

## MEMORANDUM

**Date:** April 3, 2014  
**To:** Finance Committee, City of Country Club Hills, IL  
**From:** Mari Reidy, Partner, and Jon Theobald, Senior Manager, Crowe Horwath LLP  
**Subject:** **City of Country Club Hills, IL - Summary of Forensic Examination**

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This memorandum serves to document the results of the consulting services provided by Crowe Horwath LLP (“Crowe” or “us” or “we” or “our”) to the City of Country Club Hills, Illinois (“City”) in the above referenced matter. These consulting services were performed pursuant to the engagement letters dated November 14, 2012 (for “Phase 1” work) and April 1, 2013 (for “Phase 2” work) between the City and Crowe.

The City’s Treasurer, Rhonda Williams, and the Chair of the City’s Finance Committee, (now former) Alderman Steven Burris (for Phase 1) and Alderman Anthony Davis (for Phase 2), were designated as Crowe’s liaisons to the City for the extent of our forensic examination. Accordingly, we received continuous direction from and provided recurring oral status reports to these liaisons throughout Phases 1 and 2 of our examination, consistent with the terms of our engagement with the City.

The focus of the consulting services we performed was a forensic examination of certain of the City’s financial transactions entered into during the fiscal years 2008 through 2011, i.e., May 1, 2007 through April 30, 2011. The initial scope of our Phase 1 work was provided to Crowe by the City’s Finance Committee. This initial scope included an analysis of the City’s cash and cash equivalents, bank reconciliations, theater revenue, due to/due from balances, general government expenses and tax anticipation warrants (TAW) for the period within the scope of our analysis. As Crowe initiated Phase 1 work, several factors were revealed that necessitated the modification of the Phase 1 scope, duly approved by Alderman Burris and Treasurer Williams. Based on our findings following the completion of Phase 1 of our analysis, Crowe was approved by the City Council to continue and expand our work through a second phase of analysis (i.e., Phase 2). Ultimately, the scope of our analysis for Phases 1 and 2 combined was refined to include the following:

- Seek to identify all City bank accounts;
- Perform an analysis of the usage of City funds as disbursed from City bank accounts, pension and investment accounts, bond issuances, loans, lines of credit and other City debt;
- Analyze purchases made using the City’s credit card accounts;
- Verify the completeness and accuracy of expenditure reporting submitted to the City’s Finance Committee and City Council for review and approval, respectively;

- Identify instances, if any, where City employees were pressured or directed by City personnel or elected officials to contribute personal funds, personal time or time during standard City business hours for the benefit of the City's elected officials (e.g., to assist with political campaigns on a non-voluntary basis or to work on behalf of not-for-profit organizations associated with the City's elected officials);
- Understand the usage of complimentary tickets issued to City officials for the summer concert series performed at the City's amphitheater during fiscal years 2008 through 2011;
- Analyze City disbursements made through tax increment financing (TIF); and
- Understand the nature and usage of City funds obtained through tax anticipation warrants (TAW).

This memorandum summarizes the work we performed and our key findings and observations relative to this forensic examination and recommendations for improvement which were made during the course of our work. The memorandum is comprised of the following sections:

- Summary of Forensic Procedures Performed
- Key Findings and Observations
- Recommendations
- Other Matters

## **SUMMARY OF FORENSIC PROCEDURES PERFORMED**

Subject to the scope outlined above and based on the numerous allegations of wrongdoing made against current and former City officials and employees communicated to Crowe over the course of this engagement, our forensic examination was designed to identify multiple fraud risk indicators and, where possible, to further investigate any such indicators as identified for as many of these allegations as was deemed practicable by Crowe and our designated City liaisons. Certain allegations could not be fully examined by Crowe due to the limited availability of relevant documentation or evidential matter regarding those allegations. Other allegations were not pursued by Crowe as our initial analysis did not substantiate the credibility of those allegations. As such, summarized below are the procedures we performed during this engagement.

### **General Procedures**

- We requested, obtained and reviewed a significant volume of financial reporting documentation and information from City personnel. This documentation included, among other items, City bank account statements, check copies, various general ledger reports, City organization charts, credit card statements and supporting documentation, purchase and expenditure documentary support (e.g., invoices, purchase orders), documentation regarding the City's tax anticipation warrants and bond issuances, cash reconciliations, payroll records, City Council and Finance Committee meeting minutes, audited financial statements, City budgets, policies and procedures relative to City financial processes (e.g., procurement and bidding processes, purchase approval, City officials and employee expenses), and various other finance-related documentation.
- Crowe interviewed or worked closely with multiple City officials and employees in order to enhance our knowledge of City systems, records, policies and procedures. We reviewed in detail the City's finance-related policies and procedures as made available to us, including the City's Municipal Code as published on the City's public website.
- We performed online research to better understand the public's potential perception of the City's activities or other allegations that have been made about City officials or activities for the period within our scope, including the review of a significant volume of articles and reports made by Chicago-area newspaper and television media outlets with regard to the activity of City officials and personnel.

### **Identify City Bank Accounts**

- Crowe sought to identify all bank accounts, as well as investment and pension accounts, which were open for some, or all, of the period within the scope of our analysis and were (i) held in the name of the City or its affiliates (e.g., Fire and Police departments) and/or (ii) registered using the tax identification number (TIN) of the City or its affiliates. We initiated a blind bank confirmation analysis designed to identify all bank and investment accounts held in the name of the City during the period in scope. Based on the account information provided to us by City officials and personnel and as identified through our own analysis, and also based upon the information we obtained through our bank confirmation process, Crowe compiled a list of identified City and City-affiliate bank accounts and obtained bank statements and copies of checks issued for all identified accounts for the period in scope. We also compiled a list of investment and pension accounts held by the City or its affiliates and sought to obtain account statements and relevant supporting documentation for those accounts.
- Predicated upon concerns raised by the identification of the Matthew Welch Scholarship Foundation bank account held in the name of the City and registered using the City's taxpayer identification number ("TIN") (as summarized in the *Key Findings And Observations* section of this memorandum),

Crowe requested, obtained and reviewed the contents of the City email accounts for the former City Manager, Henrietta Turner and the former City Risk Manager, Chanay Mackey for the period of January 2009 through April 2011 (the Matthew Welch Scholarship Foundation was formed during January 2009, and April 2011 represents the end of our scope period). Crowe worked closely with the City's IT specialist, Rudy Maybell, to identify and harvest the requested email files which could be recovered from the City's Microsoft Outlook email account archives maintained on the Microsoft Exchange server.

### **Analysis of Usage of City Funds**

- Using the bank statements, check copies and other relevant supporting documentation we obtained for City and affiliate bank accounts identified as open during the period within the scope of our analysis, Crowe processed this information into a single spreadsheet-based workpaper. This workpaper was then examined in detail based on a series of analytics designed as follows:
  - Identify disbursements of City funds for which the recipient was unclear based on available documentation;
  - Identify disbursements of City funds for which the benefit to the City for these disbursements was unclear (i.e., sought to identify disbursements of City funds for the personal or political gain of City officials and employees);
  - Identify significant disbursements of City funds which do not appear to have been approved by the City Council or otherwise appear to have bypassed the City's established approval process for the procurement of goods and services; and
  - Search for evidence of previously unidentified City or affiliate bank, investment or pension accounts.

Accordingly, we identified 32 City or affiliate demand bank accounts which were open for some or all of the period within the scope of our analysis, 31 of which we were able to obtain and review the account statements, check copies and, as needed, additional underlying transactional support. See **Exhibit 1** of this memorandum for a list of these accounts. This included the following accounts:

- 22 accounts held by the City with First Midwest Bank;
- 2 accounts held by the City's Police department with First Midwest Bank;
- 3 accounts held by the City's Fire department with First Midwest Bank;
- 1 account held by the City with JPMorgan Chase;
- 1 account held by the City with Charter One;

- 1 account held by the City with Fifth Third Bank;
- 1 account held by the City's Police department with Harris Bank; and
- 1 account held by the City's Fire department with Bank of America (formerly LaSalle Bank).

Crowe was unable to obtain bank statements for the City's account held with Fifth Third Bank, which is described as the "Water Account." Based on the documentation made available to us, the account appears to have been opened between March and August 2008. It further appears that \$200,000 was transferred into this account from the City's General Fund bank account during March 2008, and \$200,000, plus an additional \$5.66 in accumulated interest, transferred from this account back into the City's General Fund bank account during August 2008. Accordingly, activity within this account appears to have been limited to minimal interest accumulation.

- We processed all identified disbursements of City funds from the identified City demand accounts into a list which summarized the disbursement of City funds by the recipient of such funds for the four-year period within the scope of our examination. In aggregate, over 40,000 disbursement transactional line items were included in this analysis. Crowe reviewed this list of City fund recipients in detail and discussed these recipients with City officials and employees in order to understand the purpose of such disbursements. We performed a significant volume of research to understand the identities of the individuals and entities who received City funds in order to assess the reasonableness of these disbursements and to identify potential personal or political relationships or other conflicts of interest between the City, its officials and employees and the recipients of these City funds.
- Crowe obtained from the Illinois State Board of Elections website a list of all individuals and entities that were reported to have made campaign contributions to Citizens For Dwight W. Welch ("Citizens for Welch"), the political fundraising organization of the City's Mayor, Dwight Welch. The list included contributions totaling \$1,464,859 made by 480 donors between March 20, 2000 and January 31, 2013. We compared the list of campaign contributors to the list of individuals and entities who received City funds during the period within our scope of analysis. This analysis was designed to assess whether a significant correlation exists between the identities of the mayoral campaign contributors and those of the recipients who received a large dollar value of City funds during the period within the scope of our analysis, as a high correlation of this nature might potentially indicate a pay-to-play scheme relative to the selection of City vendors.
- Based upon our detailed analysis of City fund disbursements and the City's relationship with the recipients of City funds, we utilized a risk-based sampling technique to identify 200 disbursements

made by the City during the period within the scope of our analysis. Crowe requested the underlying supporting documentation for these 200 samples from the City's Finance team lead.

- Crowe identified 104 disbursements from the City's designated payroll bank account totaling \$28,975,556 which represent bi-monthly automated clearinghouse payroll disbursements from the City to its employees who utilize direct-deposit accounts to receive their salary payments. As the individual identities of the recipients of each payroll disbursement were not presented in the bank statement documentation, we obtained and reviewed the detailed payroll check registers or, if the register could not be located, the payroll calculation detail reports for 102 of these 104 disbursements. The City's Finance team was unable to locate a payroll check register or payroll calculation detail report for two of these disbursements, specifically the disbursements issued on July 20, 2007 and April 25, 2008 in the amounts of \$173,673 and \$265,974, respectively. Through our review of these reports, Crowe sought to identify whether any recipients of these payroll disbursements included individuals or entities who were not City employees or elected officials (i.e., sought to identify whether a payment to a City vendor or other unauthorized individual or entity was made using the automated clearinghouse payroll disbursement, as opposed to being made via check or electronic transfer from the City's general checking accounts, in order to obfuscate an inappropriate disbursement of City funds).
- In order to assess the reasonableness of non-salary City funds disbursed to or on behalf of City officials and employees, we sought to identify and quantify all such payments based on our detailed usage of funds analysis of City disbursements (as described above). In particular, we focused our analysis to identify and quantify, based on the information made available to us, checks or electronic payments made directly to City officials and key City employees (e.g., for travel per diem or expense reimbursement) and checks or electronic transfers made to individuals or organizations which appear to be charitable contributions, focusing on such disbursements where the contribution appears to have been made at the direction of a City official or employee or for the benefit of a charitable organization favored or controlled by a City official or employee. Included in this analysis was a review of disbursements made by City officials and employees using the City's American Express and MasterCard credit card accounts, which is described in detail further below in this memorandum.
- Crowe worked with personnel from the City's Finance team, Fire department and Police department to identify and obtain documentation to support the pension and investment accounts maintained by the City and its affiliates during the period within the scope of our analysis. Accordingly, we identified 43 pension and investment accounts for which we were able to obtain and analyze the account statements and, as needed, underlying transactional support. This included the following accounts:

- One investment brokerage account that the City held with Fifth Third Bank between 2007 and 2010;
- One Certificate of Deposit (CD) account that the City's Emergency Telephone Board has held with First Midwest Bank since 2007;
- Two pension fund accounts that the City held with Merrill Lynch between 2007 and 2009;
- Three pension fund accounts that the City's Fire department has held with Merrill Lynch since 2007, and one pension fund account that the City's Fire department has held with Merrill Lynch since 2010;
- Nine pension fund accounts that the City's Police department held with Merrill Lynch between 2007 and 2008;
- Eleven pension fund accounts that the City's Police department held with Oppenheimer & Co., Inc. between 2007 and 2009, and two pension fund accounts that the City's Police department held with Oppenheimer & Co., Inc. between 2008 and 2009; and
- Eleven pension fund accounts that the City's Police department has held with UBS since 2009, one pension fund account that the City's Police department has held with UBS since 2010, and one pension fund account that the City's Police department has held with UBS since 2011.

Our review of the investment and pension accounts was designed as follows:

- Identify disbursements of City or affiliate funds for which the recipient was unclear based on available documentation;
  - Identify disbursements of City or City affiliate funds for which the benefit to the City or its affiliate for these disbursements was unclear (i.e., sought to identify disbursements of City or City affiliate funds for the personal or political gain of City officials and employees); and
  - Search for evidence of previously unidentified City or City affiliate bank, investment or pension accounts.
- We worked with the City's Finance personnel to identify and obtain documentation to support the usage of proceeds derived from bond issuances, loans, lines of credit and other debt incurred by the City during the period within the scope of our analysis. Accordingly, we identified the following debt instruments for which we were able to obtain and review the account statements and, as needed, underlying transactional support:
    - The City issued General Obligation Bond Series 2007 on October 22, 2007 for which the City received proceeds of \$25,000,000.

