



# City of Chicago



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Office of the City Clerk

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<b>Committee(s) Assignment:</b>	

OFFICE OF INSPECTOR GENERAL  
*City of Chicago*



***REPORT OF THE OFFICE OF INSPECTOR GENERAL:***

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***AUDIT OF CONTRACTOR COMPLIANCE  
WITH THE  
CHICAGO BASE WAGE ORDINANCE***

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November 30, 2017

To the Mayor, Members of the City Council, City Clerk, City Treasurer, and residents of the City of Chicago:

The City of Chicago Office of Inspector General (OIG) has completed an audit to determine if security guard and janitorial service contractors and subcontractors complied with the Chicago Base Wage Ordinance. Similar to living wage laws adopted by cities nationwide, the purpose of the Ordinance is to ensure that City contractors and related subcontractors pay their employees in excess of poverty-level wages, both as a matter of principle and as a means of stimulating the local economy.

OIG found that 150 employees had been underpaid \$22,664 during the weeks examined, and we estimate the total underpayment was \$291,816 over the course of 3 years. We concluded that the City did not implement sufficient controls to provide reasonable assurance that contractors and subcontractors comply with the Chicago Base Wage Ordinance.

To address the underpayments found in this audit, OIG recommends that the Department of Procurement Services (DPS) exercise its existing audit authority, and require the contractors and subcontractors reviewed to identify the total underpayment related to base, overtime, and training wages, and to pay the covered employees any back pay owed. To prevent and detect future wage violations, OIG recommends that DPS take further steps to promote compliance among contractors and subcontractors, and provide guidance on monitoring wage rate compliance to all departments with relevant contracts.

In response to our audit finding and recommendations, DPS stated that it issued default notices and requests to cure to the two prime contractors involved, requesting proof that their subcontractors have paid the correct base wages to all of their employees throughout the life of the contracts. If the contractors find the subcontractors have not paid the correct base wage then the primes must submit a corrective action plan to DPS, including a schedule for payment of back wages and periodic updates confirming compliance on a going forward basis.

To prevent and detect future wage violations and to provide guidance on monitoring wage rate compliance, DPS stated that the Mayor's Office will convene meetings with Department of Finance, Department of Law, and user departments. Through these meetings, the City will develop methods for actively monitoring contractors' wage rate compliance. Such methods may include compliance certification by prime contractors and subcontractors, implementation of audit procedures, creation of a mechanism to report violations, and enhanced training for staff on audit and review procedures.

We thank DPS management for their cooperation throughout the audit.

Respectfully,

A handwritten signature in black ink, appearing to be 'J. Ferguson', with a stylized, flowing script.

Joseph M. Ferguson  
Inspector General  
City of Chicago

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### Acronyms

2FM	Department of Fleet and Facility Management
CDA	Chicago Department of Aviation
CPI	Consumer Price Index
CPI-U	Consumer Price Index - All Urban Consumers
CPO	Chief Procurement Officer
DPS	Department of Procurement Services
FMPS	City of Chicago Financial Management and Purchasing Systems
MCC	Municipal Code of Chicago
OIG	City of Chicago Officer of Inspector General

## **I. EXECUTIVE SUMMARY**

The Office of the Inspector General (OIG) conducted an audit to determine if contractors and subcontractors complied with the Chicago Base Wage Ordinance. Similar to living wage laws adopted by cities nationwide, the purpose of the Ordinance is to ensure that City contractors and related subcontractors pay their employees in excess of poverty-level wages, both as a matter of principle and as a means of stimulating the local economy.

Specifically, we reviewed wages paid by four security guard and janitorial service prime contractors identified by the Department of Procurement Services (DPS), as well as those contractors' subcontractors. OIG found that while the four prime contractors consistently paid their employees the hourly base wage rate required by the Municipal Code of Chicago (MCC) § 2-92-610, three of the four subcontractors paid between \$0.02 and \$3.04 less per hour. These three subcontractors underpaid 150 employees a total of \$22,664 in the four- to six-week periods reviewed each year, resulting in an estimated \$291,816 underpayment to the employees over the course of 3 years. OIG also found several smaller wage discrepancies resulting from misapplication of state law or the MCC to overtime and training hours.

OIG concluded that the City did not implement sufficient controls to provide reasonable assurance that prime contractors and subcontractors comply with the Chicago Base Wage Ordinance. OIG recommends that DPS adopt a more proactive approach to promoting wage rate compliance.

