

**Proposed Minutes for
Meeting of the Illinois Reform Commission
Friday, March 13, 2009**

- **Call to Order:**

Patrick Collins called the meeting to order at 1:40 PM

- **Roll Call:**

In Attendance:

Anita Alvarez, Patrick Collins, Pamela Davis, Hanke Gratteau, Tasha Green, David Hoffman, Reverend Dennis H. Holtschneider, Douglas L. Johnson, M.D., Ph.D., Kate Maehr, Brad McMillan, N. Duane Noland, Lawrence Oliver, Sheila Simon, Reverend Scott Willis

Not Attending:

Pat Fitzgerald

- **Welcome by Chairman Patrick Collins:**

Patrick Collins welcomed those in attendance. He noted that this was the 5th meeting of the Commission and gave a brief summary of what the Commission has been doing for the past two meetings. They had a discussion on their views of campaign finance earlier today. The Commission had two meetings on this subject, one in Springfield and one in Chicago. The Commission will be posting a draft document on the website, *ReformIllinoisNow.org*, to reflect what the Commission is proposing as a public statement on the subject of campaign finance. It is hoped that their views will be heard and acted upon in the current Illinois legislative session.

The topic of this meeting was Procurement, and Mr. Collins noted that Commissioners David Hoffman and Pam Davis were chairing the sub-group. He then turned the meeting over to Mr. Hoffman.

Mr. Hoffman noted that in the two prior meetings the Commission heard how big money comes into campaigns. Today the Commission would learn why this happens. Contractors use money as a bait to get preferred treatment. Agency heads have used their control to get kick-backs from big money. While a lot of big money is going out, it doesn't hurt the people who are providing it; to the contrary, they receive a large amount of contracts from this, and feel making large donations is part of the cost of doing business in Illinois. More than \$1.3 million was raised by big money in the last election and they received it back easily through contracts. Mr. Hoffman stated that for the past two years the state has been run by two governors who have used contracts for personal and political gain. This will be a difficult problem to fix, but there are ways to make it much more difficult to allow this to continue.

Mr. Hoffman explained that there would be three separate panels speaking at this meeting. It is the hope of the Commission that they will see ways to put reform in sight by the end of the hearing. He turned the Commissioners' attention to some posters that showed how money is distributed in the state and noted that the chief procurement offices are not centralized. The big

money is actually controlled by the governor's office. The big contracts are split into five different areas. Mr. Hoffman also explained how contracts are decided in Illinois state government and touched on the patronage hiring scam that was discovered in 2005. He concluded with the statement that if the system is changed so that steering contracts is prohibited, "pay to play" cannot thrive.

Pamela Davis stated that she works in the health care arena and through her job, was trying to put up a needed building for her hospital. Hospitals are required to go before an independent state board for approval that is put together by the governor's office. This board was a group of individuals who have very little experience in working with hospitals. This board does nothing to impact on where people receive care. Ms. Davis said that there are many people who argue that the health care system does not protect the indigent, but she said that each individual hospital does give services to the poor. There are also other organizations that make sure money is given back to ensure care for people who do not ordinarily get this type of medical care.

Ms. Davis stated that almost four years ago, she asked on behalf of her hospital for a medical building and was expecting an easy approval. She appeared before a committee and was blasted by members of this committee with questions that she did not feel had to do with her request. People in the audience at the hearing were stunned to hear her being interrogated with questions that had nothing to do with approving the money for the building. She had previously received a call at home from someone who told her she would never get the building approved and should pull the project. A different individual told her to call him if she wanted to get the project off the ground. Feeling that she was being intimidated, she called the FBI, met with several agents and convinced them to listen to a meeting with the individual. She was clearly being extorted to use certain contractors and bond holders. It now appears that Tony Rezko was the person who decided what projects would be approved and how money would be distributed to the members of the committee who had done their "public service."

Mr. Hoffman called the first panel to the table and introduced the speakers.