- The City issued General Obligation Bond Series 2009 on April 7, 2009 for which the City received proceeds of \$8,765,000.
- The City obtained a \$4,257,000 TAW with Harris Bank based upon the City's 2009 anticipated tax proceeds. The 2009 TAW originated on August 17, 2010 with a maturity date of January 15, 2011. The loan was repaid in full on January 14, 2011, funded by proceeds from the City's 2010 TAW obtained from JPMorgan Chase.
- The City obtained a \$9,540,000 TAW held with JPMorgan Chase based upon the City's 2010 anticipated tax proceeds. The 2010 TAW originated on December 29, 2010 with a maturity date of December 30, 2011. The loan was repaid in full on November 30, 2011, primarily through wire transfers received by JPMorgan Chase from the Cook County Treasurer for tax distributions issued on behalf of the City.
- The City obtained a \$2,950,000 commercial loan with Charter One. Total disbursements of \$2,950,000 were made from this account, which has been repaid in full.
- The City obtained a \$10,000,000 revolving line of credit with First Midwest Bank. Total disbursements of \$16,500,000 were made from this account (including \$5,000,000 which appears to have been disbursed prior to the period within the scope of our analysis). This line of credit has been repaid in full.
- The City's Chicago Housing Authority department obtained a line of credit with First Midwest Bank. The line of credit allows for a maximum principal balance of \$250,000; however, no disbursements appear to have been made on this loan during the period within the scope of our analysis. The line of credit remained open as of April 30, 2011.

#### **Analysis of City-Issued Credit Card Accounts**

- The City maintained American Express and MasterCard credit card accounts during the period within the scope of our analysis. The individual cards of these accounts were assigned to various City officials and employees, as follows (dates of identified card activity are noted in the parenthetical):
  - American Express:
    - Mayor Dwight Welch (April 2008 through April 2011)
    - Former City Manager Henrietta Turner (January 2008 through April 2011)
    - City Clerk Deborah McIlvain (June 2007 through April 2011)
    - Former City Controller Alison Brothen (May 2007 through April 2011)
    - City Theater employee James Abernathy (May 2007 through April 2011)
    - Former City Theater employee Tony Harper (July 2009 through July 2010)



- Former Deputy Commander of Police Greg Smith (May 2008 through September 2009)
- MasterCard:
  - Former City Manager Henrietta Turner (May 2007 through April 2011)
  - Former Chief of Police Regina Evans (June 2009 through September 2010)
  - City Director of Water Dan Barr (December 2007 through March 2011)
  - Former City Director of Public Works Paula Smothers (November 2008 through October 2010)
  - Former Fire Department Chief Gary Kasper (May 2007 through March 2011)
  - A card held in the name of "Gary Kasper ETSB," wherein ETSB is understood to stand for Emergency Telephone Systems Board (June 2009 through August 2010)
  - City Clerk Deborah McIlvain (May 2007 through April 2011)
  - City Director of Public Safety William Brown (May 2007 through April 2010)
  - Former City Controller Alison Brothen (May 2007 through October 2010)
  - Former City Treasurer Michael Gleason (May 2007 through May 2008)
  - Former Alderman Lillian Lee (May 2007 through May 2008)
  - Former Alderman Tyrone Hutson (May 2007 through May 2008)
  - Former Alderman Robert Battie (May 2007 through May 2008)
  - Former Alderman Thomas Comein (May 2007 through May 2008)
  - Former Alderman Frank Martin (May 2007 through May 2008)
  - Alderman Vincent Lockett (May 2007 through May 2008)
  - Former Alderman Cynthia Singleton (May 2007 through May 2008)
  - Former Alderman Sherman Williams (May 2007 through May 2008)
  - Alderman James Ford (December 2007 through May 2008)

Crowe noted that the City made payments to American Express and MasterCard totaling \$1,187,539 and \$333,980, respectively, during the period within the scope of our analysis, and we performed an analysis of the activity within the City's credit card accounts during this period. For both credit card accounts, Crowe obtained and reviewed all credit card statements for the period within the scope of our analysis (with limited exceptions for which the City's Finance team was unable to locate certain statements), and performed an analysis of the documentation submitted by the card users to support card purchases in order to assess the reasonableness of the charges incurred (i.e., whether the charges represent a reasonable benefit to the City) and that all charges were supported by sufficient documentation (e.g., invoices, explanation of charges).

Of note, Crowe was unable to obtain from the City Finance team the following credit card statements:

- American Express:
  - April 2008 (missing statements for all cardholders)
- MasterCard:
  - August 2007 (missing statements for City Clerk McIlvain, Ms. Brothen, former Treasurer Gleason, and former Aldermen Singleton and Williams)
  - February 2008 (missing statements for Ms. Turner, Mr. Barr, City Clerk McIlvain, Ms. Brothen, former Treasurer Gleason, Alderman Lockett, and former Aldermen Lee, Singleton and Williams)
  - April 2009 (missing statements for all cardholders)
  - May 2009 (missing statements for Ms. Turner, former Chief Kasper, former Chief Kasper ETSB and Mr. Brown)
  - July 2009 (missing statements for Ms. Turner, former Chief Kasper, former Chief Kasper ETSB, City Clerk McIlvain and Mr. Brown)

#### **Analysis of TIF Disbursements**

- The City maintained two TIF districts during the period within the scope of our analysis. The first TIF district (“TIF 1”) is referred to as the “183<sup>rd</sup> Street Corridor” as it is primarily comprised of two commercial strip malls which are located adjacent to and across the street from City Hall on 183<sup>rd</sup> Street. The second TIF district (“TIF 2”) is a strip of undeveloped land located at the junction of state highways I-57 and I-80.

TIF 1 was designated by the City as a TIF district on July 25, 1988. This district includes, among other properties, the commercial strip malls referred to as Heritage Plaza Shopping Center (located across the street from City Hall) and the Shops at Cooper’s Grove Shopping Center (located adjacent to City Hall). Based on the expenditure ledger reports generated from the City’s general ledger, total disbursements were reported as being made from the TIF 1 Fund during the period within the scope of our analysis totaling \$2,989,075, including disbursements for outside services, bond servicing and interfund transfers. Disbursements of City funds which the City classified as TIF 1 disbursements were included within the provisions of our usage of City funds analysis described above. We also reviewed TIF 1 redevelopment agreements approved by the City Council during the period within the scope of our analysis. For TIF 1 disbursements which were included within our sample of 200 City fund disbursements (as described above), we sought to assess whether these disbursements were properly characterized as expenditures of the TIF Fund (as opposed to the General or other City Fund).

- Crowe did not identify any disbursements of City funds attributed to TIF 2 during the period within the scope of our analysis. Accordingly, our analysis of TIF 2 activity was limited to gaining an

understanding of the nature of the primary TIF 2 redevelopment agreement and the parties involved with the agreement. TIF 2 was designated by the City as a TIF district on June 9, 2008. The intended use of this undeveloped site is for the construction of an approximately 400,000 square foot outlet mall, as well as for “adjacent commercial uses and institutional uses.” The construction of the mall is to be undertaken by Prime/Capri Capital Partners (CCP) Development Partners (“Prime/CCP”) pursuant to the redevelopment agreement approved by the City Council on September 15, 2008. The mall, which had not yet begun construction as of April 30, 2011, is to be constructed on land purchased by Prime/CCP from Gatling Partners Limited Partnership. Pursuant to the redevelopment agreement, Prime/CCP is able to seek reimbursement from the City for up to \$42.8 million of costs incurred pursuant to the development and construction of the mall through the issuance of “developer notes” to the City representing the City’s obligation to repay Prime/CCP for such costs. The developer notes can be paid down by the City from the proceeds of future bond series issued by the City or by incremental tax revenue received by the City as generated by the TIF 2 district properties. To date, it is our understanding that Prime/CCP has issued developer notes to the City totaling in excess of \$14.6 million.

#### **Assess the Completeness and Accuracy of City Council Expenditure Reports**

- It is our understanding that the City’s Finance Committee and City Council are responsible for reviewing and approving, respectively, all checks issued by the City (with certain exceptions, such as checks issued for the City’s payroll). This review and approval is a critical checks and balances component of the City’s government, as the Aldermanic (i.e., legislative) review and approval of certain City disbursements (coupled with the City Council’s review and approval of the City’s annual budget) serves as a financial check over the City’s executive branch. Accordingly, the majority of checks are not issued by the City until they are pre-approved by the City Council; however, certain checks are issued by the City prior to such approval and are submitted to the Finance Committee and City Council for post-review and post-approval, respectively, alongside yet-to-be-issued checks submitted for pre-approval. Pursuant to this review, both the Finance Committee and City Council receive from the City’s Finance team a detailed listing of City checks for the month, including checks already issued and checks to be issued upon City Council approval. The report is referred to as the Payments by Vendor report (“Payments by Vendor report”).

Crowe obtained and reviewed all Payments by Vendor reports for the period within the scope of our analysis and compared these reports with the check detail we obtained from bank statements and check copies. This analysis was designed to assess the completeness and accuracy of the check detail included in the Payments by Vendor reports upon which the Finance Committee and City Council rely upon to review and approve City expenditures.

### Analysis of the Usage of Complimentary Amphitheater Tickets Issued to City Officials

- It is our understanding that complimentary tickets to the City's summer concerts held at the City's amphitheater were provided each year to the City's elected officials (i.e., the Mayor, City Clerk, Treasurer and Aldermen). Based on interviews with City employees who managed various aspects of the City's theater operations, the location and number of tickets provided to elected officials varied year over year. Crowe was told by City employees that these complimentary seats were intended for the personal use of the elected officials, for VIP guests of the City or elected officials (e.g., visiting mayors and other politicians), or for others whom the official desired to invite. It is our understanding that these tickets included some permanent "hard seats" located in the first several rows of the theater, as well as folding chairs with black cushions ("black seats") which were placed in various locations near the stage, including in the aisles located in front of and to the sides of the hard seats located near the stage. Based on one account as told to Crowe, seat cushions were sometimes placed on the aisle stairs to accommodate additional demand for black seat tickets.

The number of complimentary tickets distributed to officials appears to have varied from year to year, but may have approached or exceeded 100 tickets in certain years. We obtained an email sent by a City employee on April 20, 2011 which supports that the City reserved 98 black seat tickets for each show during the 2011 concert series (see **Exhibit 2** of this memorandum for a redacted copy of this email). Based on our discussions with City personnel, it appears that, on average, Aldermen would each receive between two and four tickets (i.e., between 20 and 40 tickets for ten Aldermen) each concert season, the Mayor, the City Clerk and the Treasurer would each receive between two and four tickets each concert season, and there were an additional 50 or more complimentary seats available which were alleged to have been distributed at the discretion of the Mayor and former City Manager, Henrietta Turner. Crowe was told that a "black book" had been maintained, likely by Ms. Turner, which documented the recipients of all complimentary tickets, including the black seats.

Multiple elected officials and personnel alleged to Crowe that it was their belief that Mayor Welch and Ms. Turner utilized the complimentary and "black seat" tickets made available to the Mayor to raise funds for the Mayor's political campaign (i.e., Citizens for Welch) and, beginning in 2009, for a not-for-profit organization called the Matthew Welch Scholarship Foundation ("MWSF"). It was alleged that these complimentary and "black seat" tickets were offered to individuals who donated money to Citizens for Welch or to the Matthew Welch Scholarship Foundation, with a suggested donation amount of \$50 per ticket. Accordingly, the allegations asserted that the Mayor and Ms. Turner were able to divert City funds (i.e., the money donated in exchange for the complimentary and "black seat" tickets) for the benefit of the Mayor's political campaign and the MWSF.

Crowe requested from City Clerk Deborah McIlvain that the City provide any records related to the complimentary and “black seat” tickets, including the “black book” identified by City personnel which was alleged to document black seat activity. Clerk McIlvain told Crowe that she was not sure if such records existed, including the “black book,” and stated that, if they did exist, they could not be located as such documentation would have been maintained by Ms. Turner, who was terminated by the City in 2012. Due to the lack of documentation made available to Crowe, our analysis of these allegations was limited to the detailed review we performed on an identified City bank account held with First Midwest Bank titled “City of Country Club Hills – Matthew Welch Scholarship Foundation” and based on a review of the recovered City email accounts of Ms. Turner and the City’s former Risk Manager, Chanay Mackey (both Ms. Turner and Ms. Mackey were officers of the MWSF and signatories on this bank account).

## **KEY FINDINGS AND OBSERVATIONS**

Below is a summary of key findings and observations relative to our examination.

### **General Observations**

- Based on our forensic examination as a whole, we identified a number of fraud risk indicators which are summarized below, and which we sought to investigate further based on the documentation and evidential matter available to us. In certain instances, Crowe was unable to gather sufficient documentation or other evidence to conclude as to the likelihood of whether these heightened fraud risk indicators were indicative of probable fraudulent transactions, violations of Illinois state law and City ordinances and regulations or other inappropriate behavior. However, we believe that several of these fraud risk indicators could potentially represent fraudulent transactions and violations of state law and/or City ordinances and regulations, while other transactions present potential evidence of poor judgment, mismanagement of City funds, unethical behavior and ineffective or non-existent financial procedures and internal controls.

The primary fraud risk indicators we identified during our examination include the following:

- Use of the City’s name and taxpayer identification number (TIN) to open and maintain a bank account for the use of the Matthew Welch Scholarship Foundation, a not-for-profit organization which otherwise maintains no sanctioned affiliation with the City;
- Email correspondence and third-party financial documentation suggesting that “complimentary” City amphitheater tickets were made available to individuals in exchange for donations to the MWSF, resulting in a loss of revenue to the City;

- Elevated risk of the existence of conflicts of interest and a “pay-to-play” culture at the City regarding the selection of City vendors;
- Potential usage of City employees for prohibited political activities during compensated time (as defined by Chapter 1, Article 4.10 of the City’s municipal code), as well as for the potential benefit of the Matthew Welch Scholarship Foundation;
- Multi-million dollar discrepancies in the reporting and submission of City expenditures for the respective review and approval by the City’s Finance Committee and City Council;
- Potentially excessive restaurant, entertainment and charitable contributions paid using City funds as incurred by or in the name of the Mayor and former City Manager Henrietta Turner;
- Credit card purchases made using City funds which do not appear to be of benefit to the City;
- City checks made payable to the Mayor for which supporting financial documentation was not obtained by Crowe;
- Potentially excessive expenses incurred by the City for recreational events, conferences and trainings attended by City officials and employees; and
- Unavailability of certain financial documents of public record (a potential violation of Chapter 1, Article 9.03 of the City’s municipal code).

