the findings of the audit allegedly revealed that there was no inventory of fixed assets which made it impossible to determine how much property was missing, lost or stolen. Further, no comprehensive set of policies existed to address the supply chain management system from purchase to disposal.

An outside consultant who worked the Supply Chain Management Office believed that CCHHS was experiencing what she termed "expense bleed." In other words, hospital property, equipment and consumables disappear due to theft, waste and mismanagement. The consultant agreed with the security industry experts that estimated losses for U.S. hospitals range between \$7000 and \$8000 per bed per year.<sup>1</sup>

With respect to the surplus and obsolete government property stored at the Oak Forest Hospital, the consultant confirmed that CSG was contracted to serve as an auctioneer contractor to dispose of surplus and obsolete government property. At the time of this inquiry, CSG had sold \$141,778.52 of government property from online auctions. Pursuant to its contract, CSG collects 40% from the gross sales.

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<sup>1</sup> Russell Colling and Tony York, *Hospital and Healthcare Security* 67-68 (5<sup>th</sup> ed. 2009).

The consultant stated CCHHS had budgeted \$1.8 million for 2012 to build out the supporting infrastructure for a supply chain management process. However, the consultant is concerned about continued financial support beyond 2012 for the strategic plans she has proposed to correct the problems at CCHHS.

According to another CCHHS employee, CCHHS had a goal to consolidate leased warehouse space because John H. Stroger Hospital (JHSH) and Provident Hospital needed to vacate two leased warehouses as a cost cutting measure. As a result of its review, CCHHS was able to dispose of a significant amount of electronic waste that accumulated over the years by working with the County's Salvage Unit, which had contracted with an electronic recycler in the disposal of their electronic waste. Consequently, two leased warehouses were emptied which resulted in a cost savings of \$290,312 for 2011. Property taxes and utilities expense savings amounted to an additional savings of approximately \$94,500. Total cost savings amounted to approximately \$385,000 for CCHHS.

### **FINDINGS AND CONCLUSIONS**

As a result of our inquiry, the OIIG has identified several deficiencies in the management of government property by the County and CCHHS. Those deficiencies are identified as follows:

- Lack of a central supply chain management system with comprehensive set of policies and procedures addressing mandatory annual inventories of government property to include the disposal and re-utilization of surplus and obsolete government property.
- Weak or no internal controls.
- The Salvage Unit lacked leadership, adequate number of personnel, funding, training and resources to manage surplus and obsolete government property.
- The collection and reporting of missing, lost, stolen and recovered government property statistics are woefully inadequate; consequently, senior management cannot take appropriate corrective action (new policies and programs).<sup>2</sup>
- No one organizational unit is assigned the responsibility as the "gatekeeper" for determining the dollar loss value for reported missing, lost, stolen and recovered government property and reporting it to senior management.
- Due to weaknesses in the accountability of property from purchase to disposal, Cook County and CCHHS are vulnerable to the risk of theft, fraud, waste and abuse with limited risk of detection.<sup>3</sup>

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<sup>2</sup> In two separate OIIG investigations, the OIIG established that employees from the Forest Preserve District (FPD) and the Highway Department were stealing scrap metal, selling it and keeping the money. The FPD employee admitted culpability to selling at least \$4000 of scrap metal to a scrap dealer and keeping the money. In regards to the Highway Department, it has been customary over the years for employees to take the snow plow blades and other scrap metal, sell it and keep the money.

- Lack of coordination among Cook County government agencies and departments, autonomous units of government and the offices of elected officials regarding disposal and re-utilization efforts of property (no inter-governmental agreements). Due to the lack of agreements and coordination among Cook County government agencies and departments, there was duplication of contracts in the disposal of property between the Bureau of Administration Salvage Unit and CCHHS.
- Warehousing of surplus and obsolete government property has cost CCHHS hundreds of thousands of dollars, if not more, over the years in rent and utilities when the property could have been re-utilized or turned into a revenue stream resulting in a cost savings.

### **RECOMMENDATIONS**

The following recommendations are strongly encouraged to address the foregoing deficiencies in the management of Cook County and CCHHS' surplus/obsolete government property:

1. Cook County and CCHHS need to develop a system to track government property from its initial purchase to its ultimate disposal. This could be accomplished by having the Bureau of Administration or other appropriate department create inventory forms and procedures for use by each department within County government. Each department would then report on its inventory on at least an annual basis. Between inventories, the Bureau of Administration could conduct random, limited audits to verify inventories submitted by individual departments.

2. Since the Cook County Chief Procurement Officer (CPO) is responsible for determining when government supplies, materials and equipment are obsolete and unusable (Cook County Code ch. 34, art. IV, div. 1, sec. 34-125(j)), the CPO should establish a comprehensive set of policies and procedures addressing the inventory of government property to include the management of surplus and obsolete government property. Currently, obsolete property is not being assessed through the CPO as required by ordinance.

3. Cook County and CCHHS should be fully committed to financially supporting the implementation of a leading practice supply chain management system.

4. Cook County and CCHHS should conduct a cost benefit analysis regarding the establishment of an office to manage their obsolete and surplus government property. If cost benefit analysis reflects it is cost effective for the County to manage its own surplus/obsolete property, the BOA Salvage Unit should take the leadership role for Cook County government. This office, in coordination with the Chief Procurement Officer, should consolidate the disposal efforts of all property. This office should be adequately staffed with trained personnel and

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<sup>3</sup> In another OIIG investigation, a senior department manager permitted the removal of several large commercial ovens by an acquaintance, without authorization, who sold the equipment for scrap and retained the funds. This arrangement resulted in a loss to Cook County of up to \$15,000 in refurbishment value of the ovens.

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equipped in managing and disposing of all obsolete and re-useable government property.

5. BOA Salvage Unit Supervisor should be the chairperson of the current recycling committee that includes representatives from all county departments and independent offices.

6. Cook County and CCHHS should implement policies that holding employees accountable for government property assigned to them when it is reported as missing, lost or stolen due to employee negligence.

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

Very truly yours,



Patrick M. Blanchard  
Independent Inspector General

cc: Mr. G.A. Finch, Chief of Staff, Office of the President  
Ms. Laura Lechowicz Felicione, Special Legal Counsel to the President  
Ms. Elizabeth Reidy, General Counsel, CCHHS  
Ms. Martha Martinez, Acting Chief, Bureau of Administration  
Ms. Gina Besenhofer, System Director, Supply Chain Management