

TODD H. STROGER

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September 21, 2010

Honorable Todd H. Stroger
and Members of the Board of Commissioners
of Cook County
118 North Clark Street
Chicago, Illinois 60602

Re: Unauthorized Disbursements – Accounts Payable (IIG10-0075(b))¹

Dear President Stroger and Commissioners:

This letter is written in accordance with Section 2-289(c)(2) of the Independent Inspector General Ordinance, Cook County Ill., Ordinances No. 07-O-52 (2007) (the “Ordinance”) in connection with an investigation conducted involving Cook County employees assigned to the Accounts Payable Department who executed disbursements without proper authorization. In accordance with the Ordinance, this statement is made to apprise you of the findings and conclusions of this investigation.

Summary

On August 30, 2010, the Office of the Independent Inspector General (the “OIIG”) was informed that the Accounts Payable Department (Comptroller’s Office) distributed checks totaling over \$6.5 million (the “unauthorized disbursements”) to vendors for payment of bills without proper authorization from the Cook County Board of Commissioners.² The OIIG met with Constance Kravitz, Cook County Comptroller, to obtain additional information in connection with the unauthorized disbursements, conducted interviews of Accounts Payable personnel, reviewed financial records and consulted with the Cook County Management Information Systems (“MIS”) to assist with the investigation. This investigation did not reveal any evidence of misconduct with the intent to circumvent Board approval of the unauthorized disbursements under scrutiny. Nonetheless, this investigation has identified managerial failures and deficiencies as well as deviations from Cook County procedures that resulted in the unauthorized disbursements.

¹ We have issued a separate OIIG Summary Report (IIG10-0075(a)) that addresses disciplinary action of individual employees involved in this matter. The report is confidential due to the personal employment matters addressed therein.

² Attached to this report is a list identifying the subject vendors and amount of each disbursement.



OIG Findings and Conclusions

Account Payable Procedures & Personnel

The unauthorized disbursements consisted of numerous bills that individually exceeded \$100,000 thereby involving the procedures for approving disbursements that exceed \$100,000 in the Accounts Payable Department. During our interviews, Accounts Payable personnel acknowledged that they were well aware that disbursements over \$100,000 must be approved by the Board.³ Accordingly, when the Accounts Payable Department receives bills in that category they are placed on "Z" or hold status ("hold status") pending Board approval. Following proper approval from the Board, the Accounts Payable department removes the hold status for the bills and approves funds for payment in the accounting system. All bills that do not reflect a hold status will be placed in-line for payment during the next check run, which occurs on a weekly basis. In this case, Accounts Payable personnel prematurely removed the hold status without Board authorization thereby prematurely approving payment for the unauthorized disbursements.

The evidence developed in our investigation supports the conclusion that the unauthorized disbursements were not the product of an intentional act designed to circumvent Cook County Code Section 34-125 for an improper purpose. Rather, the evidence reveals that the unauthorized disbursements occurred due to simple mistake and Accounts Payable procedures that were vulnerable and susceptible to this outcome. Although only two employees were authorized to remove a hold status in the Accounts Payable department, we were unable to confirm which individual in the Accounts Payable department removed the hold status placing the bills in-line for payment because, in part, Cook County's computer system capabilities do not include an audit trail capacity. Our review has revealed that the Accounts Payable Department is understaffed with no cross-training and highly dependent upon one individual to process payments from a hold status. Specifically, we have been informed that three people performed this operation before November 2009. Currently, the Accounts Payable Department has one person responsible for this process. Moreover, the payment process also lacks sufficient internal controls to ensure this problem does not occur in the future.

This investigation also developed evidence establishing that individuals within the Department were aware of the unauthorized disbursements at a time when corrective action could have been implemented. These issues are addressed in-depth separately in OIG Summary Report IIG10-0075(a). For purposes of this report, the nonfeasance that resulted in the unauthorized disbursements from being rectified also represents a vulnerability that could be minimized in the future through training.

³ See Section 34-125 of the Code of Ordinances, Cook County, Illinois No. 08-O-41 (2008).