**The Matthew Welch Scholarship Foundation Bank Account**

- Crowe worked with a Vice President and Senior Treasury Manager at First Midwest Bank to identify First Midwest Bank accounts held by the City or its affiliates during the period within the scope of our analysis. In doing so, a checking account called “City of Country Club Hills Matthew Welch Scholarship Foundation” was identified as a bank account held in the name of the City. The account was registered with First Midwest Bank using the City’s primary taxpayer identification number (TIN), no. 36-6009386, and, until March of 2012, the statements were sent to City Hall (effective March of 2012, the mailing address of the account was changed to 4421 W. 185<sup>th</sup> Pl., Country Club Hills, the address of the Mayor’s residence). The Matthew Welch Scholarship Foundation was established in January 2009 following the death of Matthew Welch, the Mayor’s son. As the MWSF is a not-for-profit organization registered with the state of Illinois and is not directly affiliated with the City, it is unclear why this account was registered using the name and TIN of the City.

Crowe obtained multiple third-party source documents associated with this bank account from our contact at First Midwest Bank, including banking resolutions, signature cards and a certificate of incumbency. Redacted copies of these files are attached as **Exhibit 3** of this memorandum (note that

the reduced legibility of certain of these files reflects defects in the file copies as provided to Crowe by First Midwest Bank), and include the following:

- The initial banking resolution used to establish the account, dated January 22, 2009, was filed by the City's former Risk Manager, Chanay Mackey, and the former City Manager, Henrietta Turner. It lists the name of the organization as "City of Country Club Hills Matthew Welch Scholarship Foundation," the federal employee ID number (FEIN) of the organization as "366009386" (i.e., the City's TIN), and identifies the type of organization as an "Association." Account withdrawal and transfer authority are granted to Ms. Mackey, Ms. Turner and Allison Steinhauser (understood by Crowe to be the Mayor's daughter). A second banking resolution, dated July 28, 2011, simply names the organization as "City of Country Club Hills," lists the FEIN as "36-6009386" and identifies the type of organization as a "Governmental Body/Public Entity." Account withdrawal and transfer authority are granted to Ms. Mackey and Ericka Blakemore (Crowe does not have further information regarding Ms. Blakemore).
- The initial signature card, dated January 21, 2009, lists Ms. Mackey as the account signatory, and lists the account's "Tax I.D." as "36-6009386." A subsequent signature card, dated January 27, 2009, lists both Ms. Mackey and Ms. Turner as the account signatories, and lists the account's "Tax I.D." as "36-6009386." A third signature card, dated March 18, 2009, includes Ms. Mackey, Ms. Turner and Ms. Steinhauser (listed as "President") as the account signatories. A fourth signature card, dated July 28, 2011, includes Ms. Mackey and Ms. Blakemore as the account signatories, and lists the account's "Tax I.D." as "36-6009386."
- A certificate of incumbency, dated January 22, 2009, lists Ms. Mackey, Ms. Turner and Ms. Steinhauser as "authorized officials" of "City of Country Club Hills Matthew Welch Scholarship Foundation."

Crowe obtained the MWSF Annual Report for 2010, which appears to have been filed with the State of Illinois. This report states that, as of March 3, 2010, the designated officers of MWSF included the following:

- President: Monica Amu (wife of Steven Amu, owner of City vendor Steven Amu & Associates);
- Secretary: Chanay Mackey;
- Treasurer: Henrietta Turner;
- Director: Jason Thomas (General Manager, WalMart/Country Club Hills);
- Director: Regina Evans (former City Chief of Police, indicted on multiple felony charges in the State of Illinois); and
- Director: Chasity Clark (entrepreneur).

It is our understanding that certain of the designated officers of MWSF were revised subsequent to March 3, 2010. Crowe noted that the Mayor is not designated as an officer of the MWSF, although the address of the Mayor's personal residence is listed as the principal office of the MWSF.

As the MWSF bank account is a City account, we obtained and reviewed bank statements and copies of checks deposited into and disbursed from the MWSF bank account during the period within the scope of our analysis. Crowe did not identify any transfers of funds into this account from other City bank accounts. The MWSF account is almost exclusively funded by checks deposited into the account made payable to the MWSF and as received from a variety of individuals and organizations, including over 45 City vendors who made total donations to the MWSF in excess of \$18,000 during the period within the scope of our analysis.

Deposits into the MWSF account totaled \$77,536 for the period within the scope of our analysis, and disbursements from this account during the same period totaled \$76,982, including identified scholarship disbursements of \$43,929. The majority of disbursements from this account comprise checks issued in the amounts \$750 or \$1,000 and made payable to various universities or high schools for scholarships on behalf of various students (who are identified within the check memo). Certain of the students who received scholarship grants from this account appear to be relatives of City employees or City vendors (based on information we received from a City official), including City employees and vendors who are also designated as officers of MWSF; however, Crowe was unable to independently verify that the following scholarship recipients are in fact related to City employees or vendors:

- o Steven & Lauren Giwa-Amu – Collectively received \$4,000 in scholarships (assumed to be relatives of Steven Amu, a City vendor who received total disbursements from the City of \$595,841 during the period within the scope of our analysis, and Monica Amu who is the President of the MWSF)
- o Marc Turner – Received \$4,000 in scholarships (assumed to be a relative of Henrietta Turner, former City Manager and Treasurer of MWSF)
- o Wade Hutson – Received \$1,000 in scholarships (assumed to be a relative of former Alderman Tyrone Hutson and Patricia Hutson, the City's Water department head)
- o Mesha & Robert Garner – Collectively received \$2,000 in scholarships (assumed to be relatives of Michelle Garner, former City employee, who is alleged to have a personal relationship with Mayor Welch)

Although the MWSF account was held in the City's name and registered using the City's TIN, disbursements from this checking account do not appear to have been reviewed by the City's Finance Committee or approved by the City Council. In addition to checks made payable to MWSF, the MWSF website states that donations can be also made through a PayPal account; however, Crowe



did not obtain access to this PayPal account. Of note, Crowe did not identify any deposits from a PayPal account made into the MWSF account held with First Midwest Bank.

#### **City Amphitheater Tickets Potentially Exchanged for Donations to the MWSF**

- As discussed above, it was alleged to Crowe that “complimentary” tickets to the City’s summer concerts held at the City’s amphitheater were offered to individuals in exchange for donations to the Matthew Welch Scholarship Foundation, with a suggested donation amount of \$50 per ticket. Pursuant to our finding that the City’s former Risk Manager, Chanay Mackey, and the former City Manager, Henrietta Turner, were responsible for creating the MWSF bank account using the name and TIN of the City, we obtained the contents of the City email accounts for Ms. Mackey and Ms. Turner for the period of January 2009 through April 2011. Based on our email review, we noted the following:
  - We identified an email sent by Ms. Turner on June 14, 2010 with the subject “Ticket Info” (see **Exhibit 4** of this memorandum for a redacted copy of this email and attachment). The email stated that the email recipient’s “*ticket request for the Timeless Voice concert scheduled June 19, 2010 will be available for pick-up June 19, 2010 at 5:00pm sharp. Attached you will find a letter with further details.*”

The attachment to the email is a Microsoft Word document titled “Ticket Info.” The document is a typed letter ostensibly written by Mayor Welch and dated June 14, 2010. The letter states “*due to the excessive amount of ticket requests that my office has received this season, we find ourselves unable to accommodate each of your individual requests fairly and equally. Therefore, rather than running the risk of leaving your requests unanswered, I ask that you please adhere to the following guidelines when requesting tickets to a concert at the Country Club Hills Theater: ...If you are requesting a complimentary ticket to a performance at the Country Club Hills Theater, I ask that you please make a donation of \$50.00 per ticket with a maximum of (2) tickets to the “Matthew Welch Scholarship Foundation” for the price of your ticket. Please make checks payable to the Matthew Welch Scholarship Foundation. Checks can be mailed to the City of Country Club Hills, 4200 W. Main Street, Country Club Hills IL. 60478, Attn: City Manager, Henrietta Turner; or you can bring it to the Will Call booth at the time of ticket pick up. Your generous donations are greatly appreciated by the City of Country Club Hills and will ensure that the Matthew Welch Scholarship Foundation will continue to grow and flourish. Tickets requested in this way will be held at the Will Call booth on 183<sup>d</sup> and Soleri on the night of the event after 5 p.m. under your name. ...Sincerely, Mayor Dwight W. Welch.*”

Crowe noted that four checks, totaling \$175, were issued from the bank account of this email recipient and were deposited into the MWSF bank account held with First Midwest Bank. These

checks included a check for \$50 written on June 19, 2010 (consistent with the date of the “Timeless Voices” concert) and deposited on June 21, 2010.

This email and attachment sent by Ms. Turner, coupled with the issuance of a check by the email recipient to the MWSF on June 19, 2010 for \$50, potentially support the allegation that the Mayor and Ms. Turner sought and were able to generate revenue from the City’s theater tickets for the benefit of the Matthew Welch Scholarship Fund (rather than for the benefit of the City). Of further interest is that the letter attachment in Ms. Turner’s email states that these “*donations are greatly appreciated by the City of Country Club Hills,*” which might be reasonably interpreted by the reader to mean that a donation to the MWSF in exchange for amphitheater tickets directly benefits the City or was sanctioned by the City Council, which does not appear to be the case.

- A City official provided Crowe with a hardcopy of an email which appears to have been sent by Ms. Turner to an unidentified recipient (the identity of the recipient appears to be redacted) and dated June 15, 2010, with the subject “Ticket Confirmation” (see **Exhibit 5** of this memorandum for a copy of this email and attachment). Crowe noted that this email is nearly identical to the email discussed above as sent by Ms. Turner on June 14, 2010. The email includes a Microsoft Word document attachment titled “ticket\_info” which is identical to the Word document attached to the June 14 email (the only noted difference is that date of this letter is June 15, 2010, while the letter sent in the June 14 email is dated June 14, 2010). We did not identify this email within the population of emails obtained by Crowe from Ms. Turner’s City email account. It is possible that this email was deleted from Ms. Turner’s email account before we obtained the contents of her email account. As this email was potentially deleted from Ms. Turner’s email account, it is possible that additional emails of this nature were sent by Ms. Turner to other individuals seeking theater tickets.

#### **Potential Conflicts of Interest Between City Representatives and City Vendors**

- Crowe identified an email string we recovered from Ms. Turner’s email account which suggests the possibility that Ms. Turner sought to solicit donations for the MWSF in exchange for City business with a utility company (see **Exhibit 6** of this memorandum for redacted copies of emails between Ms. Turner and the utility company representative). As background to this email string, Crowe noted the following:
  - The City Council renewed a 50-year franchising ordinance with the utility company on March 9, 2009 which continued and amended the utility company’s authorization to construct, operate and maintain a natural resource distribution system in and through the City.
  - The City Council also approved on March 9, 2009 (i) a revision to the City’s Municipal Code which allows the City to impose a new utility tax (to be collected by a public utility, who would retain 3%

of the collected tax), and (ii) a new resolution authorizing the collection of this new tax by this utility company.

- o The utility company made a \$2,500 donation to the MWSF through the issuance of a check dated November 12, 2009.
- o The utility company made a presentation to the City Council during the Administrative Meeting held on July 19, 2010.
- o The City Council approved an amendment to the 50-year franchising ordinance with the utility company during the regular City Council meeting held on July 26, 2010.

The email string between Ms. Turner and the utility company representative is summarized as follows:

- o June 29, 2010 – Ms. Turner emailed the representative: “Here is a little bit about the Matthew Welch scholarship.”
- o June 29, 2010 – The representative responded: “Do you have any idea when the Franchise Agreement can be resubmitted for board approval?”
- o June 29, 2010 – Ms. Turner responded: “The agreement will be up on the 17<sup>th</sup> of July.”
- o July 2, 2010 – The representative responded: “Has the 501C3 been established for the Matthew Welch Scholarship Foundation. Also, I would like to pick up the Franchise Agreement once approved.”
- o July 2, 2010 – Ms. Turner responded: “Yes, the 503c is done and of course you can pick up a Franchise Agreement once approved. ...Are you going to come to any of the Concerts this year? Email me any that interest you.”
- o July 23, 2010 – The representative responded: “I would love to continue [the utility company’s] support of Matthew Welch Scholarship Foundation. ...Also, thank you for your assistance with the Franchise Agreement. I am currently working with [a City employee’s name] to have the Agreement put on the July 26<sup>th</sup> Board Meeting.”
- o July 26, 2010 – Ms. Turner forwarded this string of emails to Chanay Mackey and Mayor Welch.

Crowe did not identify any checks from the utility company deposited into the MWSF bank account during 2010 or 2011; however, it is possible that such donations were made through the MWSF PayPal account. Nonetheless, this email string suggests the possibility that Ms. Turner sought to leverage the proposed Franchise Agreement between the City and the utility company in order to obtain MWSF donations. At the very least, this email string supports that Ms. Turner commingled City business with MWSF donation solicitations and appears to have done so during “compensated time” (as defined within Chapter 1, Article 4.10 of the City’s municipal code).

- Crowe interviewed Gena Jones, the owner of the now-defunct Country Club Hills business, Room Service Catering (also known as Iceburg Restaurant), on September 5, 2013. Crowe noted that Room Service Catering, which was located in the City’s TIF 1 district, received total City funds of \$386,768, as well as an additional \$5,497 in payments made from the MWSF account, during the period within the scope of our analysis. During the same period, Room Service Catering made

payments to the City totaling \$16,000 for theater sponsorship, and made contributions to Citizens for Welch and the MWSF totaling \$5,640 and \$200, respectively.