To address the underpayments we found, OIG recommends that DPS exercise its existing audit authority and require the contractors and subcontractors reviewed in this audit to identify the total underpayment related to base, overtime, and training wages, and to pay the covered employees any back pay owed. If the contractors and subcontractors do not cooperate, OIG recommends that DPS pursue contractual remedies, if any, and ensure that the City does no further business with these entities for up to three years, as allowed by the Ordinance.

To prevent and detect future wage violations, OIG recommends that DPS take steps to promote compliance among contractors and subcontractors. Such steps may include sending its annual wage increase announcements to subcontractors as well as contractors, and requiring contractors to submit an annual certification of wage rate compliance for themselves and all related subcontractors.

Finally, OIG recommends that DPS provide guidance on monitoring wage rate compliance to all departments that manage contracts with wage requirements. Such guidance should include specific procedures that departments should use to confirm proper base, overtime, and training wages paid by both prime contractors and subcontractors. DPS should also implement procedures to determine whether departments are effectively monitoring wage rate compliance.

In response to our audit finding and recommendations, DPS stated that it issued default notices and requests to cure to the two prime contractors involved, requesting proof that their subcontractors have paid the correct base wages to all of their employees throughout the life of the contracts. If the contractors find the subcontractors have not paid the correct base wage then

the primes must submit a corrective action plan to DPS, including a schedule for payment of back wages and periodic updates confirming compliance on a going forward basis.

To prevent and detect future wage violations and to provide guidance on monitoring wage rate compliance, DPS stated that the Mayor's Office will convene meetings with Department of Finance, Department of Law, and user departments. Through these meetings, the City will develop methods for actively monitoring contractors' wage rate compliance. Such methods may include compliance certification by prime contractors and subcontractors, implementation of audit procedures, creation of a mechanism to report violations, and enhanced training for staff on audit and review procedures.

The specific recommendations related to the finding, and DPS's response, are described in the "Audit Finding and Recommendations" section of this report.

## II. BACKGROUND

In 1998, the City enacted the Chicago Base Wage Ordinance, MCC § 2-92-610. Similar to living wage laws adopted by cities nationwide, the purpose of the Ordinance is to ensure that City contractors and related subcontractors pay their employees in excess of poverty-level wages, both as a matter of principle and as a means of stimulating the local economy.<sup>1</sup> It states that,

each July 1 [...] the base wage shall be adjusted, using the most recent federal poverty guidelines for a family of four as published annually by the United States Department of Health and Human Services, to constitute the following: the poverty guideline for a family of four, divided by 2,000 hours or the current base wage, whichever is higher.<sup>2</sup>

As of July 1, 2017, the Ordinance required a base wage of \$12.30 per hour.<sup>3</sup> The Ordinance requires this base wage for full-time security guards, parking attendants, day laborers, home and health care workers, cashiers, elevator operators, custodial workers, and clerical workers employed through contracts or subcontracts with the City, if the contract requires 25 or more non-City full-time employees.<sup>4</sup>

DPS identified the following six City contracts as subject to the Ordinance:

Contract	Contractor	Subcontractor(s)	Amount Paid 2014-2016
26158	Triad Consulting Services, Inc.	ABM Janitorial Services	\$38,837,913
14731	Universal Security, Inc.	Majestic Protective Service, Inc.	21,572,661
12687	SkyTech Enterprises, Ltd.	Moore Security Services	14,968,367
26159	Dayspring Professional Janitor	N/A	8,470,503
12554	G4S Secure Solutions, (USA), Inc.	All Points Security Services, Digby's Detective and Security Services	7,876,797
12744	World Wide Protection Group, Inc.	Moore Security Services, Steiner Security	6,795,346

Source: DPS identified the relevant contracts and contractors. OIG reviewed the contracts and subsequent contract changes to identify the subcontractors and queried the City of Chicago Financial Management and Purchasing Systems (FMPS) to determine the amount paid.

<sup>1</sup> See the preamble to the 2002 Base Wage Ordinance amendment, *Journal of Proceedings of the City Council of Chicago, Illinois*, Regular Meeting – Wednesday, November 6, 2002, 96506, accessed September 25, 2017, <http://chicityclerk.com/file/6301/download?token=kiHKcszb>. For research on living wage ordinances in U.S. cities, see, for example, Benjamin Sosnaud, "Living Wage Ordinances and Wages, Poverty, and Unemployment in US Cities," *Social Science Review*, 90, no. 1 (2016): 3-34, accessed September 21, 2017, <http://www.journals.uchicago.edu/doi/full/10.1086/686581>.

