

**PUBLIC BUILDING COMMISSION OF CHICAGO
MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON
JULY 2, 2012**

The Audit Committee Meeting of the Public Building Commission of Chicago was held in the Board Room on the 2nd Floor, Richard J. Daley Center on July 2, 2012 at 10:00 a.m.

The following Committee members attended

Commissioner Cabrera – Chairman
Commissioner Juan Rangel

The following other Commissioners attended

Commissioner Toni Preckwinkle
Commissioner Randall
Commissioner Spyropoulos

Also attending:

Erin Lavin Cabonargi
Lori Lypson,
Paul Spieles
Mary Pat Witry
Daryl McNabb
Tanya Foucher-Weekley
Eileen Ryan
Lisa Giderof
Rusty Castillo
Stetson Marshall
Chuck Kelly
Miquel Fernandez
Crystal Burdette-Miller
Don Dupree
Jesus Rodriguez
Rene Quinones
Terri Haymaker
Jim McConnell
Mimi Simon
Bobbie Newmark
Frank Hudson
Kathleen Candela, Deloitte & Touche, LLP
Langdon Neal, Neal & Leroy
Anne Fredd, Neal and Leroy

The reading of the minutes of the June 6, 2012 meeting, which had previously been distributed, was dispensed with and upon motion duly made and seconded the minutes of said meeting were unanimously

adopted.

PBC Compliance, Diversity and Finance staff attended the meeting and were introduced to the Board members.

The Director of Finance Daryl McNabb reported the completion of the Comprehensive Annual Financial Report (CAFR), which has been submitted to the Government Finance Officers Association (GFOA) for consideration for the Certificate of Achievement Award for Excellence in Financial Reporting, awarded to the PBC for its 2009 and 2010 CAFRs. The Director of Finance then provided highlights of the 2011 financials. As expected, project revenue for 2011 decreased from the 2010 level, consistent with a decreased Work in Place (WIP) total. Decreases in Daley Center maintenance and PBC administrative costs, as well as increases in investment income, all contributed to an increase in net assets.

The report was accepted.

Kathleen Candela from Deloitte and Touche provided the required auditor communications for the 2011 Audit. She reported one adjustment to the audit, related to the Daley Center's energy savings capital lease, and reported a past disclosure related to the reporting of purchases and sales of investments. Neither are considered to be material to the presentation of the financial statements. Deloitte reported for the second year in a row that there are no material weaknesses or significant deficiencies in the internal control over financial reporting. A control deficiency was reported over the capital lease issue reported above. A solution has already been determined and a procedure has been drafted.

The report was accepted.

President Preckwinkle requested that additional lead time be provided for the advance distribution of documents to the committee members for review.

Next Lori Lyphon, PBC's Chief Operating Officer, provided a detailed follow-up report to the June 6, 2012 Audit Committee inquiries concerning allegations related to the PBC's M/WBE Program which included the following components: (a) review and enhancement of internal controls and contract compliance policies; (b) interviews with PBC General Contractors (GCs); (c) interview with PBC subcontractors; (d) collaboration with Sister and Assist Agencies; and (e) recommended actions and considerations. Lori summarized the existing internal controls and compliance policies which include: review of Schedule C and Schedule D Contract Documents; M/WBE Subcontractor Plan review and approval; subcontractor and joint venture review and approval; electronic submission of payroll through LCP Tracker to track prevailing wage, EEO and

residency requirements; compliance site visits; electronic tracking of M/WBE payments through B2GNow; and PBC's Compliance Hotline. She also reported on enhanced internal controls and contract compliance policies, including the amendment to the Special Conditions to limit acceptance of M/WBE certifications to the City of Chicago and Cook County and additional requirements for suppliers.