Ms. Jones told Crowe that it was "pretty well understood that if there's no donation, your business won't survive in Country Club Hills, period." She stated that City employees would enter her restaurant "all the time" seeking contributions for various political or charitable organizations or events, including Citizens for Welch, and make comments to the effect of "this is a pay-to-play city, so you need to make donations." Ms. Jones stated that she was reluctant to make political donations, as she did not live in the City and was not a highly political individual. Accordingly, she told Crowe that she held off making donations until 2006 or 2007. Ms. Jones stated that she felt she had no choice but to begin making donations of this nature as, prior to these contributions, she was harassed by City employees or City Police officers at least ten times between 2005 and 2007, and each time involved an interruption of her business. Ms. Jones stated that this was in addition to regular solicitations for donations by City employees.

Ms. Jones cited an example of harassment by City employees wherein she alleged that City employees and Police officers entered her restaurant/night club during the Friday evening preceding the three-day Martin Luther King Day holiday weekend in 2006 (i.e., Friday, January 13, 2006), at which time Ms. Jones was hosting an event. She alleged that the City employees and Police officers forced the closing of her business for the three-day weekend on the basis that Ms. Jones did not have the proper licensing to remain open. Ms. Jones stated that she met with City management to resolve the issue on the following Tuesday (i.e., January 17, 2006), but alleged that these City representatives failed to provide clear guidance as to what licensing was missing or how to resolve the issue. Ms. Jones stated that these City representatives instead pressured Ms. Jones to make donations of money and in-kind contributions of services to political and charitable organizations. When Ms. Jones began making donations, she began doing business with the City, catering City events and selling food at the City's amphitheater during the summer concert season. She also stated that she catered events for Citizens for Welch and the MWSF. Ms. Jones stated that at this time she also began paying the City to be an annual theater sponsor, and also paid a "significant amount" of money to sponsor a Citizens for Welch golf tournament. Ms. Jones stated that City management demanded she make unreasonable discounts for the services provided for City and political/charitable events.

Ms. Jones cited other instances where she was allegedly harassed by City employees and issued citations for bogus permit violations. She believes that other businesses located in the City's TIF 1 district faced similar situations with City Hall.

- Based on our analysis of the usage of City funds by recipient, we noted a high correlation between the City vendors who received the largest total disbursements of City funds during the period within the scope of our analysis and the entities or individuals who made the largest contributions to Citizens for Welch between 2000 and 2013. To illustrate, the top 50 highest contributors to CFW between 2000 and 2013 collectively contributed over \$1 million to CFW and collectively received nearly \$27 million in City funds during fiscal years 2008 through 2011 (an average of nearly \$540,000 in City funds per vendor). To illustrate further, the top ten highest contributors to CFW between 2000 and 2013 collectively contributed nearly \$315,000 to CFW between 2000 and 2013 and collectively received approximately \$15.8 million in City funds between fiscal years 2008 through 2011 (an average of over \$1.5 million in City funds per vendor). Based on our analysis of the MWSF bank account held with First Midwest Bank, we further noted that the top ten highest contributors to CFW also contributed \$5,650 to the MWSF between January of 2009 and April of 2011.

Crowe notes that a correlation of this nature does not, in of itself, indicate fraudulent activity (for example, it might be a natural cause and effect that businesses which derive significant revenue from the City might be motivated to contribute to the political campaign of the sitting Mayor in an effort to continue to secure this revenue); however, such a correlation does increase the risk that fraudulent activity may have occurred (for example, a pay-to-play scheme wherein City vendors are required or otherwise compelled to make donations to a political fundraising or charitable organization in exchange for access to City funds, or, alternatively, vendors are issued City payments in excess of standard pricing so that the excess payment of City funds can be passed through the vendor for submission to a political fundraising or charitable organization).

Based on this high correlation and the insight we gained over the course of our investigation, Crowe identified a risk-based sample of 200 disbursements of City funds for which we requested documentation (e.g., invoice, purchase order) to support the nature, purpose and reasonableness of these disbursements. Our review of these sampled transactions was designed to identify further fraud risk indicators (e.g., missing support, documentary evidence which suggests that the purchase did not benefit the City, missing purchase approvals, duplicate payments).

Of the 200 disbursement transactions we sampled, the City's Finance team was unable to provide us with supporting documentation for approximately 25% of these transactions. Nina Guzzo, the City's Finance team lead, told Crowe that some of the missing documentation was likely destroyed by a flood in the basement of City Hall that had occurred one or two years ago. Crowe notes that the inability to provide support for certain of the requested expense documentation appears to represent a violation of Chapter 1, Article 9.03 of the City's municipal code, which states that "city expense records" must be retained by the City for a period of at least "seven years after completion of the

annual audit,” which, as of the date of this memorandum, includes the entire period within the scope of our analysis.

- Crowe noted an instance where (i) the City paid a City vendor twice for the same invoice and (ii) the City vendor made a contribution to Citizens for Welch in close proximity to the date of the double-payment. This fact pattern represents a fraud risk indicator, as it suggests the possibility of a scheme wherein City officials or employees use vendors as pass-through entities to transfer City funds into their possession or for their benefit. However, it is important to note that Crowe was unable to conclude as to whether such a scheme actually occurred relative to the fact pattern below, and that the timing of these transactions might represent mere coincidence:
  - A check was issued in the amount of \$12,000 from the City’s general checking account on June 23, 2008, payable to a City vendor located within the City’s TIF 1 district. The check cleared on July 1, 2008. We noted that the owner of the City vendor made a \$750 contribution to Citizens for Welch on July 2, 2008; one day after the \$12,000 cleared the bank.

Crowe reviewed the documentation supporting the \$12,000 check and noted that this check was issued to pay two invoices, both in the amount of \$6,000. We observed that the invoices were identical and, therefore, appear to be duplicative in nature (one invoice appeared to be the original and the second invoice appeared to be a photocopy of the original).

A City official invited this City vendor to meet with Crowe; however, Crowe was told that the vendor declined to meet.

- We included two payments to one of the City’s construction vendors in our sample testing of City disbursements, and noted that the City paid this vendor twice for the same invoice, resulting in an overpayment to the vendor totaling \$188,715. Clerk McIlvain told us that the City was aware of the double-payment and stated that the overpayment of \$188,715 was repaid to the City by the vendor; however, no documentation was provided to Crowe to support this assertion. Crowe noted that the owner of this vendor has been convicted of fraud and tax evasion. Regardless of whether the double-payment was repaid to the City, Crowe noted multiple instances where vendors were paid more than once for what appears to have been for the same invoice (i.e., double-paid), which highlights a critical weakness in the City’s accounts payable function, and further heightens fraud risk indicators relative to the City’s fund disbursement process.

**Potentially Inappropriate Utilization of City Employees, including Prohibited Political Activities**

- Based on our review of the City email accounts of Henrietta Turner and Chanay Mackey, Crowe identified a number of emails which suggest that City employees were utilized to perform work to benefit Citizens for Welch and the MWSF during the City’s standard working hours. Some or all of

these identified instances might reasonably be classified as prohibited political activities and, accordingly, represent potential violations of Chapter 1, Article 4.10, of the City's municipal code. At the very least, the fact patterns suggested in the following emails support an inefficient, if not unethical, management of City personnel. These emails are summarized below:

- Chanay Mackey utilized for the benefit of Citizens for Welch:
  - Email string between a vendor and Ms. Mackey during January 2010 regarding the corrections to be made to a printer's proof of a flyer advertising a Citizens for Welch fundraising event ("Our Annual Cocktail Party" to be held on February 11, 2010). Crowe noted that Chapter 1, Article 4.10 of the City's municipal code includes in its definition of "prohibited political activity" "soliciting, planning the solicitation of, or preparing any document or report regarding anything of value intended as a campaign contribution." We observed that the email from Ms. Mackey was sent at 4:28 PM on a Thursday (i.e., during standard City business hours). See pages 1 and 2 of **Exhibit 7** of this memorandum for a redacted copy of this email string.
  - Email from Ms. Mackey to a vendor on March 5, 2010 requesting 500 copies of a postcard advertising the Annual Citizens for Welch Golf Outing to be held on June 4, 2010. Similar to the above, this might represent a violation of Chapter 1, Article 4.10 of the City's municipal code. We observed that the email from Ms. Mackey was sent during standard City business hours. See page 3 of **Exhibit 7** of this memorandum for a redacted copy of this email.
- Other City employees (who are referred to as "City Employee Nos. 1, 2, 3 or 4" within our memorandum in order to maintain their confidentiality) appear to have been utilized during "compensated time" for the benefit of Citizens for Welch and the MWSF, and, therefore, represent potential violations of Chapter 1, Article 4.10 of the City's municipal code. We noted that the majority of the emails issued by City employees cited below were sent during the City's standard business hours.
  - Email strings between Ms. Mackey, a vendor, and "City Employee No. 1" sent between November and December of 2010 and regarding various reporting and regulatory requirements of the MWSF. Of note, City Employee No. 1 states to the vendor, "I apologise [sic] for taking so long to send you this information. I have to fit it in with my day to day operations," which appears to support that the employee's work on behalf of the MWSF conflicted with his City work. See pages 1 through 3 of **Exhibit 8** of this memorandum for a redacted copy of these email strings.

- A series of emails between “City Employee No. 2,” a vendor, Ms. Mackey and others dated between December 2009 and August 2010. All emails refer to website-related issues for Citizens for Welch and the MWSF. See pages 4 through 14 of **Exhibit 8** of this memorandum for redacted copies of these emails.
- An email from “City Employee No. 3” to Ms. Mackey dated January 5, 2010 containing two Microsoft Word document attachments called “Matt’s legacy” and “Matt mission.” City Employee No. 3 states, “Here are 2 documents for Matt’s Web site.” This email suggests that the City employee drafted the attached documents. See pages 15 through 18 of **Exhibit 8** of this memorandum for a redacted copy of these emails and the Word document attachments.
- Four emails from “City Employee No. 4” to Ms. Mackey, Ms. Turner and City Clerk McIlvain dated between June 2009 and July 2010, each containing a Microsoft Word document attachment which appears to have been drafted by the City employee on behalf of the MWSF (e.g., invitations for the 2009 and 2010 MWSF annual fundraising dinner). See pages 19 through 28 of **Exhibit 8** of this memorandum for redacted copies of these emails and the Word document attachments.
- An email sent from Ms. Turner’s account to Ms. Mackey but which appears to have been written and sent by a City summer intern. The email states, “Tomorrow is my last day before I head back to school so I thought I would email you the two documents you had me work on.” The email includes two file attachments, both of which contain address and contact information for individuals who were considered for or received the MWSF annual scholarships.

### **Significant Omissions & Inaccuracies in Financial Reporting to Finance Committee & City Council**

Based on our detailed analysis of the Payments by Vendor reports prepared by the City’s Finance team and submitted to the Finance Committee and City Council for their review and approval, respectively, of all checks issued by the City (with limited exceptions), we noted the following:

- It is Crowe’s understanding that checks issued from the following City or affiliate accounts were intended to be included in the Payments by Vendor reports submitted for review and approval to the Finance Committee and City Council:
  - City of Country Club Hills CDBG AD Cost
  - City of Country Club Hills CDBG Fund
  - City of Country Club Hills General
  - City of Country Club Hills Fire Department Pension Fund
  - City of Country Club Hills Housing Authority



- City of Country Club Hills Emergency Telephone System Board

We identified that the City issued 31,715 checks totaling \$87,437,068 from the above six demand accounts during the period within the scope of our analysis.

Based on our analysis, we noted significant reporting deficiencies related to this process, as follows:

- Crowe identified approximately 600 checks issued from the above bank accounts and totaling approximately \$1.6 million that were issued during the period within the scope of our analysis but appear to have been excluded from the Payments by Vendor reports prepared by the Finance team and, as a result, do not appear to have been submitted to either the Finance Committee for review or the City Council for approval. A representative sample of payments that were not submitted to the City Council for approval are listed below:
  - American Express – 13 checks totaling \$157,643 – Given the risk of cardholder exploitation of City-issued credit card accounts, the consistent non-presentation of these checks to the City Council appears to represent a significantly large risk of inappropriate, if not fraudulent, activity. The City made payments to American Express totaling \$1,187,539 during the period within the scope of our analysis, and only \$191,341 of that balance was paid using checks (the remainder of the payments were made through wire transfer, which are not approved by the City Council). Of the \$191,341 of check payments made to American Express, checks totaling only \$33,698 (or less than 3%) of total American Express charges were approved by the City Council, and the majority of those checks were misreported in the reports provided to the City Council (see below for further information regarding this topic).
  - MasterCard – 6 checks totaling \$27,941 - It is unclear why payments to this vendor were not submitted to the City Council for approval, particularly given the risk of cardholder exploitation for City-issued credit card accounts.
  - Homewood Disposal Service – 1 check in the amount of \$90,997 - The City contracts with this vendor to provide waste management services.
  - Castle Construction – 1 check in the amount of \$47,746 – This vendor received more City funds over the past several years than any other vendor.
  - WalMart – 3 checks totaling \$183,192 - These payments appear to represent tax rebates pursuant to the City's economic incentive agreement with the vendor.
  - Sound of Authority – 1 check in the amount of \$151,835 - This vendor provides audio/video and other stage management services for the City's amphitheater.

- Ronald Evans – 2 checks totaling \$13,926 – Mr. Evans was employed with the City for a time on a contractual basis prior to being hired full time as the City's Inspector General.
- We identified 1,724 checks totaling \$7,908,180 that were issued during the period within the scope of our analysis which present the incorrect check date within the Payments by Vendor reports. In all such instances, the actual date that the check was written is at least one or more days earlier than the check date that is presented in the Payments by Vendor report; however, on average the actual check date was 34 days earlier than the check date as presented in the Payments by Vendor report. The largest difference between the actual date and the reported date that we identified was 284 days.

This finding is particularly significant as the impact of these post-dated checks is that these checks will appear to the user of the Payments by Vendor report (i.e., the Finance Committee and City Council) as not yet having been issued, when in reality these checks were issued an average of 34 days, and as many as 284 days, prior to the date as reported in the Payments by Vendor report. Accordingly, all such checks had been issued prior to receiving Finance Committee review or City Council approval; however, the Finance Committee and City Council would likely be under the impression that these checks had not yet been issued.