Testimony of Panel 1: Karl Becker, Basil Demczak and Andy Shaw

The first speaker was Karl Becker. Mr. Becker is the former Deputy Director of Finance and Administration with the Illinois Department of Corrections from 1987 through 1999 and is now with NGT America. Mr. Becker has a unique perspective on how things work in Illinois government structure and how they operate in other states and in the private sector. There are other ways to do business that are more transparent and above-board. Mr. Becker related a few examples of how the current system allows abuse. The first example he cited had to do with medical care for inmates. Medical care is bid out to large managed care firms. He noted that there was a 20 year contractor that had asked to renegotiate their contract because they were losing money. Mr. Becker's department entered into negotiations and reached a settlement. At the end of the contract, the managed care firm wanted to renew. After a settlement was reached with the vendor, Mr. Becker's supervisor decided to bring in two contractors with whom he had a personal relationship instead. Not only did he bring in two new vendors, it was at a much higher cost than the previous vendor. The director was subsequently charged with receiving money and is currently serving time in prison. One lobbyist also went to prison. No documentation was required for any of the changes. It was all under the control of the former director. The contract

was for \$15 million and the former director got between \$30,000 - \$50,000 from the two new vendors in kick backs.

Mr. Becker also related a story about another contractor who provided ankle bracelets for inmates. A politically connected vendor came in with a high bid. The vendors were then given a "re-do" for their bids and the politically connected vendor managed to come in with one of the lowest prices and got the contract. This was also another situation where there were no rules guiding how bids are provided and accepted. Mr. Becker has seen this happen many times. Mr. Hoffman noted that, according to the court files, the company in this instance was partially owned by a brother of former Governor Ryan.

Mr. Becker also noted that he has seen competition eliminated for bids by making the specifications for the bid specific to a certain company.

Mr. Collins asked Mr. Becker how he would propose eliminating these types of situations. Mr. Becker said that there needs to be a transparent process and competitive bidding. Criteria need to be posted before bids are made. Illinois has fewer rules regarding this than other states. Most states want bids to be publicly published.

Basil Demczak, Supervisory Postal Inspector of the U.S. Postal Inspection Service, spoke next and thanked the Commission for the opportunity to speak before them. He also thanked Ms. Davis for having the courage and integrity to come forward when she did. He stated his opinion would be coming from a law enforcement officer's view. It is clear that power, politics, influence and shady lobbyists subvert influence in the state of Illinois when honest, hard-working state employees are threatened with demotion and loss of employment if they don't capitulate. In many instances there are people steering lobbyists to certain vendors. In a recent vehicle sticker scandal, an employee tried to get more vendors to place bids. From the top down, the employee was ordered to keep the specs as they were because they were so narrow, only one vendor was eligible to fill the order. On another occasion, some people decided to accept a contract from their Jamaican host, who had been wining and dining them without going through a bidding process. Mr. Demczak also discussed other breaches of propriety by lobbyists and state officials.

Mr. Demczak noted that the state trains and hires people to do their jobs properly, but they can be coerced from the top down. It is important to make changes to provide that political officials and employees can't make changes. We need to make sure that significant contact with lobbyists need to be transparent.

The next speaker was Andy Shaw, former reporter for ABC 7 in Chicago. Mr. Shaw spoke about former Governor Rod Blagojevich and discussed the pay to play scandals. While the former Governor has been impeached and thrown out of office, he has not yet been convicted of any crime. Mr. Shaw noted that in his inauguration address, Blagojevich stated that the people had voted for change and he wanted to deliver change to the people. He did bring about change, but not the kind that the people expected. Blagojevich received 235 large contributions in amounts of \$25,000 or more from contractors compared to 4 received by former Governor Ryan. Three quarters of those contributors received contracts from bids they submitted to the state. Mr. Shaw stated that he thought Rod Blagojevich really wanted to be president and a popular governor. The only way to insulate himself was through cash. He amassed a huge campaign

war chest and bent rules to serve his own purposes. He will probably say at his trial that he did nothing wrong. It is not known how much money he amassed.

Mr. Shaw spoke about possible solutions for the pay to play problem. It was his opinion that perhaps we could publicly finance campaigns and push television stations to broadcast debates. We can limit campaign donations. He also recommended that an individual body should be established to oversee contracts. That party would review contract proposals, try to see if there is a bias, and then make a ruling about whether the contract is "kosher" and checks again to see if the work is being done in the manner it should be. Mr. Shaw does not condone \$58 million for campaign fundraising, but realizes the more constraints we put on regular people, the more we turn public office over to people with money.

Hanke Gratteau asked Mr. Becker how many contracts he saw while he was employed with the State that were done in a less than ethical manner. Mr. Becker stated that there were thousands of contracts.