<sup>2</sup> MCC § 2-92-610(A)5.

<sup>3</sup> City of Chicago, Department of Procurement Services, "2017 Notice Regarding Executive Order 2014-1 and the Chicago Base Wage Ordinance," June 16, 2017, accessed August 16, 2017, [https://www.cityofchicago.org/content/dam/city/depts/dps/RulesRegulations/Notice\\_EO2014-1\\_BWO2017\\_61617.pdf](https://www.cityofchicago.org/content/dam/city/depts/dps/RulesRegulations/Notice_EO2014-1_BWO2017_61617.pdf)

<sup>4</sup> The Ordinance exempts City contracts with non-profit organizations.



### **A. Authority of the Department of Procurement Services**

The Ordinance gives the City's Chief Procurement Officer (CPO) the authority to promulgate administrative rules and regulations to promote compliance. It also gives the CPO the authority to conduct investigations to determine whether there has been a violation, where the CPO has reason to believe that any employee has been paid less than the base wage and/or upon notification of a complaint from such employee.

All contracts subject to the Ordinance include a provision describing the contractor's responsibility to pay covered employees no less than the base wage as defined in MCC § 2-92-610.<sup>5</sup> The contracts require the contractor to, "include provisions in all subcontracts requiring its subcontractors to pay the base wage to Covered Employees."<sup>6</sup> Furthermore, contractors must, "provide the City with documentation acceptable to the CPO demonstrating that all Covered Employees, whether employed by the Contractor or by a subcontractor have been paid the Base Wage, upon the City's request for such documents."<sup>7</sup> Finally, the contracts state, "Failure to comply with the requirements [...] will be an event of default [and] may result in ineligibility for any award of a City contract or subcontract for up to three (3) years."

In 2016, exercising the authority provided by the Ordinance, DPS investigated two base wage-related complaints. One complaint was against SkyTech Enterprises (SkyTech) (contract 12687) and its subcontractor, Moore Security Services, Inc. (Moore), and the other was against World Wide Protection Group, Inc. (World Wide) (contract 12744) and its two subcontractors, Moore and Steiner Security Services, Inc. The investigations substantiated the complaints. In December 2016, DPS management reported to OIG that the City, SkyTech, and its subcontractor reached an agreement that provided back pay for unpaid base wages to covered employees. DPS management also stated that the City, World Wide, and its two subcontractors reached a similar agreement.

### **B. Other Wage Requirements**

In September 2014, Executive Order 2014-1 expanded base wage coverage to a much broader range of employees and set the base wage rate at \$13.00 per hour.<sup>8</sup> The Executive Order applies to contracts advertised on or after October 1, 2014, and covers all employees working under City contracts or subcontracts regardless of job duties, full-time/part-time status, or number of employees.

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<sup>5</sup> See Appendix A for the contract language related to the Chicago Base Wage Ordinance.

<sup>6</sup> City of Chicago, "Contract Number 26158," June 1, 2012, pdf. 105, accessed September 26, 2017, <https://webapps1.cityofchicago.org/VCSearchWeb/org/cityofchicago/vcsearch/controller/contracts/begin.do?agencyId=city>.

<sup>7</sup> City of Chicago, "Contract Number 26158," June 1, 2012, pdf. 105, accessed September 26, 2017, <https://webapps1.cityofchicago.org/VCSearchWeb/org/cityofchicago/vcsearch/controller/contracts/begin.do?agencyId=city>.

<sup>8</sup> City of Chicago Mayor Rahm Emanuel, "Executive Order No. 2014-1," September 3, 2014, accessed September 26, 2017, <https://www.cityofchicago.org/content/dam/city/depts/dps/RulesRegulations/ExecutiveOrderNo2014-1.pdf>.