To illustrate this issue, refer to **Exhibits 9** and **10** of this memorandum, which present the minutes of the City Council meeting held on July 27, 2009 and the Payments by Vendor report issued to the City Council for their review and approval at the July 27, 2009 City Council meeting, respectively. Note that page 2 of **Exhibit 9**, under "6.I.A. Approval of Vouchers," lists total vouchers approved in the amount of \$1,489,290. Next, refer to page 1 of **Exhibit 10** and note that the total amount of Accounts Payable is \$1,489,290 (i.e., identical to the amount of vouchers as approved based on the City Council meeting minutes in **Exhibit 9**). Also make note of the line item on page 1 of **Exhibit 10** referred to as "A/P Disb 07/31/2009." Next, refer to page 3 of **Exhibit 10**; this is the first page of the Payments by Vendor report which lists all of the checks included in the "A/P Disb 07/31/2009" batch presented in total on page 1 of **Exhibit 10**. Still referring to page 3 of **Exhibit 10**, note that the first vendor to whom checks are to be issued is A&J Rehab & Construction, and that two checks, nos. 92093 and 91995, are to be issued to this vendor as part of the "A/P Disb 07/31/2009" check batch. Further note that check no. 92093 has a check date of July 27, 2009 (i.e., the same date as the City Council meeting). Looking at the next seven vendors listed on page 3 following A&J Rehab & Construction, note that all of these checks are sequentially numbered (e.g., 92094, 92095, 92096) and list the same check date of July 27, 2009. Now, refer back to check no. 91995 to be issued to A&J Rehab & Construction: note that the check number is out of sequence as compared to the other checks (i.e., this appears to be a check number that occurred earlier in the sequence). Note further that the check date for this check is presented as July 31, 2009, also different from the other checks

which are all dated July 27, 2009. Crowe obtained a copy of check no. 91995 as issued to A&J Rehab & Construction, and noted that (i) this check was actually dated and issued on June 24, 2009 (hence the out-of-sequence check number) and cleared the bank on June 25, 2009. Accordingly, check no. 91995 had been issued by the City 33 days prior to the presentation of the check to the City Council, and furthermore, the check date was incorrectly revised from June 24, 2009 to July 31, 2009 (as presented in the Payments by Vendor report), meaning that the check date as reflected in the Payments by Vendor report is 37 days later than the actual check date. Crowe noted that the Payments by Vendor report presented in **Exhibit 10**, and as presented to the City Council for approval on July 27, 2009, contains over 25 incorrectly post-dated checks totaling in excess of \$100,000.

Adding further significance to this finding is that, based on discussions we had with the City's Accounts Payable Clerk ("A/P Clerk"), who typically prepares the Payments by Vendor reports, it appears that the check date as presented within the Payments by Vendor report is identical to the date that was entered into the general ledger. Accordingly, it appears that all checks which are misdated in the Payments by Vendor report are also misdated in the general ledger, which has the impact of creating unreliable financial reporting for all reports run off the City's general ledger. The A/P Clerk stated that the City's former Controller, Alison Brothen, directed the A/P Clerk to enter manual checks (i.e., checks issued outside of the typical accounts payable check run, usually in advance of the City Council meeting and, therefore, issued without City Council pre-approval) into the general ledger using the last date of the month during which the check was posted. The A/P Clerk does not know why Ms. Brothen directed the A/P Clerk to do so.

Although Crowe cannot conclude definitively as to why Ms. Brothen directed the A/P Clerk to post-date manual checks within the Payments by Vendor report and the general ledger, the impact of this decision served to reduce the ability of the Finance Committee and City Council to identify and, if desired, question manual checks issued by the City's Finance team prior to receiving pre-approval by the City Council. It also appears to have led to the posting of incorrect transaction dates into the City general ledger, which in turn, has likely led to incorrect financial reporting for the period within the scope of our analysis.

- We identified 5,191 checks totaling \$22,711,067 issued during the period within the scope of our analysis that were presented to the City Council after the check had already been issued (i.e., checks which were submitted to the City Council for post-approval). These 5,191 checks include the aforementioned 1,724 checks for which the check dates were inappropriately post-dated in the Payments by Vendor report. Based on our discussions with the City's Finance team, certain types of City disbursements were authorized to be issued via a check without pre-approval from the City

Council – such disbursements, typically checks, were referred to as manual, or emergency, checks. The types of checks that were generally agreed upon to be issued as manual or emergency checks were recurring checks associated with the bi-weekly payroll run (e.g., checks to fund pension, benefits and other payroll-related payments). Other types of accepted manual or emergency checks were payments to vendors of the City's amphitheater, who anticipated receiving payment from the City on their food and beverage sales immediately following the weekend of each summer show. This also applied to vendors who participated in the City's farmer market. Another accepted type of manual or emergency check were purchases needed immediately, typically for a true emergency situation. As a rule, such manual or emergency checks should not be more than 30 days old when submitted to the City Council for post-approval. Based on the above parameters and expectations regarding the City's manual and emergency checks, Crowe identified a significant number of these 5,191 checks which (i) do not appear to meet one of the accepted definitions of a manual or emergency check, (ii) were submitted to the City Council more than 30 days after the date the check was issued, or (iii) both.

Of the 5,191 checks totaling \$22,711,067 that we identified as being submitted to the City Council after the check had already been issued, we noted that 992 of these checks totaling \$4,422,373 were submitted to the City Council more than 30 days after issuance. For these 992 checks, the average length of time between the check date and the City Council meeting was 53 days, with the longest difference being 306 days (i.e., for check no. 80876 made payable to Sam's Club in the amount of \$9,671, as issued on April 23, 2008 and as approved by the City Council on February 23, 2009). A representative sample of checks which were submitted to the City Council for approval more than 30 days after issuance is provided below:

- MasterCard - 20 checks totaling \$183,041 – The average number of days that these checks had been issued prior to submission to the City Council is 75 days.
- Transfer from the City's General Account into the City's Imprest Account - 2 checks totaling \$10,254 - The average number of days that these checks had been issued prior to submission to the City Council is 161 days.
- Sam's Club - 5 checks totaling \$47,761 – The average number of days that these checks had been issued prior to submission to the City Council is 116 days.
- American Express - 3 checks totaling \$30,844 - The average number of days that these checks had been issued prior to submission to the City Council is 69 days.

Furthermore, Crowe noted the following representative sample of check payments which were issued as manual or emergency checks but which do not appear to meet the accepted definitions of such

checks. Most of these vendors are used frequently by the City and many involve large dollar payments; accordingly, it remains unclear why such payments would be required to be issued prior to City Council approval:

- Kovilic Construction – 1 check in the amount of \$712,444 – This check appears to represent payments for the construction of a fence between the TIF 1 district and the Provincetown residential community, as well as for “campus fencing.” It is unclear why a payment for a construction cost of this magnitude would not be pre-approved by the City Council.
- MasterCard – 34 checks totaling \$258,958 (the average length of time between the issuance of these checks and submission to the City Council is 51 days) – It is unclear why payments to this vendor would need to be issued prior to City Council approval, particularly given the risk of cardholder exploitation for City-issued credit card accounts.
- Mayor Dwight Welch – 34 checks totaling \$15,730.
- American Multi-Cinema, Inc. – 1 check in the amount of \$224,465. This payment appears to represent tax rebate pursuant to the City’s economic incentive agreement with the vendor.
- The Owens Group – 3 checks totaling \$576,256 – The City procures risk management services from this vendor.
- Sound of Authority – 4 checks totaling \$187,696 – This vendor provides audio/video and other stage management services for the City’s amphitheater.
- Steven Amu & Assoc. – 12 checks totaling \$146,295 – The City procures architectural services from this vendor.
- A&J Rehab & Construction – 13 checks totaling \$137,877 – The City procures construction services from this vendor.
- Room Service Catering – 38 checks totaling \$135,770 – The City uses this vendor to cater City functions.
- Onesti Entertainment Corp. – 3 checks totaling \$91,402 – The City contracted with this vendor to manage the City’s summer concert series for the 2007 and 2008 seasons.
- Rosenthal Murphey & Coblentz – 10 checks totaling \$119,479 – This vendor serves as the City’s Executive Counsel.
- Planning Resources Inc. – 1 check in the amount of \$97,924 – This consulting and community/landscaping/resource management vendor is used frequently by the City.

- Village of Oak Lawn – 33 checks totaling \$2,479,028 – The City purchases water from the Village of Oak Lawn.
- Homewood Disposal Service – 18 checks totaling \$1,721,248 – The City contracts with this vendor to provide waste management services.
- Central Rodding Service – 4 checks totaling \$110,153 – The City purchases sewer and plumbing repair services from this vendor.

### **Oversight of Purchases Made Using City-Issued Credit Cards**

Based on our analyses of the City's American Express and MasterCard credit card accounts, which are discussed above, Crowe made the following assessment of credit card payment approval history:

- The City made total payments to American Express in the amount of \$1,187,538 during the period within the scope of our analysis. Of this amount, \$996,107 represents payments made through wire transfers/electronic disbursements (non-check payments do not appear to be approved by the City Council), and the remaining \$191,431 represents payments by check. Of the \$191,431 in check payments, checks totaling \$33,788 were submitted to the City Council for approval while the balance of \$157,643 represents check payments which were not submitted to the City Council for approval. Of the \$33,788 in checks submitted to the City Council, \$30,844 were inappropriately post-dated in the Payments by Vendor reports and had been issued without the City Council's pre-approval (i.e., the checks as presented in the report provided to the City Council appeared as though they had not been issued prior to City Council approval), while the remaining balance of \$2,944 was accurately presented to the City Council for pre-approval. In summation, the City Council was provided accurate reporting information on which to base their payment approval for approximately 0.2% of the total value of payments made to American Express during the period within the scope of our analysis.
- The City made total payments to MasterCard in the amount of \$333,980 during the period within the scope of our analysis. All payments were made by check. Of this amount, checks totaling \$295,539 were submitted to the City Council for approval while the balance of \$38,441 represents check payments which were not submitted to the City Council for approval. Of the \$295,539 in checks submitted to the City Council, \$243,063 were inappropriately post-dated in the Payments by Vendor reports provided to City Council and had been issued without the City Council's pre-approval (i.e., the checks as presented in the Payments by Vendor reports appeared as though they had not been issued prior to City Council approval), while the remaining balance of \$52,476 was accurately presented to the City Council. In summation, the City Council was provided accurate reporting information on which to base their payment approval for approximately 16% of the total value of payments made to MasterCard during the period within the scope of our analysis.

- Based on a discussion Crowe held with Alderman James Ford, the former Chair of the Finance Committee, the Finance Committee did not review credit card statements until Alderman Ford became the Chair in 2009. Alderman Ford added that this review was performed by only two members of the Finance Committee: himself and former Alderman Thomas Comein. Alderman Ford stated that he believed that the credit card expenditures were “out of control” and he had many questions regarding the charges he examined, but that he passed on his questions to former City Controller Alison Brothen, and assumed that Ms. Brothen resolved his concerns without further follow-up.
- We observed that the City issued payments totaling \$223,632 to Prime Time Transportation and Security, Inc. DBA Prime Time Limousine (“Prime Time”) between June 2007 and August 2008. The payments were made exclusively using City Theater employee James Abernathy’s City-issued American Express card. Prime Time was owned and operated by the City’s former Chief of Police, Regina Evans, and her husband, Ronald Evans, the City’s former Inspector General (both of whom have been indicted on felony charges). Mr. Abernathy provided Crowe with two contracts to support the payments he made to Prime Time. See **Exhibit 11** of this memorandum for copies of these contracts. Both contracts are addressed to Mr. Abernathy. The first contract is for Prime Time to provide the City with limo transportation to the artists performing in the City’s 2007 summer concert series for a fee of \$75,000. The second contract is for similar transportation for the City’s 2008 summer concert series for an estimated fee of \$120,000.

Mr. Abernathy told Crowe that former Chief Evans required that the Prime Time payments be made through the City’s American Express credit card. Mr. Abernathy did not believe that the contracts were submitted to the City Council for approval, despite the fact that both contracts were in excess of the Mayor’s \$25,000 approval authorization limit in effect at that time. Crowe did not identify any evidence in the City Council meeting minutes to support that either of these contracts were presented to the City Council for approval.

#### **Purchases Made with City-Issued Credit Cards**

Our review of the City’s American Express and MasterCard credit card accounts yielded the following observations:

- We noted that the “City Issued Credit Card Policies and Procedures” provided to us by City Clerk McIlvain, as implemented in August 2006, states the following in Chapter 2, *Code of Ethics for Using City Issued Credit Cards*:

*“All City personnel and officials engaged in purchasing and related activities on behalf of the City shall conduct themselves in a manner above reproach in every respect. Transactions relating to*

*the expenditure of public funds require the highest degree of public trust to protect the interests of the City and the residents of Country Club Hills. City employees and officials shall strive to ensure that public money is spent efficiently and effectively in accordance with statutes, regulations, and City policies.”*

We further noted that Chapter 3 of these policies and procedures, *Procedures for Using City Issued Credit Cards*, states, “Cardholders cannot use the City of Country Club Hills corporate credit card for personal purchases with the intent of reimbursing the City of Country Club Hills at a later date.”