An Integrated Organization Chart highlighting compliance responsibilities was provided to the Audit Committee. The Enterprise Risk Management Division under the direction of Eileen Ryan has overall responsibility for fraud prevention and deterrence as well as diversity and compliance areas. Although PBC does not certify M/WBE firms, a detailed analysis is conducted of all M/WBE plans and subcontractors upon contract award to ensure that there is no duplication of services. In addition, requests to substitute M/WBE firms after contract award are fully reviewed by staff to ensure that the reasons for substitution requests are valid. There was considerable discussion concerning legal precedents that prohibit the use of financial penalties for failure to attain M/WBE goals (which are aspirational and not mandatory) and the use of non-financial incentives such as debarment on future PBC contracts in appropriate circumstances.

The results of interviews with PBC General Contractors (GC's), including senior representatives of FHP, Walsh and Sollitt to discuss M/WBE participation and workforce diversity were reviewed. The economic recession has greatly reduced the number of subcontractors with the financial capability to perform on PBC projects as price competition has escalated. The GC's advised that M/WBE firms must agree on the price listed in the bid documents and post-bid M/WBE plan changes occur when the M/WBE later determines that it cannot finalize the contract for the quoted amount. Recommendations for improved and enhanced procedures were provided by the GC's and included: posting of bid documents on the internet; outreach activities timed to more closely correspond to bid opportunities; accelerating the payment process for work completed by M/WBE firms; more efficient management of the change order process; providing additional technical assistance to M/WBE firms; and encouraging M/WBE firms to participate in industry organizations that provide educational and technical support programs.

The Audit Committee report and discussion focused on interviews with M/WBE subcontractors. Seven of the 10 firms mentioned in the published report were interviewed during June 2012; three of the firms were non-responsive and issued certified letters. Generally, most of the firms interviewed indicated that they were not accurately quoted or their statements were taken out of context. Also, many of the statements were indicative of public contracts in general and were not specific to PBC. In general, the M/WBE subcontractors

indicated that PBC was responsive to their issues though there were concerns about payment concerns that are being investigated. When pressed about allegations of fraud or abuse, the subcontractors indicated that they have “known” of instances in which lien waivers and other documents were signed in blank but were unable to verify any specific GC’s or if the practice occurred on PBC projects. While the interviews were positive overall, there were three specific comments that require further investigation.

Next, a summary of Assist Agency Outreach activities was provided including PBC’s participation in over 70 outreach activities. PBC is also actively involved with the Diversity Action Committee (DAC) which is comprised of representatives of Cook County, the Chicago Park District, Chicago Public Schools, Metropolitan Pier and Exposition Authority, and the Illinois Tollway. It was reported that the DAC intends to distribute a survey to determine concerns with M/WBE programs in the region as well as doing business on public projects. Also, the DAC is planning to convene a Town Hall Meeting to discuss concerns among the M/WBE construction industry.

Committee members asked to receive a copy of the survey and also discussed the timing of the Town Hall Meeting suggesting after Labor Day as a recommended time to convene the Town Hall.

The report concluded with recommendations for future actions including: annual and periodic compliance audits of M/WBE subcontractor lien waivers; “Welcome” information package introducing subcontractor rights under the contract documents, PBC payment and monitoring systems, introduction to compliance and finance staff and fraud hotline; encourage affiliation with subcontractor assist agencies; interviews to verify M/WBE plan substitution requests; participation in M/WBE survey and Town Hall meeting; improvements to payment procedures; additional professional development training for staff; and internet access to bid documents.

The Chief Operating Officer and the staff were commended by the Commissioners for a thorough and responsive report. It was noted that the allegations included in published reports were taken seriously and provided an opportunity to strengthen policy guidelines for the M/WBE program and improve standards within the construction industry and other public agencies.

Following extensive discussion among the Executive Staff, the Compliance Staff and board members present, the report was accepted.

The next item was an approval to convene an Executive Session under the Open Meetings Act to discuss employment matters under 2(c) 1 of the Open Meetings Act.

During the Executive Session, the Audit Committee was advised concerning the proposed job description and responsibilities of the PBC IG, and other matters.

The Pursuant to Section 2.06(g) of the Open Meetings Act, a public comment period was held. No comments or statements were presented by any persons.

The meeting was adjourned.