In December 2014, City Council passed the Chicago Minimum Wage Ordinance (MCC Chapter 1-24), which establishes a minimum wage for all workers in Chicago, not just employees on City contracts, at a rate higher than the statewide minimum wage set forth in 820 ILCS 105, which is \$8.25. The Chicago Minimum Wage was set at \$10.00 per hour for non-tipped employees effective July 1, 2015, with fixed annual increases through July 1, 2019, after which the minimum wage will, subject to certain conditions, automatically increase in proportion to the increase, if any, in the Consumer Price Index for All Urban Consumers (CPI-U).<sup>9</sup> As of July 1, 2017, the hourly minimum wage was \$11.00.<sup>10</sup>

Although both the Ordinance and the Executive Order currently require hourly rates above the minimum wage, the minimum wage rate is projected to slightly exceed the Ordinance rate beginning in July 2019.<sup>11</sup> The rate required under the Executive Order is projected to continue to exceed the minimum wage by at least one dollar. When contracts covered by the Ordinance expire, new contracts for those services will be subject to the Executive Order, thus employees of City contractors or concessionaires will continue to be compensated at a rate higher than the minimum wage.

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<sup>9</sup> MCC § 1-24-020(f) specifies additional factors in the annual calculation, including the local unemployment rate and maximum CPI increase, and whether or not the employee receives tips.

<sup>10</sup> City of Chicago, Office of the Mayor, "City of Chicago Minimum Wage," accessed September 8, 2017, [https://www.cityofchicago.org/city/en/depts/mayor/supp\\_info/minimum-wage.html](https://www.cityofchicago.org/city/en/depts/mayor/supp_info/minimum-wage.html).

<sup>11</sup> See Appendix B for actual and projected Minimum Wage, Ordinance, and Executive Order hourly wage rates through 2024.

### **III. OBJECTIVE, SCOPE, AND METHODOLOGY**

#### **A. Objective**

The objective of the audit was to determine if security guard and janitorial service contractors and subcontractors complied with the Chicago Base Wage Ordinance.

#### **B. Scope**

This audit reviewed wages paid to covered employees by security guard and janitorial service contractors and subcontractors for 4 to 6 weeks during July, August, and September in 2014, 2015, and 2016. We selected these months because annual base wage increases take effect July 1, therefore all changes should be reflected in the reviewed payrolls. All audited wages were subject to the Ordinance but not the Executive Order because, as of November, 2016, the City did not have any security guard or janitorial service contracts subject to the Executive Order.<sup>12</sup>

As mentioned in the background section, DPS had already conducted investigations into potential Base Wage Ordinance violations by SkyTech and World Wide and had reached agreements that provided restitution to covered underpaid employees. Therefore, OIG limited our audit work to the remaining four contracts subject to the Ordinance.

#### **C. Methodology**

OIG relied on DPS to identify contracts subject to the Base Wage Ordinance. To learn about the City's processes for enforcing compliance with MCC § 2-92-610, OIG interviewed senior management at DPS and the City departments responsible for managing security guard and janitorial service contracts.

To determine if covered employees were paid at least the base wage, OIG obtained the contractors' and subcontractors' payroll registers for 4 to 6 weeks in 2014, 2015, and 2016, and compared wages paid to covered employees during each payroll period during the review period to the base wage as defined in MCC § 2-92-610.

To verify that the registers reflected the actual payments disbursed to employees, OIG selected a judgmental sample of payments from the payroll registers and compared them to the employer's bank statements to ensure the amount reported was the amount paid.

#### **D. Standards**

We conducted this audit in accordance with generally accepted Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>12</sup> Executive Order 2014-1 applies only to contracts advertised on or after October 1, 2014.

**E. Authority and Role**

The authority to perform this audit is established in the City of Chicago Municipal Code § 2-56-030 which states that OIG has the power and duty to review the programs of City government in order to identify any inefficiencies, waste, and potential for misconduct, and to promote economy, efficiency, effectiveness, and integrity in the administration of City programs and operations.

The role of OIG is to review City operations and make recommendations for improvement.

City management is responsible for establishing and maintaining processes to ensure that City programs operate economically, efficiently, effectively, and with integrity.

#### IV. FINDING AND RECOMMENDATIONS

**Finding: Subcontractors underpaid 150 employees \$22,664 during the period reviewed, resulting in an estimated underpayment of \$291,816 over 3 years.**

While the four prime contractors reviewed in this audit consistently paid their employees the hourly base wage rate required by MCC § 2-92-610, OIG found that three of the four related subcontractors paid between \$0.02 and \$3.04 less per hour. These three subcontractors underpaid 150 employees a total of \$22,664 in the four- to six-week period reviewed each year, resulting in an estimated \$291,816 underpayment to the employees over the course of three years. The following table summarizes the number of employees underpaid,<sup>13</sup> the amount of underpayment identified, the average weekly underpayment, and the estimated annual impact per employee and collectively.<sup>14</sup>