- Based on our review of the credit card statements and available supporting documentation, Crowe identified charges on the City-issued American Express accounts of Mayor Welch and Henrietta Turner, and on Ms. Turner’s City-issued MasterCard account for the period within the scope of our analysis as follows:
  - Total combined charges of \$436,165:
    - Mayor Welch’s American Express account charges totaled \$131,035.
    - Ms. Turner’s American Express account charges totaled \$212,388, and her MasterCard account charges totaled \$92,742.
    - These figures are incomplete as Crowe was unable to obtain the American Express statements for the month ended April 19, 2008 for either Mayor Welch or Ms. Turner, nor was Crowe able to obtain MasterCard statements for Ms. Turner for the months ended February 14, 2008, April 14, 2009, May 14, 2009 or July 14, 2009.
  - Included in the total combined charges of \$436,165 were \$228,990 for identified restaurant and bar expenses:
    - We identified restaurant and bar charges made on Mayor Welch’s American Express account totaling \$99,356. This represents 733 charges incurred between April 2008 and April 2011, and generates an average charge of \$136 per transaction.
    - We identified restaurant and bar charges made on Ms. Turner’s American Express account totaling \$97,290, and restaurant and bar charges on Ms. Turner’s MasterCard account totaling \$32,344 – a combined total of \$129,634. This represents 678 charges incurred between May 2007 and April 2011, and generates an average charge of \$191 per transaction.
    - Based on the documentation provided by the City to support these charges, Crowe noted that many of these restaurant and bar charges incurred on Mayor Welch’s American Express



account list Ms. Turner as an attendee, and, likewise, many of these charges incurred on Ms. Turner's American Express and MasterCard accounts list the Mayor as an attendee. Crowe noted that these 1,411 combined restaurant and bar charges, totaling \$228,990, generate an average charge of approximately \$162 per transaction and an average daily charge in excess of \$157 during the period within the scope of our analysis. We noted that a significant volume of these charges were incurred at restaurants which might be considered to have mid- to high-priced menus, including:

- Mr. Benny's Steak and Lobster House (total combined charges of \$34,609);
  - Balagio Ristorante (total combined charges of \$11,758);
  - Hamada of Japan (total combined charges of \$11,286);
  - Tin Fish (total combined charges of \$9,471);
  - Cooper's Hawk Winery & Restaurant (total combined charges of \$9,352);
  - Café Bionda (total combined charges of \$5,261); and
  - Other restaurants including, but not limited to, Ruth's Chris Steakhouse, The Capital Grille, Wildfire, Grand Lux Café, Carmichael's Chicago, Harry Caray's Restaurant and Anthony's Steakhouse.
- The supporting documentation provided for these restaurant and bar expenses indicated that a significant percentage of these charges involved only City officials and employees and the business purpose for these meetings was typically described something to the effect of "discuss personnel issues," "staff issues," "meeting public works," "discuss police/fire issues," or "Adm. Issues." It is unclear why such charges represent a benefit to the City when meetings of this nature can typically be performed at the job site (e.g., at City Hall) rather than consistently involving sit-down lunches at mid-to-high-priced restaurant venues. A representative sample of supporting documentation for lunch and dinner expenses of this nature are provided in **Exhibit 12** of this memorandum. As evidenced in certain of the receipts provided in **Exhibit 12**, we noted that multiple internal lunch meetings included the purchase of alcoholic beverages. Although the City's current Handbook of Personnel Policies and Procedures does not explicitly prohibit the consumption of alcoholic beverages during the City's standard business hours (it merely prohibits the consumption of such beverages on City property and drinking to the point of intoxication), the use of public funds to make such purchases during City meetings might be considered excessive.
- Included in these restaurant and bar purchases, we noted six charges to Hooters restaurants totaling \$1,248. Two of the charges were incurred on Ms. Turner's cards and the remaining four were charged on the Mayor's card. Mayor Welch told Crowe that "someone else" other

- than him made the Hooters charges on his card, citing that others borrowed his card from time to time.
- We identified 65 charges totaling \$6,938 incurred on Mayor Welch's City-issued American Express account during the period within the scope of our analysis which appear to be for golf-related expenses, primarily comprised of 60 charges totaling \$6,251 for charges to Green Garden Country Club.
  - Crowe noted 85 movie theater charges totaling \$2,718 on Mayor Welch's City-issued American Express card during the period within the scope of our analysis, which generates an average transaction amount of approximately \$32. Twenty (20) of these charges totaling \$475 represent individual charge amounts in increments of \$5 or \$10 (e.g., \$10, \$25, \$30), including one purchase in the amount of \$100, some or all of which might represent gift certificate purchases; however, the remaining 65 charges totaling \$2,243 represent purchase amounts in denominations other than \$5 or \$10 (e.g., \$32.00), suggesting that these represent the purchase of one or more individual tickets or concession stand purchases rather than gift cards. As a whole, the business purpose of these charges remains unclear based on the documentation provided to support these purchases. As noted above, the City's credit card policies strictly prohibit the usage of City credit cards for personal purchases, even if the cardholder's intent is to reimburse the City for said purchases.
  - We identified 41 charges and charge reversals on Ms. Turner's City-issued American Express card during the period within the scope of our analysis for "Monavie" which sum to total net charges of \$6,232. Monavie appears to be a retail vendor for fruit and vegetable juice-based dietary supplement products. We also noted one charge for "Shaklee" in the amount of \$371 on Ms. Turner's City-issued MasterCard account. Shaklee appears to be a nutritional supplement. Lacking any documentation to support otherwise, Crowe assumes that these represent personal rather than business expenditures. As noted above, the City's credit card policies strictly prohibit the usage of City credit cards for personal purchases, even if the cardholder's intent is to reimburse the City for said purchases.
  - Former City Controller Allison Brothen appears to have purchased plane tickets for herself and members of her family. We identified five charges totaling \$1,104 made to American Airlines on Ms. Brothen's City-issued American Express card, inclusive of four round-trip tickets from Chicago to Los Angeles, CA, plus a change order fee of \$40, purchased on April 23, 2007 for Ms. Brothen, Glenn Brothen, Hayley Brothen and Zach Brothen. These expenses appear to be personal in nature, and, based on the available documentation, it appears unclear as to whether this balance was repaid to the City by Ms. Brothen. As noted above, the City's credit card policies

strictly prohibit the usage of City credit cards for personal purchases, even if the cardholder's intent is to reimburse the City for said purchases.

#### **City Checks Made Payable to Mayor Welch**

- Crowe identified 98 City checks totaling \$37,056 (excluding salary and tax rebate checks) made payable to Mayor Welch. This includes 62 checks totaling \$20,976 issued from the City's imprest checking account and 36 checks totaling \$16,080 issued from the City's general checking accounts.
  - Crowe's sample analysis of City disbursement transactions included 7 of these 98 checks totaling \$4,030.
  - Four of the seven sampled checks represent per diem for out-of-town travel. Crowe noted that Chapter 4, Article 6.01 of the City's municipal code allows for an advance payment (i.e., per diem) for meal expenses of \$25 per day, prior to May 2008, and \$75 per day, effective during and after May 2008. We observed that for three of these four checks, the per diem rate at the date those checks were issued was \$25 per day, and these three checks, totaling \$1,900, are in the amounts of \$600, \$700 and \$600, respectively. Based on the lack of supporting documentation provided for these three checks, coupled with the likelihood that the check amounts are too high to represent \$25 per diem rates (i.e., at \$25 per day, a \$600 per diem would equate to 24 days of travel), these three checks do not appear to be fairly supported and, accordingly, do not appear to be reasonable in nature.
  - The fourth per diem check included in the sample was for the Mayor's trip to Las Vegas during May 2008 to attend a retail mall convention. The check amount of \$450 appears reasonable, as the per diem rate had just been increased at that time by City Council resolution from \$25 to \$75, and the Mayor's trip appears to have been 6 days in length (i.e. 6 days of \$75 per diem equates to \$450). However, Crowe noted that significant dinner expenses were charged on the City's American Express account relative to this Las Vegas trip and, based on the support provided for those charges, the Mayor attended all of these dinners. Accordingly, it does not appear reasonable that the Mayor should receive per diem payments for the entire trip while also attending multiple expensive meals during the trip which were paid using City-issued credit cards.
  - The remaining three checks included in our sample were described in the general ledger as "expenses – Mayor Welch" or "Reimb. Taxi fare;" however, no documentation was provided to Crowe to support either check. Accordingly, none of these three checks appear to be sufficiently supported to justify the expense to the City.
  - See **Exhibit 13** of this memorandum for copies of the documentation that Crowe received as support for four of the seven requested sample checks issued to Mayor Welch.

- Of the 36 checks issued from the City's general checking accounts and made payable to Mayor Welch, two checks totaling \$350 were not submitted to the City Council for approval. Of the 34 general account checks submitted to and approved by the City Council, all checks had been issued by the City prior to submission to the City Council for post-approval, and 30 of these checks were inappropriately post-dated as presented in the Payments By Vendor reports.
- None of the 62 imprest checks made payable to Mayor Welch during the scope of our analysis were submitted to the City Council for approval (consistent with the fact pattern that no imprest checks of any kind appear to have been submitted to the City Council for approval). Crowe noted that nearly all of the imprest checks contained a memorandum that referred to the payment as being a "reimbursement of expenses."
- We noted that 6 of the 98 checks made payable to Mayor Welch, totaling \$2,297, were endorsed using the Mayor's signature stamp rather than a handwritten signature. Five of these six checks were issued from the City's imprest account, and one check was issued from the City's general checking account. Accordingly, it is possible that the proceeds of these checks were not distributed to the Mayor but instead to an unidentified individual who had access to his signature stamp.

#### **City Funds Utilized for Donations, Gifts and Charitable Purposes**

- Crowe noted that the City issued a significant volume of payments which were identified by the City as donations or charitable contributions. In addition to City credit card payments made for what were identified by the cardholders to be gifts and donations, we noted a large volume of checks issued from City bank accounts which were characterized as donations, gifts, scholarships or charitable contributions, as follows:
  - Crowe identified 432 checks totaling \$204,824 issued during the period within the scope of our analysis which included the term "donation" in the general ledger description (e.g., "Donation f/Books/Tuition," "Donation- Luncheon," "Donation- Scholarship"). We noted that 154 of these checks totaling \$38,141 contain the general ledger description of "Donation – Mayor Welch" or "Donation – Mayor."
  - Separate from the above checks, we identified 25 checks totaling \$31,703 issued during the period within the scope of our analysis and which included the term "gift" in the general ledger description (e.g., "gift cards," "grad. gift – Ald Watts"). We noted that three of these checks totaling \$1,094 include the term "Mayor" in the general ledger description.
  - Separate from the above checks, Crowe identified 57 checks totaling \$13,309 issued during the period within the scope of our analysis and which included the term "donation" in the check memo

(e.g., "Donation from Mayor Dwight W. Welch," "Reimburse donation"). We noted that 34 of these checks totaling \$7,605 include the term "Mayor" in the check memo.

- Separate from the above checks, Crowe identified four checks totaling \$912 issued during the period within the scope of our analysis and which included the term "gift" in the check memo (e.g., "Retirement gift," "Gift from Mayor Dwight W. Welch"). We noted that one of these checks in the amount of \$100 includes the term "Mayor" in the check memo.
- Separate from the above checks, Crowe identified one check totaling \$200 issued during the period within the scope of our analysis and which included the term "congratulations" in the check memo (i.e., "Congratulations from Mayor Dwight W. Welch").
- Accordingly, Crowe identified 519 City checks totaling \$250,948 which are described in the check memo or general ledger as being a donation, gift or with the term "congratulations." This amount includes 193 checks totaling \$47,140 which appear to be directly associated with Mayor Welch, including 37 checks totaling \$8,745 which contain a check memo which states "Donation from Mayor Welch," "Congratulations from Mayor Dwight W. Welch" or some variation on these phrases that clearly indicates that the check was issued on behalf of the Mayor. As a memo of this nature potentially serves to shift the focus of the donation or gift from the City to the Mayor, it is not unreasonable to assume that the expenditures serve to politically benefit the Mayor more than they serve as a direct benefit to the City. Similarly, it could be argued that the significant volume of donations and gifts issued in the name of the City and its elected officials serve to more directly benefit the elected officials (as such donations, gifts and rebates can more easily win over their constituents) than it serves to directly benefit the City, as a whole.

#### **City Purchases Made By or in the Name of the Mayor and the Former City Manager**

- As stated above, Crowe identified restaurant and bar charges charged on Mayor Welch's City-issued American Express account totaling \$99,356, golf-related charges on Mayor Welch's City-issued American Express card totaling \$6,938, movie theater charges on the Mayor's City-issued American Express card totaling \$2,718, identified non-salary City checks of \$37,056 issued as payable to Mayor Welch (the majority of which are asserted to be for training, conference and travel expense reimbursement and per diem payments), and City checks identified as donations, scholarships, or gifts which are asserted to be directly associated with Mayor Welch of \$47,140. Assuming that the movie theater purchases represent a benefit to the City, the above expenditures, which total \$193,208, appear to be consistent with the nature of charges which would be recorded against the Mayor's annual business expense budget (i.e., the City's General Fund account number 150.45.440021 – *Professional Training/Conferences – Mayor*), as this account is described in the City's fiscal year 2011 annual budget to be used for "Meetings, conferences, donations,

sponsorships, flowers, etc.” Crowe obtained the Expenditure Guideline reports from the City’s general ledger for fiscal years 2008 through 2011 and noted the following relative to account 150.45.440021:

150.45.440021	Fiscal Year				Total
	2008	2009	2010	2011	
Budgeted Amount	\$36,000	\$36,000	\$24,000	\$36,000	\$132,000
Actual Amount	<u>\$52,874</u>	<u>\$55,273</u>	<u>\$38,283</u>	<u>\$50,056</u>	<u>\$196,486</u>
Under (Over) Budget	(\$16,874)	(\$19,273)	(\$14,283)	(\$14,056)	(\$64,486)
% Under (Over) Budget	-46.9%	-53.5%	-59.5%	-39.0%	-48.9%

Accordingly, it appears that the sum of the above-identified charges of \$193,208 is \$61,208 greater than the Mayor’s \$132,000 cumulative annual business expense budget for fiscal years 2008 through 2011. It also appears that, regardless of Crowe’s calculation of such expenses, the City general ledger supports that this account was significantly over-budget each fiscal year between 2008 and 2011 (\$64,486 in total for this period). We also noted that the Expenditure Report for fiscal year 2009 supports that three City checks issued to Mayor Welch totaling \$1,045 for expense reimbursement and per diem were recorded in General Fund account 150.45.440030 – *Professional Training/Conferences – Clerk/Treasurer*. It is possible that these checks should have been recorded against account 150.45.440021 rather than 150.45.440030.