Dr. Johnson asked what the percentage of contracts was that Mr. Becker saw pushed through. Mr. Becker did not know the answer, but said they were mostly for medical services and electronic controls. He estimated that it was less than 10 percent.

Andy Shaw said that perhaps the inspector general should oversee procurement for the State. Mr. Oliver stated that it looked as if there was no real legislation to enforce this. Mr. Hoffman noted that the subject of enforcement would be discussed at a future Commission meeting.

Mr. Becker noted that there was no procurement code in Illinois until 1998, but most of these people were beholden to political employees. It is not seriously enforced.

Mr. Collins stated that Mr. Demczak was present for most of the work in the Operation Safe Road case. He asked if Illinois was that different in that Illinois has people who don't follow the rules. Mr. Shaw felt that the states are virtually the same, and Illinois has had a vigilant press and U.S. attorney prosecuting this. It makes it look like things are worse here, but there are probably a lot of states where this is done very quietly. The catch rate in Illinois is higher. Mr. Becker agreed with this assessment.

Mr. Hoffman thanked Messrs. Becker, Demczak and Shaw and introduced the members of the second panel. He stated that these two people would be discussing the "Blue Ribbon" commission on procurement and current reform.

Testimony of Steve Rauschenberger and Sen. Jeff Schoenberg

Senator Jeff Schoenberg, Democratic Illinois State Senator, served six terms in the Illinois House and this is his first term as an Illinois State Senator. He is the new Assistant Majority Leader, and said that he feels technology efforts are the key to changing the laws regarding procurement. He wants to bring an end to the many practices that continue to this day. Senator Schoenberg has been working with Senator Rauschenberger for many years on this subject. They adopted most of the Blue Ribbon changes for procurement based on the ABA law of ethics. Abuse unfortunately still continues in many agencies. Senator Schoenberg noted that when pushing for their case they were unable to get one of the things they wanted included, an independent

procurement czar. They got instead a procurement board, which Governor Blagojevich tried to vet. In order to improve the situation, they suggest that quasi-public bodies need a higher level of oversight. It should be against the law for non-licensed professionals to be able to approach state officials for business. Officials need to insure that there is greater disclosure for people who serve as “informed advisors.” We need to know when the clock is running and when the peoples’ interest is being represented.

Senator Schoenberg concluded by saying that having sufficient resources to do accounting cannot be discounted. Decentralized auditing means the situation is ripe for abuse. We have the opportunity to give law enforcement officers and officials the go-ahead to “connect the dots” to enforce the laws. We need to put the terms of deals out on the internet to see who is involved in these organizations and see what the expectations are so these people can do their job.

Mr. Rauschenberger said that for a long time public institutions have exempted themselves from scrutiny and that needs to be changed. The systems we have currently would work well if it were populated by good people. He thought it was wise to strengthen the policy board. He also felt that a procurement czar was a good idea. A reasonable point to start would be the office of the auditor general since it is an office that has not been tainted in the past ten years. Mr. Rauschenberger also agreed with Senator Schoenberg about resources – it’s been a standard of operations in Springfield that the job is not to maximize and not to be efficient. He urged the Commission not to be afraid of the expenditure of resources to make this work.

Mr. Hoffman asked Senator Schoenberg if he thought an individual czar was what he was thinking would help to protect the State. Senator Schoenberg responded that he thought this would be helpful for legal services, technology contracts and other areas. He also suggested bringing large quasi-public entities under this umbrella as well, such as the Illinois Finance Authority and State Retirement Agency. He did not think it would be difficult to put a list together of these agencies.

Ms. Gratteau asked if each of the witness thought the current procurement code was a good one. Senator Schoenberg said that he thought some of the scandals relating to procurement over the past ten years should be attributed to the code. Ms. Gratteau then asked what changes should be made to that code. Senator Schoenberg stated that the current government should be more open to change and there are currently some bills pending in legislation that should make a difference. State licenses are one of the things that could be changed and legislation is currently on the table regarding this issue. There is also a law moving through the legislature that would require disclosure of sub-contractors.

Mr. Hoffman asked if there were more independent oversight and transparency is increased, could this make a significant impact? Mr. Rauschenberger said that it could make an impact if there is a change in the culture. Until we get to the point where we have more whistle-blowers, the system won’t change. He also cautioned that people will always look for ways to get around the rules.