Vendor	Year	# of Employees Underpaid	Total Underpayment Identified	Average Weekly Underpayment	Estimated Annual Underpayment	Estimated Collective Underpayment
All Points Security Services	2014	63	\$ (8,097.16)	\$ (32.13)	\$ (1,670.84)	
	2015	57	\$ (7,081.80)	\$ (31.06)	\$ (1,615.15)	\$ (276,149.32)
	2016	68	\$ (6,063.30)	\$ (22.29)	\$ (1,159.16)	
Majestic Protective Service, Inc.	2014	4	\$ (357.05)	\$ (22.32)	\$ (1,160.41)	
	2015	24	\$ (284.06)	\$ (2.96)	\$ (153.87)	\$ (10,032.59)
	2016	9	\$ (130.63)	\$ (3.63)	\$ (188.68)	
Digby's Detective and Security Services	2014	10	\$ (206.82)	\$ (3.45)	\$ (179.32)	
	2015	10	\$ (99.50)	\$ (1.66)	\$ (86.26)	\$ (5,634.22)
	2016	15	\$ (343.53)	\$ (3.82)	\$ (198.56)	
			\$ (22,663.85)			\$ (291,816.13)

Source: OIG analysis of subcontractor-provided employee payroll records.

OIG also found the following wage discrepancies related to overtime and training hours:

- Universal Security, Inc., a prime contractor, underpaid 28 employees a sum total of \$304 in overtime wages as a result of basing its time-and-a-half overtime payments on the City's base wage, or another wage, rather than the employee's actual wage, as required by state law;<sup>15</sup>
- All Points Security Services, a subcontractor that paid employees a lower wage than the base wage, also underpaid 48 employees a sum total of \$2,145 in overtime wages as a result of basing the time-and-a-half overtime rate on the lower wage; and

<sup>13</sup> Subcontractors underpaid 150 employees. The Number of Employees Underpaid column does not total 150 because some employees were underpaid in multiple years.

<sup>14</sup> The estimated annual impact, both individually and collectively, is based on the assumption that the employees worked the same number of hours per four- to six-week period throughout the related years.

<sup>15</sup> See 820 ILCS 105/4a(1) ("Except as otherwise provided in this Section, no employer shall employ any of his employees for a workweek of more than 40 hours unless such employee receives compensation for his employment in excess of the hours above specified at a rate not less than 1 1/2 times the regular rate at which he is employed.").

- Universal Security, Inc., a prime contractor, and Digby's Detective and Security Services, a subcontractor, underpaid 25 employees a total of \$1,130 as a result of paying a lower wage for training hours than the base wage, a practice permitted under state law but not the MCC.

DPS stated it does not proactively monitor base wage compliance; it only investigates complaints filed by employees. DPS relies on contracting departments to ensure base wage compliance as part of their contract management and monitoring practices. Fleet and Facilities Management (2FM) and the Chicago Department of Aviation (CDA) are the managing departments for the security guard and janitorial service contracts reviewed in this audit. DPS acknowledged that managing departments do not generally collect certified payroll records from contractors and that, in fact, information collected varies widely from department to department. DPS also acknowledged that managing departments may approve annual price increase requests without inquiring about wages or receiving confirmation that the contractor is in compliance with the Ordinance. Finally, DPS stated that it sends annual announcements of the new base wage rate to contractors, but relies on contractors to communicate the rate to subcontractors, because contractors are responsible for subcontractor compliance.

Both 2FM and CDA stated that they independently developed procedures for contract compliance without guidance from DPS. CDA said that its procedures are focused on verifying both reporting hours for billing and wage compliance. 2FM reported that its contract compliance procedures do not include base wage compliance.<sup>16</sup>

### **Recommendation:**

To address the underpayments found in this audit, OIG recommends that DPS exercise its existing audit authority and require the contractors and subcontractors reviewed to identify the total underpayment related to base, overtime, and training wages, and to pay the covered employees any back pay owed. If the contractors and subcontractors do not cooperate, OIG recommends that DPS pursue contractual remedies, if any, and ensure that the City does no further business with these entities for up to three years, as allowed by the Ordinance.

To prevent and detect future wage violations, OIG recommends that DPS take further steps to promote compliance among contractors and subcontractors. Such steps may include sending its annual wage increase announcements to subcontractors as well as contractors, and requiring contractors to submit an annual certification of wage rate compliance for themselves and all related subcontractors.