During the course of our investigation, the following observations were noted:

- Accounts Payable personnel deviated from established Cook County procedures that ensure proper authorization is obtained from the Board before payments over \$100,000 are made to vendors.
- The Accounts Payable Department possesses inadequate staffing levels.
- The capacity to place bills in-line for payment is centralized in one individual.
- Cross-training in the procedures used to place bills in-line for payment has not occurred leaving the department vulnerable.
- The Accounts Payable Department should modify or enhance its current internal controls to ensure there are not unauthorized disbursements in the future.
- Accounts Payable management failed to investigate potential unauthorized disbursements when information became available suggesting that it occurred.

OIG Recommendations

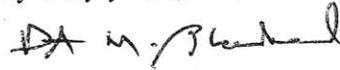
Section 34-125 of the Code of Ordinances requires Board approval for disbursements over \$100,000. In order to ensure compliance with this section of the Ordinance, we recommend that the Comptroller's Office consider implementation of the following measures:

- (a) The Comptroller's Office should ensure that all employees are aware of their obligations to report improper conduct and/or failures in the process, including managerial misconduct;
- (b) The Comptroller's Office should ensure that managerial positions are held by individuals possessing an appreciation for the mission of the department and a desire to perform;
- (c) The Comptroller's Office should ensure that cross-training occurs within the Accounts Payable department and staffing levels are appropriate; and
- (d) Internal controls should be implemented to minimize the possibility that human error or failure to perform results in an unauthorized release of Cook County funds. The nature of such internal controls can vary according to the current needs and capacity of the department. Computer technology could be utilized to automate the process or an internal control could involve the addition of a manual review process.

We have been informed that Cook County has retained the assistance of external consultants to conduct a risk assessment and implement any necessary internal controls to specifically address these issues.

We hope this information proves helpful. If you have any questions or would like to discuss this matter further, please do not hesitate to contact me. Thank you for your time and consideration to this issue.

Very truly yours,



Patrick M. Blanchard
Inspector General

cc: Ms. Karen Crawford, Chief of Staff
Ms. Jaye Williams, Chief Financial Officer
Ms. Constance Kravitz, Comptroller
Ms. Laura Lechowicz Felicione, Special Assistant to the President
Mr. Steve Edmonson, Chief Information Officer
Mr. Nathan Paige, Director of Management Information Systems

COOK COUNTY			
PAYMENTS			
			DATE
<u>VENDOR</u>	<u>BATCH #</u>	<u>AMOUNT</u>	<u>PAID</u>
SENTINEL TECH	479256	\$257,998.07	8/19/2010
CASTLE CONSTRUCTION	490851	\$328,249.50	8/19/2010
SENTINEL TECH	491695	\$253,461.02	8/19/2010
GATEWAY FOUNDATION	491698	\$250,274.60	8/26/2010
BILL JACOBS	492006	\$458,625.25	8/19/2010
JOHNSON CONTROLS	492094	\$131,997.68	8/19/2010
ANDERSON ELEVATOR	492312	\$250,690.00	8/19/2010
AUNT MARTHA'S	492384	\$101,275.00	8/19/2010
KANKAKEE COUNTY	492682	\$119,178.85	8/19/2010
AVAYA	493412	\$312,199.44	8/19/2010
ANCHOR MECHANICAL	493418	\$340,390.39	8/19/2010
WRIGHT EXPRESS	493621	\$297,414.78	8/19/2010
B.U.I.L.D. INC.	493906	\$268,000.00	8/19/2010
BOYS & GIRLS CLUBS	494051	\$200,000.00	8/19/2010
MC DERMOTT CENTER	494075	\$191,000.00	8/19/2010
SOUTHERN FOLGER	494077	\$629,617.00	8/19/2010
ELMHURST MOTORS	494183	\$640,000.00	8/19/2010
DELOITTE & TOUCHE	494237	\$307,000.00	8/26/2010
WOOLPERT INC.	494665	\$119,189.13	8/19/2010
RED HAWK	494691	\$387,387.00	8/19/2010
MOTOROLA	494814	\$143,783.40	8/19/2010
DELL MARKETING	494911	\$146,497.83	8/19/2010
NORTHWEST FORD	494911	\$151,725.00	8/19/2010
ELENS & MAICHIN	494912	\$158,081.00	8/19/2010
JEFFERSON COUNTY	494913	\$104,250.00	8/19/2010
TOTAL		\$6,548,284.94	