- Similarly, Crowe identified restaurant and bar charges charged on Ms. Turner’s City-issued American Express and MasterCard accounts totaling \$129,634. Unlike the Mayor, Ms. Turner, as City Manager, does not appear to have had a business expense account included in the City’s approved budget. Given the lack of a budgeted business expense account, a reasonable argument could be made that Ms. Turner was not authorized through the City’s budget to incur such significant restaurant and bar expenses. It appears that the majority of the restaurant and bar charges made on Ms. Turner’s City-issued American Express and MasterCard accounts were funded by and recorded against the City’s General Fund account number 150.51.420040 – *Miscellaneous Operating Expenditures*. This account is described in the City’s fiscal year 2011 annual budget to be used for “Internal recog. awards/events, flowers for various occasions [sic].” Crowe obtained the Expenditure Guideline reports from the City’s general ledger for fiscal years 2008 through 2011 and noted the following relative to account 150.51.420040:

150.51.420040	Fiscal Year				Total
	2008	2009	2010	2011	
Budgeted Amount	\$70,000	\$70,000	\$25,000	\$20,000	\$185,000
Actual Amount	<u>\$23,583</u>	<u>\$68,738</u>	<u>\$33,621</u>	<u>\$44,699</u>	<u>\$170,641</u>
Under (Over) Budget	\$46,417	\$1,262	(\$8,621)	(\$24,699)	\$14,359
% Under (Over) Budget	66.3%	1.8%	-34.5%	-123.5%	7.8%

Of note, this account was over-budget in fiscal years 2010 and 2011, likely due in part to the restaurant and bar charges incurred on Ms. Turner's credit cards during those years.

### **Potentially Excessive Expenditures of City Funds to Finance City Events**

We noted instances where total City expenditures incurred for certain City retreats, parties, trainings and conferences might be considered excessive given that such expenditures were funded publicly. We identified costs incurred for these four events in excess of \$100,000, all of which appear to have taken place within a six-month period. These events are summarized below:

- City Retreat at the Abbey Resort in Lake Geneva, WI – February 2008
  - Crowe identified total City expenditures associated with this retreat of \$30,518.
  - Two checks totaling \$27,244 were issued from the City's general checking account and made payable to Abbey Resorts. These checks were issued on January 8, 2008 and February 6, 2008; however, we noted that these checks were not submitted to the City Council for post-approval until March 10, 2008. Further, both checks were inappropriately post-dated in the Payments by Vendor report submitted to the City Council on March 10, 2008 (i.e., both checks were listed in the Payments by Vendor report with a check date of March 15, 2008, 38 and 67 days after the checks were actually issued, respectively). See **Exhibit 14** of this memorandum for a copy of the detailed invoice and retreat agenda.
  - Additional charges related to this retreat were identified on the City-issued American Express credit card accounts for Ms. Turner (three charges totaling \$3,256 at the Abbey Resorts restaurant/bar) and another City employee (\$17 for incidental charges at Abbey Resorts).
  - The Abbey Resorts invoice and retreat agenda support the following:
    - The retreat agenda was for two days and two overnights.
    - Three different room packages were available, all included with a resort pass: (i) a "2 nights room" for \$322, (ii) a "3 nights room" for \$483, and (iii) and "3 nights suite" for \$843.
    - Mayor Welch and former Alderman Thomas Comein reserved the "3 nights suite" package for \$843 each.
    - 23 City officials and employees reserved the "3 nights room" package for \$483 each.
    - 15 City officials and employees reserved the "2 nights room" package for \$322 each.
    - Crowe noted that Mayor Welch, Ms. Turner, former Alderman Tyrone Hutson, former Alderman Victor Watts, and former Alderman Robert Battie all reserved two room packages each.
    - Charges of \$2,086 (for early departure for 14 rooms) and \$807 (for a "miscellaneous refund") were also incurred.

- Based on an interview we conducted with an attendee at the retreat, family members of City officials and employees were invited to attend. This was further evidenced by charges for “Children’s buffets” included in the Abbey Resorts invoice.
- Crowe obtained the Expenditure Guideline report from the City’s general ledger for fiscal year 2008 and noted that the two City checks issued to Abbey Resorts totaling \$27,244 were recorded in the general ledger under account number 150.51.440030 – *Personnel Training/Conferences – Administrative Services*. We noted that this account, which had an approved budget of \$9,750 for fiscal year 2008, was reported with an actual year-end balance of \$47,437, (i.e., the account was over-budget by \$37,687 or approximately 387%).
- Retail Mall Convention in Las Vegas, NV – May 2008
  - Attended by Mayor Welch, Matthew Welch, former Alderman Thomas Comein, former City Director of Marketing Wanda Comein, Henrietta Turner and Chanay Mackey.
  - The subject matter of the convention appears reasonable given that the City was developing the TIF 2 district during 2008, which is intended to be site of an outlet mall.
  - We identified City expenses associated with this conference totaling \$19,321:
    - Credit Card payments - \$17,246: includes conference registration fees, charges to stay at the Venetian hotel, airfare, meals and entertainment. Neither detailed invoices nor receipts were provided to support the majority of these charges. See **Exhibit 15** of this memorandum for documentation obtained relative to certain of these expenses.
    - Per diem checks - \$2,250: issued to the Mayor, Matthew Welch, Wanda Comein, Turner and Mackey, each for \$450 (i.e., 6 nights at \$75 per day). See **Exhibit 16** of this memorandum for copies of the documentation provided to Crowe relative to the per diem checks issued to Mayor Welch, Matthew Welch and Ms. Turner.
  - An Alderman that we interviewed told Crowe that he was under the impression that the trip had been funded by a vendor rather than by the City, and that he was surprised to hear that the City funded the trip.
  - Significant meal and entertainment expenses associated with this trip were incurred on the City-issued American Express and MasterCard accounts. The documentation submitted to the City in support of these expenses identifies that Mayor Welch, Matthew Welch, Ms. Comein, Ms. Turner and Ms. Mackey all participated in the meals and entertainment represented by these charges. Accordingly, it does not appear reasonable that per diem checks were also issued to these City officials and employees.



- Crowe obtained the Expenditure Guideline report from the City's general ledger for fiscal year 2009 and noted that the majority of the credit card payments associated with the Vegas trip were recorded in the general ledger against account number 150.51.420098 – *Economic Development / Cicero*. We noted that this account, which had an approved budget of \$10,000 for fiscal year 2009, was reported with an actual year-end balance for of \$24,057, (i.e., the account was over-budget by \$14,057 or approximately 141%).
- City Employee Training Session with Disney Resorts in Lake Buena Vista, FL – March 2008
  - Mayor Welch explained to Crowe that the City sent the City's Theater management team to Florida for a manager training session with Disney Resorts.
  - Based on the documentation we obtained, the training attendees included Henrietta Turner, James Abernathy, Matthew Welch, Kathryn McIlvain, Syretta Davis and "Greg" (Crowe is unaware of Greg's full name).
  - We identified City expenses associated with this training totaling \$32,347, all of which were incurred on the City-issued American Express and MasterCard accounts of City Clerk McIlvain, Ms. Turner and Mr. Abernathy. These expenses include training registration and hotel fees.
- City Holiday Party at Holiday Inn in Matteson, IL – December 2007
  - Crowe identified two checks totaling \$24,660 and made payable to "Holiday Inn – Matteson," as issued from the City's general checking account on December 5, 2007 and December 7, 2007, respectively. The general ledger description for these checks indicates that the checks funded a holiday party. A City Finance employee confirmed to Crowe that these expenses were incurred to throw a holiday party for City employees. We also identified two additional checks totaling \$975 which are described in the City's general ledger to represent payment for a DJ and an artist for the holiday party.
  - Crowe obtained the Expenditure Guideline report from the City's general ledger for fiscal year 2008 and noted that the two City checks issued to the Holiday Inn totaling \$24,660 were recorded in the general ledger against two different account numbers: the check in the amount of \$500.00 was recorded under account no. 150.51.420040 – *Miscellaneous Operating Expenditures / Administrative Services*, and the check in the amount of \$24,160 was recorded under account no. 150.57.420040 – *Miscellaneous Operating Expenditures / Public Relations*. Of note, account no. 150.57.420040, which had an approved budget of \$20,000 for fiscal year 2008, was reported with an actual year-end balance of \$49,472, (i.e., the account was over-budget by \$29,472 or approximately 147%). It is unclear why expenses incurred for the City's holiday party would be characterized as a "public relations" expense.

#### **Use of TIF Funds for the Benefit of a Non-TIF District Business**

- We identified \$29,758 in City expenditures which were recorded as disbursements of TIF 1 funds but which appear to be for the benefit of a non-TIF 1 business, Capital Dog Food. The payments in question were made to City vendor Steven Amu & Associates (as previously discussed, Monica Amu was an officer of MWSF), and a portion of these payments represent services performed on behalf of local business Capital Dog Food during fiscal year 2010 and 2011, including payments totaling \$29,758 which were accounted for as disbursements of TIF 1 funds within the City's general ledger. As Capital Dog Food is not located within the TIF 1 district (it is located more than 1.5 miles away from the TIF 1 district), these expenditures should likely have been accounted for as expenditures of a different City fund (i.e., as part of a General fund account). The payments in question are as follows:
  - Check #93210 issued to Steven Amu & Associates for \$12,500 on October 26, 2009. This payment includes \$3,223 for Capital Dog Food work accounted for as TIF 1 disbursements.
  - Check #98554 issued to Steven Amu & Associates for \$10,458 on June 1, 2010. This payment includes \$8,460 for Capital Dog Food work accounted for as TIF 1 disbursements.
  - Check #99788 issued to Steven Amu & Associates for \$15,513 on July 26, 2010. This payment includes \$5,865 for Capital Dog Food work accounted for as TIF 1 disbursements.
  - Check #100483 issued to Steven Amu & Associates for \$10,465 on September 30, 2010. This payment includes \$4,930 for Capital Dog Food work accounted for as TIF 1 disbursements.
  - Check #100832 issued to Steven Amu & Associates for \$11,590 on October 12, 2010. This payment includes \$7,280 for Capital Dog Food work accounted for as TIF 1 disbursements.

#### **Other Observations**

- Based on our review of automated clearinghouse payroll disbursements made by the City during the period within our scope, Crowe did not identify any such payments made to vendors or other non-City employees. This finding does not include the payroll disbursements issued on July 20, 2007 and April 25, 2008 in the amounts of \$173,673 and \$265,974, respectively, as we were unable to obtain the payroll check register or a payroll calculation detail report for either of these disbursements.
- It was alleged to Crowe that a City elected official had directly or, through the assistance of a family member, indirectly obtained a large transfer of City funds into a personal account under their control, potentially in excess of \$1 million. With the exception of the Charter One line of credit statements which Crowe was unable to obtain and review during our examination, we were able to gain an understanding of the City's usage of proceeds obtained from the various lines of credit, loans, bond issuances and tax anticipation warrants during the period within the scope of our analysis, and did not identify any instances where such funds appeared to have been diverted into the control and for the

personal benefit of a City official or any other unauthorized individual. Additionally, we did not note any significant disbursements made from the identified demand bank accounts, pension or investment accounts held by the City or its affiliates (e.g., Police department, Fire department) for which we were unable to determine the individual, entity or financial institution (in the event of an electronic transfer) who received the disbursement. Accordingly, we did not identify any evidence to support the above allegation during the period within the scope of analysis.

- We noted that the City had very limited written finance-related policies and procedures available for review. The City's municipal code is posted on the City's website but does not appear to have been updated for certain revisions and additions approved by the City Council several years ago. City Clerk McIlvain stated that this issue was known but that limited City staff and funds made it difficult to resolve.

## **RECOMMENDATIONS**

Based on the work we performed, below are recommendations that we submit for the consideration of the City's elected officials and leadership team:

- The City might consider issuing a Request For Proposals (RFP) to hire a financial consultant on a temporary basis to work with the Finance Committee and City leadership to assume temporary leadership of the City's Finance department and its functions, assess the effectiveness of the Finance department's processes and controls (implementing new controls or control revisions as needed), document the current and revised department functions and controls as formal written policies and procedures, and assess the capabilities of the current Finance departments personnel. The consultant should also be tasked with making recommendations as to whether the current Finance team can effectively perform all of the necessary financial functions or if additional personnel need to be added to the Finance department. The written policies and procedures to be drafted by the consultant should document the various financial and reporting processes performed by the City, including the procurement of goods and services, the accounts payable and payroll functions, internal and external financial reporting, reimbursement of employee and City official City-related expenses, use of City credit cards, the custodianship and use of City bank accounts, and internal controls, review steps and approval authorization requirements for all of these processes. Such policies and procedures should be reviewed and revised at least annually.
- Consider creating a full- or part-time City position called "Internal Auditor," which reports directly to the Finance Committee. The Internal Auditor could be tasked with performing recurring audit tests and other tasks to assist the Finance Committee with overseeing the effectiveness, accuracy and

validity of the City's financial reporting processes. For example, the Internal Auditor might perform periodic reviews of purchases made using the City's credit cards, review for accuracy the expenditure reports provided to the Finance Committee and City Council, or review the classification of transactions posted to City general ledger accounts which exhibit increased audit risk (e.g., *Miscellaneous Operating Expenditures*). Furthermore, the Internal Auditor might be used to assist the City's Inspector General (i.e., the Cook County Sheriff's Office) with City-related investigations, or might be directed by the Finance Committee to perform internal investigations or other requested financial analyses as needed. Further still, the Internal Auditor could be used to assist the City's external auditors and other regulators in order to expedite the audit process and to reduce the demand of time and resources of the City's Finance department. For consideration, the Internal Auditor might also have a "dotted-line" reporting relationship to the Treasurer.