Finally, OIG recommends that DPS provide guidance on monitoring wage rate compliance to all departments with relevant contracts.<sup>17</sup> Such guidance should require departments to design specific procedures to confirm proper base, overtime, and training wages paid by both prime

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<sup>16</sup> OIG found wage underpayments on contract 12554, managed by 2FM, and on contract 14731, managed by CDA.

<sup>17</sup> Relevant contracts are any contracts with wage requirements, including those subject to the Base Wage Ordinance, Executive Order, or other contractual wage rates.

contractors and subcontractors. DPS should also implement procedures to determine whether departments are effectively monitoring wage rate compliance.

**Management Response:**

*"DPS issued default notices and requests to cure to two of its prime contractors. Specifically, DPS requested that the primes provide documentation that its subcontractors have been paying the correct minimum wages to all of their employees throughout the life of the contracts. If the contractors find that their subcontractors have not been paying the correct wages, then the primes must submit a corrective action plan, including a schedule for payment of back wages and periodic updates confirming compliance on a going forward basis.*

*"DPS currently sends its annual wage increase announcements to all contractors, which includes all subcontractors that have profiles in the Certification and Compliance (C2) System. As detailed below, the Mayor's Office has offered to convene meetings with DPS, the Department of Finance, the Department of Law, and user departments to ensure checks are in place with respect to contractor wage compliance.*

*"When an assertion is made that a specific contractor is not paying the correct wages, DPS, working with the user department, immediately requests documentation of compliance and issues cure and default notices where applicable. However, DPS must rely on the departments to identify wage noncompliance under the contract, EO 2014-1, and/or the Base Wage Ordinance, because invoice processing and payment authorization occurs at the department level, and that is the point at which noncompliance would be evident. Departments must then notify DPS of any potential wage violations. If departments have questions on what the applicable minimum wages are under a contract, they should consult with both DPS and the Department of Law for a determination.*

*"DPS views ensuring contract compliance as a partnership with user departments; to that end, DPS will immediately send a memorandum to all Department heads reminding them of their role in contract monitoring, invoicing review, and compliance, including wage rate compliance.*

*"After discussing the matter with the Mayor's Office, it has offered to convene meetings with DPS, the Department of Finance, the Department of Law and the user departments to put into place measures to ensure the City is actively monitoring its contractors for wage rate compliance. These measures may include: (i) requiring that all contractors submit a certification of wage rate compliance for themselves and all subcontractors with every invoice; (ii) implementing invoice processing and auditing procedures to confirm proper wages required by the contract were paid by prime and subcontractors; (iii) including a mechanism in such procedures for reporting potential wage violations under the contract, EO 2014-1, and/or the Base Wage Ordinance, to DPS, which should be addressed to the Chief Procurement Officer and DPS General Counsel; (iv) education and training of staff that perform invoice review functions; and (v) notifying workers of their rights with respect to wages and reporting incidents of non-compliance.*

*"The City recognizes the importance of ensuring contractor compliance with all contract requirements, and appreciates the opportunity to effectuate improved monitoring and increased compliance."*



**V. APPENDIX A: CONTRACT LANGUAGE CONCERNING THE BASE WAGE ORDINANCE**

The following text is the standard contract language that appears in contracts related to the six security and custodial contracts subject to the Base Wage Ordinance.