Senator Schoenberg thought it would make a difference if the state pension investment deals were posted on the internet in pdf format and be a tremendous savings for taxpayers.

Ms. Davis said that she felt there were too many rules in place and it is more about how we expect people to behave in a reasonable society. She expects every citizen to speak up when they see things that do not appear to be correct.

Mr. Hoffman thanked the witnesses for their input and said he hoped the Commission was on the same page in terms of making changes. He then introduced the members of the next panel.

Testimony of Christopher Mazzella, Christopher Yukins and Michael Bevis

Mr. Mazella, Inspector General of Miami-Dade County, thanked the Commission for allowing him to attend telephonically and noted that his assistant counsel general was also on the call. He noted that the Inspector General's office of Miami was created in 1998. They are an independent agency with jurisdiction over anyone doing business with the County, county employees and public officials. His office combats fraud, waste, mismanagement and corruption within their local government. He stated that the procurement process is important to them to be sure tax dollars are expended wisely. Their mission is to insure that the process remains transparent. They have authority to monitor the contracting business in any phase. They are enabled to attend any meetings to monitor them and to report their findings if they consider them to be issues.

Mr. Mazella stated that there are two phases for contracts, the pre-award procurement stage and the award phase. With respect to the first phase, they have developed a program to focus resources on oversight of the process. When they first started the process they attended some of the meetings where County staff would meet with the lobbyists and vendors. People were surprised to see the Inspector General recording what was being said and done. It did a great deal to bring transparency to the system.

Mr. Hoffman asked if Mr. Mazella could give a quick, one minute suggestion to make this type of system work for Illinois. Mr. Mazella said that Miami-Dade has established a job description of "contract oversight specialist." These people have a primary function to monitor the procurement process. They have different talents and are professionals in their fields.

Professor Christopher Yukins, Associate Professor of Government Contracts Law and Co-Director of the Government Procurement Law Program at George Washington University Law School, stated that one thing that they have learned is how common systems are around the world. He shared the observation that last week he attended a meeting of people who were very nervous about what is going on in Illinois. Illinois is a very high corruption risk and corporations will back away from this. He also thought the idea of a procurement czar was good, and noted that the key thing is that the procurement personnel need to be responsive to the users and the taxpayers. It is also very important to have a bid protest system in place.

Michael Bevis, Chief Procurement Officer for the City of Naperville, stated that there is no distinction between transparency and efficiency on both an economical level and a practical level. He knows many vendors who don't want to deal with the State of Illinois. He has observed the same concerns as the previous speakers and feels that the problem is bigger than most people think it is. Mr. Bevis does not use CMS contracts because he can do better on his own. These problems permeate all levels of local government. With that said, he felt an individual procurement office was important. As the Commission moves forward they should

know that procurement professionals have licensing and have a commitment to the constituents they serve.

Mr. Hoffman noted that the Commission would continue to be in touch with the speakers on the panels, but due to time constraints would have to end this discussion. Mr. Collins announced a brief break before hearing public comments from the floor.

Public Comments

Mr. Harold Lucas, of the Bronzeville Visitor Information Center, wanted the Commission to know that his organization has been disenfranchised by local government. His group had been promised grant money that was subsequently given to a different organization. He stated that the African American community has a problem in Chicago and thinks the system is totally corrupt. Mr. Lucas gave a packet of materials to the Commission regarding his organization and asked them to please look into this situation.

Ms. McGuiness stated that she started an African American janitorial business in 1985. By 2008, she was the last black female janitorial company and a “pay to play” company put her out of business. Procurement contracts are already slated for other people. She did not feel her company, and other small companies, were given a fair chance to bid. Mr. Collins asked her to provide her records to the Commission and Ms. McGuiness said she would provide substantiation to the Commission.

Mr. Jay Samuelson provided the Commission with some materials and said that after listening to the comments, he does not think the state of Illinois needs a procurement czar, but instead should look at a parallel to the Federal Court of Claims that would give people who had been abused in the bid process a chance. He thanked the Commission for their work over the past two months.

Mr. Oliver commented that perhaps a procurement czar could fix mistakes before they get on the stage where recourse is necessary.

Announcements

Mr. Collins announced that the next meeting of the Commission would take place Monday, March 30 in Peoria and the topic of that meeting would be Government Structure.

The meeting was adjourned at 4:00 p.m.