- Given the contentious and overtly political atmosphere which currently permeates the City's governance, as reinforced by continuous allegations of wrongdoing made by and against the City's elected officials, the need for increased transparency and accountability of the usage of City funds is extraordinarily high. Accordingly, the City might consider making certain financial support available online. This financial support could include cash disbursement or check register reports generated from the City's general ledger (i.e., reports detailing City purchases), scanned copies of contracts to support City purchases, invoices in excess of a specified dollar value (e.g., \$5,000) which support City expenditures and monthly financial analyses which contain comparisons of actual versus budgeted revenue and expenditure general ledger account balances. Proactively making this information available could, over time, enhance the public's confidence regarding the management of City assets, and should also serve to reduce Freedom of Information Act (FOIA) requests, thereby reducing City personnel time currently expended to promptly respond to FOIA requests. Critically, this additional transparency to the public, including activist groups and the media, and to federal, state and county regulatory agencies, should also serve to further incentivize City officials and employees to ensure that the City's procurement and payment processes are properly designed and functioning effectively, and that no unneeded or otherwise inappropriate expenditures are made using City funds.
- As a number of concerns have been raised regarding potentially illegal or otherwise inappropriate activity of City officials and personnel, the City might consider installing an anonymous "tip line" that can be used to collect complaints, concerns or whistleblower-type information regarding the activities of City officials, City personnel or City vendors as received from City officials, employees, vendors and the public-at-large. The tip line should allow for the anonymity of callers and should be managed by a third party. All tips received by the third party could be presented to the City Council (or a designated sub-committee) during a recurring, special closed session. City leadership should draft a matrix outlining the processes to be followed and the individuals assigned to research, report and

communicate results back to the City Council regarding any issues identified through the tip line which the City Council deemed to represent legitimate and significant concerns. Serious issues or issues involving elected officials might be forwarded to the City's Inspector General (i.e., the Cook County Sheriff's Office) for investigation.

- All elected officials, including the Mayor, might consider discontinuing the practice of accepting campaign contributions from City vendors and City employees. Such a move enhances the transparency of transactions between the City and its vendors by mitigating the appearance of conflicts of interest between vendors and City officials.
- Reinforce through internal City communication that the City's municipal code requires that City employees cannot be utilized during "compensated time" (as defined within the City's municipal code) to perform services for the benefit of the political activity or campaign of any City or other elected official. This communication should also advise that any City employees who feel pressured or are otherwise directed to perform such prohibited political activities to report the issue directly to the City's Inspector General (i.e., the Cook County Sheriff's Office), in the absence of an anonymous "tip line," as discussed above. The same goes for City employees who feel pressured or are otherwise directed to attend or contribute time or money to a political event outside of "compensated time." Similarly, it would be unethical, if not illegal, for City employees to be pressured or directed by a City official or their supervisor to contribute time or money to a charitable organization or cause, particularly if the organization or cause in question is directly affiliated or managed by the City official or supervisor in question.
- Cease the practice of incorrectly post-dating checks in the general ledger and within the Payments By Vendor reports issued to the Finance Committee and City Council. Ensure that both the general ledger and the Payments By Vendor reports (or equivalent reports submitted to the Finance Committee and City Council for review and approval) contain a complete and accurate reporting of City expenditures. Crowe noted that the current version of Payments By Vendor reports issued to the Finance Committee and City Council no longer present the check number or check issuance date of the checks submitted to the Finance Committee and City Council for review and approval. We recommend that the check number and check issuance date should be added back to the Payments By Vendor report so as to allow the Finance Committee and City Council to monitor that the practice of incorrectly post-dating checks is ceased.
- Crowe noted hundreds of instances where checks issued from the City's bank accounts were omitted from the Payments By Vendor reports issued to the Finance Committee and City Council for review and approval. Given these omissions and the manual nature of the process used to prepare the City's accounts payable reports by the City's accounts payable clerk, one or more internal controls should

be established by the City's Finance department to ensure that all checks issued from the City's bank accounts are included in the Payments By Vendor reports.

- Reduce the volume of "emergency" or manual checks issued by the City prior to Finance Committee and City Council approval. For example, recurring payments to regular City vendors, such as to utility providers and credit card companies, should rarely (if ever) be issued prior to City approval.
- Implement new or enhance existing internal controls relative to the City's accounts payable process so as to minimize or eliminate the City's double-payment of vendor invoices. This might entail multiple approvers required for each invoice (or for invoices over a certain dollar value, e.g., \$5,000). Ensure that all purchase orders and payment request forms are completed in full and contain the necessary approvals/signatures prior to issuance of the payment to the Finance Committee and City Council for review and approval.
- Controls and review processes should be enacted to ensure that the City does not designate certain expenditures as funded by TIF monies if the underlying expenditure does not directly relate to the TIF district. For example, the Finance Committee might request that the Internal Auditor review all designated TIF expenditures on a semi-annual or annual basis to ensure that all designated TIF expenditures are valid.
- Ensure that the rubber stamps containing the signatures of City officials and employees are accessible only to City employees who absolutely require them and that physical access to the stamps is tightly regulated. This is particularly critical given Crowe's identification of multiple City checks issued as payable to the Mayor but which appear to have been endorsed for payment using a rubber stamp of the Mayor's signature (rather than through endorsement by handwritten signature, as is typical on City checks made payable to the Mayor).
- Consider expanding the scope of the Finance Committee's and City Council's review and approval of City expenditures to include all expenditures of the City, including checks, electronic disbursements and transfers of funds between City funds and bank accounts as disbursed from all City bank accounts (excluding those held under separate TINs maintained by the City's Fire and Police departments, the Boards of which would continue to self-monitor their own expenditures). Given that the City's payroll transactions are a matter of public knowledge, there does not appear to be a need to exclude payroll disbursements (both checks and automated clearing house disbursements) from the purview of the review and approval of the Finance Committee and City Council. Such an expansion of review and approval authority would enhance the abilities of the Finance Committee and City Council to perform one of their primary responsibilities: stewardship of the City's funds and other financial assets.

- Consider discontinuing the practice of using certain vendors by default, such as when procuring legal, engineering, architectural and other infrastructure/maintenance services for the City. If of significant value (e.g., \$10,000 or \$15,000), such purchases would likely be better served being publicly bid out by the City in order to ensure that the City receives the best price and to ensure that the selected vendor is approved by the City Council.
- Require the performance of due diligence on all new vendors seeking to sell goods or services to the City, and maintain an approved vendor list for the City. The City might consider implementing a requirement that all vendors doing business with the City certify that the proposed transaction does not present an actual or perceived conflict of interest. Such a certification might include language to support that the owners or key decision-makers of the vendor are not employees or elected officials of the City, and that they are unaware of any relatives or business partners who are City officials or employees. In the event that the vendor identifies that one of these relationships exists, the relationship should be documented in the certification so that the City Council can assess whether the disclosed relationship poses a significant conflict of interest.
- Consider requiring that all City purchases over a certain dollar value (e.g., \$5,000) be reviewed by the Finance Committee and approved by the City Council prior to their incurrence. Require that all purchases over a certain dollar value (e.g., \$10,000 or \$15,000) require public bidding and contracts with the City which are to be approved by the City Council.
- If this has not already been done, consider limiting the number of City credit card cardholders to only those who absolutely require them (e.g., City Clerk, City Manager, various department heads) and build a robust review and control system around all such purchases. Seek to ensure that all credit card purchases are fully supported by (i) a valid business purpose and (ii) detailed, third-party support for the payment (e.g., receipt, invoice), and that archives, preferably electronic records, are maintained for the retention period for City expenditures of at least seven (7) years as mandated by the City's municipal code. The Finance Committee or City Council might direct the semi-annual or annual internal audit of credit card purchases to ensure that the above provisions are met. Additionally, Crowe noted multiple instances where interest charges were incurred on City credit cards. Accordingly, the City should seek to avoid the incurrence of such fees by making full and timely payment of all credit card invoices.
- Seek to closely monitor and review all per diem payments and reimbursement of expense payments made to City officials and employees, including reimbursement of travel, training, conference, lobbying and entertainment expenses. The Finance Committee or City Council might direct the semi-annual or annual internal audit of per diem or employee reimbursement expenses to ensure that such

costs are reasonable and fully supported by documentary evidence (e.g., receipts, invoices, payment request forms).

- Implement monitoring controls to ensure that the City does not (i) issue advance per diem checks to City officials and employees for out-of-town meal expenses when (ii) charges for meals for the same out-of-town trip are also incurred on a City credit card or are also reimbursed through a check upon the official's/employee's return from the trip. Seek also to implement controls to ensure that advance per diem checks are issued based on the City's current per diem rate.
- Seek to limit or prohibit the usage of City funds to purchase lunch or dinner for City officials and employees for which the business purpose is merely to hold an internal City meeting, as such meetings can instead occur on City property (e.g., at City Hall) or elsewhere without the incurrence of lunch or dinner expenses using City funds.
- Prohibit the usage of City credit cards to purchase large and/or recurring vendor purchases (e.g., similar to the usage of the City's American Express card to incur hundreds of thousands of dollars of payments to various vendors during the period within the scope of our analysis).
- If this has not already been done, limit petty cash and imprest account activity to a minimal necessary level and closely monitor the usage of such funds. For example, consider limiting the available petty cash balance to a maximum of \$1,000, and require review of the usage of these funds by a designated City employee who, in turn, would provide a monthly or quarterly report to the Finance Committee regarding the usage of these funds. Support for purchases using petty cash or imprest account funds, such as requests for funds and receipts, should be maintained and made available for review if requested by the Finance Committee or City Council.
- Scan hard-copy files to maintain electronic records of financial documentation, including support for all City expenditures, and such files should be archived in a secure, off-site facility. This will ensure that such records can be recovered in case of a catastrophic event, such as the flood at City Hall referred to by Ms. Guzzo. The scanning of such documents will also facilitate the publication of certain financial records on the City's website, as discussed above, as well as make such files more easily located and provided to City employees and external requestors of such documentation (e.g., auditors, FOIA submitters, lenders).
- Review in detail and modify the City's annual budget to ensure that all planned expenditures are necessary and reasonable. For example, are the proposed budget amounts for general ledger accounts for "travel and conferences" or "miscellaneous operating expenditures" reasonable? Are perquisite expenditures traditionally enjoyed by City officials and management absolutely necessary given the City's current financial situation (e.g., official expense accounts, conference and training



expenses, lobbying and entertainment expenses, donations, charitable contributions, gifts, out-of-town trips, usage of City-owned vehicles)? Is the purpose of each general ledger account clearly defined so as to make abundantly clear what type of transactions should (and should not) be recorded under that account? Continuously review the City's financial reports throughout the year to ensure that account balances do not exceed the approved budgeted amount. If account balances exceed budgeted amounts, seek to understand why.

- The City might consider reducing the dollar value of expenditures incurred for the recreational purposes of City officials and employees. Such expenditures might include trips to out-of-state resorts for City official and employee meetings that could be performed locally, holiday parties for City officials and employees, and gift cards and other gifts for City employees purchased with City funds.
- The City might consider reducing the dollar value of expenditures made for charitable contributions, donations, scholarships, gifts and other such expenditures. When totaled, such expenditures identified during the period within the scope of our analysis were significant. Despite the positive impact these expenditures can have on the community, such disbursements appear to more directly benefit the City's elected officials (through the accumulation of political goodwill generated by a series of individual donations) than they appear to benefit the City and its constituents as a whole.
- Regarding out-of-town conferences and training events, ensure that only the necessary City officials and employees attend, and verify that similar training and conferences cannot be obtained locally. To mitigate such expenses, consider utilizing a "train the trainer" approach, wherein the City sends one or two representatives to attend the event, and then has those individuals present what they learned to other City officials and employees upon their return.
- Review in detail the revenue and expenditures associated with the City's amphitheater operations and assess whether (i) the City should continue to maintain ownership of the amphitheater and its operations, and, in the event that the City continues to maintain such ownership, (ii) whether certain amphitheater-related expenditures can be reduced or eliminated in order to increase the profit margin of amphitheater operations.
- We noted multiple instances where alcoholic drinks were purchased at restaurants during the City's standard business hours using City credit cards. Although the City's current Handbook of Personnel Policies and Procedures does not explicitly prohibit the consumption of alcoholic beverages during the City's standard business hours (it merely prohibits the consumption of such beverages on City property and drinking to the point of intoxication), the City might consider prohibiting the consumption of any amount of alcoholic beverages during the City's standard business hours (with the potential exception of special City events, such as a holiday party) in order to avoid work inefficiency and

liability caused by drinking (i.e., operating a City-owned vehicle after having a drink at lunch, particularly when the drink was purchased using City funds).

- Ensure that the City's audits for fiscal years 2011, 2012 and 2013 are completed as quickly as is practicable. The importance of the timely completion of these audits, as well as the timely submission of all required federal, state and county regulatory reports and the timely payment of any corresponding fees and penalties, cannot be overstated.
- Given their potential as a means to divert City funds to non-City entities, consider eliminating or greatly reducing and tightly controlling the issuance of complimentary amphitheater tickets, particularly so-called "black seat" tickets. Maintain detailed records of all complimentary tickets issued by City official/employee, and require that each City official/employee who receives complimentary tickets submit a report at the end of the amphitheater concert season which lists all individuals to whom these complimentary tickets were distributed. The Finance Committee or, if in place, the Internal Auditor, could perform an annual exercise to reconcile all complimentary tickets against the reports submitted by City employees/officials to ensure that all tickets are accounted for.
- Consider passing a resolution which makes it clear that the City does not sanction the use of the City's name or taxpayer identification number (TIN) to establish bank accounts for individuals or organizations who are not directly affiliated with the City. The Treasurer, or in place, the Internal Auditor should seek to conduct recurring and random blind confirmations of area financial institutions to determine if any unsanctioned bank accounts have been opened using the City's name or TIN. Similarly, the Treasurer (or their designee) should establish a reliable working relationship with representatives of all financial institutions known to currently hold City accounts so as to validate that there are no unsanctioned accounts held at those financial institutions using the City's name or TIN.
- Review and revise the City's municipal code as published on the City's website in order to ensure that the code is updated for all past revisions to the code as approved by the City Council. Seek also to ensure that the municipal code is updated and kept current following the passage of any revisions implemented by the City Council going forward.

## **OTHER MATTERS**

This memorandum reflects events and circumstances as they are currently known to us. We reserve the right to revise this memorandum should additional, pertinent information be made available to us. The procedures we performed to date do not constitute an audit, examination, review, or compilation of financial statements in accordance with generally accepted auditing standards. None of the contents of

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**April 3, 2014**  
**Prepared by Crowe Horwath LLP**

this memorandum are intended to provide legal advice. This memorandum is not intended for distribution to the media.