- A. Section 2-92-610 of the Municipal Code of Chicago provides for a living wage for certain categories of workers employed in the performance of City contracts, specifically non-City employed security guards, parking attendants, day laborers, home and health care workers, cashiers, elevator operators, custodial workers, and clerical workers ("Covered Employees"). Accordingly, pursuant to Section 2-92-610 and regulations promulgated thereunder:
  - 1. if the contractor has twenty-five (25) or more full-time employees, and
  - 2. if at any time during the performance of the contract the Contractor and/or any subcontractor or any other entity that provides any portion of the Services (collectively "Performing Parties") uses twenty-five (25) or more full-time security guards, or any number of other full-time Covered Employees, then,
  - 3. the Contractor must pay its Covered Employees, and must assure that all other Performing Parties pay their Covered Employees, not less than the minimum hourly rate as determined in accordance with this provision (the "Base Wage") for all work performed pursuant to the Contract.
- B. The Contractor's obligation to pay, and to assure payment of, the Base Wage will begin at any time during the Contract term when the conditions set forth in A.1 and A.2 are met, and will continue thereafter until the end of the Contract term.
- C. As of July 1, 2011, the Base Wage is \$11.18 per hour. Each July 1<sup>st</sup>, thereafter the Base Wage will be adjusted, using the most recent federal poverty guidelines for a family of four (4) as published annually by the U.S. Department of Health and Human Services, to constitute the following: the poverty guidelines for a family of four (4) divided by two thousand (2000) hours or the current base wage, whichever is higher. At all times during the term of this Contract, Contractor and all other Performing Parties must pay the Base Wage (as adjusted in accordance with the above). If the payment of prevailing wages is required for work or services done under this Contract, and the prevailing wages for Covered Employees are higher than the Base Wage, then the Contractor must pay the prevailing wage rates.
- D. The Contractor must include provisions in all subcontracts requiring its subcontractors to pay the Base Wage to Covered Employees. The Contractor agrees to provide the City with documentation acceptable to the Chief Procurement Officer demonstrating that all Covered Employees, whether employed by the Contractor or by a subcontractor, have been paid the Base Wage, upon the City's request for such documentation. The City may independently audit the Contractor or subcontractors to verify compliance herewith. Failure to comply with the requirements of this Section will be an event of default under this Contract, and further, failure to comply may result in ineligibility for any award of a City contract or subcontract for up to three (3) years.

- E. Not-for-Profit Corporations: If the Contractor is a corporation having Federal tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and is recognized under Illinois not-for-profit law, then the provisions of Section A through D above do not apply.

**VI. APPENDIX B: CHICAGO MINIMUM AND BASE WAGE RATES AND PROJECTIONS**

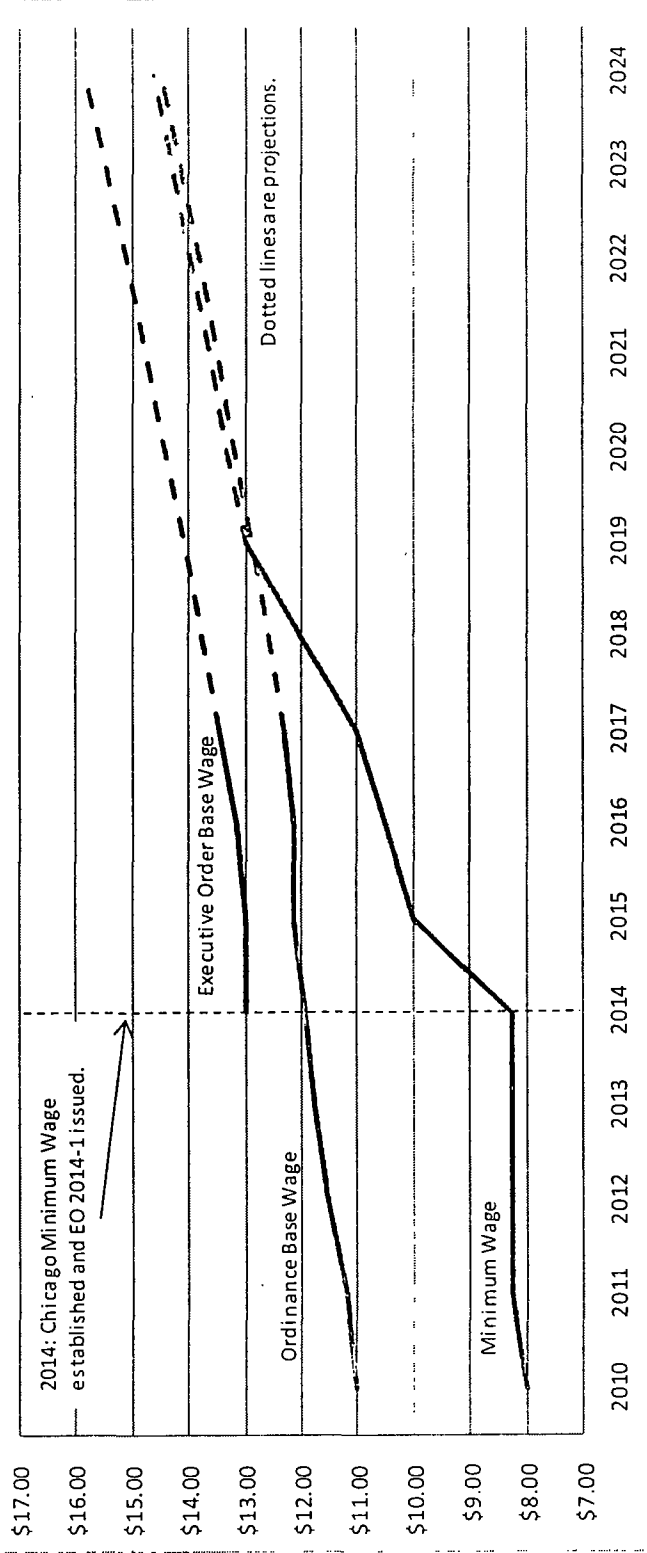
The following graph and table show actual and projected minimum wage, Ordinance base wage, and Executive Order base wage rates from 2010 through 2024.<sup>18</sup> The Chicago Minimum Wage Ordinance (MCC Chapter 1-24), enacted in 2014, established a minimum wage that is higher than the rate set by the State Minimum Wage Law (820 ILCS 105). Effective July 1, 2015, the Chicago minimum wage was \$10.00 per hour for non-tipped employees, with fixed annual increases through July 1, 2019, after which the minimum wage will, subject to certain conditions, automatically increase in proportion to the increase, if any, in the CPI-U.<sup>18</sup> The Executive Order base wage rates are determined in June of each year based on CPI, with new rates effective annually on July 1. Ordinance base wage rates are also reset each July 1 based on federal poverty guidelines published annually by the U.S. Department of Health and Human Services, which increase in relation to the CPI change two years prior.

OIG projected future rates using the Congressional Budget Office CPI-U forecasted increases of 2.3% for 2018 and 2019, and 2.4% thereafter. The Ordinance base wage is projected to exceed the minimum wage until 2019, when the minimum wage is projected to be slightly higher. The Executive Order base wage is projected to continue to exceed the other two rates by at least one dollar.

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<sup>18</sup> MCC § 1-24-020(f) specifies additional factors in the annual calculation, including the local unemployment rate and maximum CPI increase, and whether or not the employee is tipped.

## Chicago Minimum and Base Wage Rates 2010-2024 (Projected)



Note: Figures in grey are projections.

Sources: MCC § 1-24-020, 820 ILS 105, Congressional Budget Office Economic Projections 2017-2027,<sup>19</sup> and annual DPS base wage notices.

<sup>19</sup> U.S. Congressional Budget Office, "The Budget and Economic Outlook: 2017 to 2027," Appendix C, (Washington DC, January 2017), accessed June 19, 2017, <https://www.cbo.gov/publication/52370>.

## CITY OF CHICAGO OFFICE OF INSPECTOR GENERAL

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<b>To Suggest Ways to Improve City Government</b>	Visit our website: <a href="https://chicagoinspectorgeneral.org/get-involved/help-improve-city-government/">https://chicagoinspectorgeneral.org/get-involved/help-improve-city-government/</a>
<b>To Report Fraud, Waste, and Abuse in City Programs</b>	Call OIG's toll-free hotline 866-IG-TIPLINE (866-448-4754). Talk to an investigator from 8:30 a.m. to 5:00 p.m. Monday-Friday. Or visit our website: <a href="http://chicagoinspectorgeneral.org/get-involved/fight-waste-fraud-and-abuse/">http://chicagoinspectorgeneral.org/get-involved/fight-waste-fraud-and-abuse/</a>

### MISSION

The City of Chicago Office of Inspector General (OIG) is an independent, nonpartisan oversight agency whose mission is to promote economy, efficiency, effectiveness, and integrity in the administration of programs and operations of City government. OIG achieves this mission through,

- administrative and criminal investigations;
- audits of City programs and operations; and
- reviews of City programs, operations, and policies.

From these activities, OIG issues reports of findings and disciplinary and other recommendations to assure that City officials, employees, and vendors are held accountable for the provision of efficient, cost-effective government operations and further to prevent, detect, identify, expose and eliminate waste, inefficiency, misconduct, fraud, corruption, and abuse of public authority and resources.

### AUTHORITY

The authority to produce reports and recommendations on ways to improve City operations is established in the City of Chicago Municipal Code § 2-56-030(c), which confers upon the Inspector General the following power and duty:

*To promote economy, efficiency, effectiveness and integrity in the administration of the programs and operations of the city government by reviewing programs, identifying any inefficiencies, waste and potential for misconduct therein, and recommending to the mayor and the city council policies and methods for the elimination of inefficiencies and waste, and the prevention of misconduct.*