IN THE EXECUTIVE ETHICS COMMISSION
OF THE STATE OF ILLINOIS

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| IN RE: | YOLANDA HARPER and<br>CHEREDA HUDSON | )<br>) | OEIG Case #15-02184 |

OEIG FINAL REPORT (REDACTED)

Below is an amended final summary report from an Executive Inspector General. The General Assembly has directed the Executive Ethics Commission (Commission) to redact information from this report that may reveal the identity of witnesses, complainants or informants and "any other information it believes should not be made public." 5 ILCS 430/20-52(b).

The Commission exercises this responsibility with great caution and with the goal of balancing the sometimes-competing interests of increasing transparency and operating with fairness to the accused. In order to balance these interests, the Commission may redact certain information contained in this report. The redactions are made with the understanding that the subject or subjects of the investigation have had no opportunity to rebut the report's factual allegations or legal conclusions before the Commission.

The Commission received this report from the Governor's Office of Executive Inspector General ("OEIG") and a response from the agency in this matter. In the course of the investigation, the OEIG identified several other former and current CTA employees who misused a tax-exempt letter. In most of these cases, the amount of misuse was small or the misuse occurred several years earlier and may be beyond the jurisdiction of the OEIG. This information was provided to the CTA, but the OEIG made no formal findings. To be fair to those former and current employees, the Commission has redacted their identities from this report.

The Commission, pursuant to 5 ILCS 430/20-52, redacted the final report and mailed copies of the redacted version and responses to the Attorney General, the Governor's Executive Inspector General, and to Yolanda Harper and Chereda Hudson at their last known addresses.

The Commission reviewed all suggestions received and makes this document available pursuant to 5 ILCS 430/20-52.

## FINAL REPORT

## I. INTRODUCTION AND ALLEGATIONS

In Case No. 15-02091, the Office of Executive Inspector General (OEIG) found that Chicago Transit Authority (CTA) employee Delores McClendon used the CTA's tax-exempt status for personal purchases at Sam's Club stores. As a result of that investigation, the CTA suspended Ms. McClendon for 30 days without pay, required her to repay over $1,200 in taxes due to the Illinois Department of Revenue (IDOR), and implemented a new policy to improve its internal controls with respect to the distribution and use of its tax-exempt letter.

On November 5, 2015, prior to the completion of 15-02091, the OEIG self-initiated this case to determine whether any additional CTA employees similarly misused the CTA's tax-exempt status for personal purchases. The OEIG found that two additional employees, CTA Bus Managers Yolanda Harper and Chereda Hudson, used the CTA's tax-exempt status to purchase personal items at Sam's Club stores.[1] In addition, as of April 2016, the tax-exempt Sam's Club CTA accounts of three former CTA employees were still being used to make tax-free purchases using the CTA's tax-exempt status.[2]

## II. BACKGROUND

### A. CTA's Tax-Exempt Status

The Illinois Department of Revenue (IDOR) allows certain qualified organizations, such as not-for-profits, schools, churches, and units of state, local, and federal governments, to obtain an exemption from paying Illinois sales tax.[3] As IDOR explains, "Sales tax is a combination of 'occupation' taxes that are imposed on sellers' receipts and 'use' taxes that are imposed on amounts paid by purchasers. Sellers owe the occupation tax to the department; they reimburse themselves for this liability by collecting use tax from the buyers."[4]

According to the Illinois Administrative Code, the Retailers' Occupation Tax "does not apply to receipts from sales that are made to any governmental body."[5] In addition, as of January 2015, "only sales of tangible personal property invoiced directly to and paid by governmental bodies that possess active [tax-exempt] numbers are exempt."[6]

The IDOR has determined that the CTA is exempt from paying various Illinois taxes and has provided the CTA with a tax-exempt letter containing a unique tax-exempt number.

### B. Sam's Club

Sam's Club is a national retail, membership-only chain of warehouse stores. Sam's Club is a division of Arkansas-based Walmart Stores, Inc.[7]

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[1] The OEIG also obtained evidence that one additional current CTA employee has a tax-exempt Sam's Club CTA account that was used to make a minimal amount of tax-exempt personal purchases ($286.15), with the last tax-exempt purchase taking place in 2013.

[2] The OEIG also obtained evidence that two additional former CTA employee have tax-exempt Sam's Club CTA accounts that were used to make a minimal amount of tax-exempt personal purchases ($669.02 and $474.56), with the last tax-exempt purchases taking place in 2015 and 2013, respectively.

[3] *See* PIO-37, Sales & Property Tax Exemptions, *available at* http://www.revenue.state.il.us/Publications/PIOs/PIO-37.htm.

[4] *See* http://tax.illinois.gov/businesses/taxinformation/sales/rot.htm (last accessed September 30, 2016).

[5] 86 Ill. Admin. Code § 130.120(i).

[6] 86 Ill. Admin. Code § 130.2080(a).

[7] The OEIG does not have jurisdiction over Sam's Club or any other retailer. *See* 5 ILCS 430/20-10(c). To the extent that the Illinois Administrative Code imposes responsibilities on retailers, the OEIG is not in a position to, and does not, make findings with respect to whether any retailer failed to fulfill those responsibilities.

### C. The CTA's Current Policy Regarding Tax Exempt Status

As a result of the OEIG's investigation in Case No. 15-02091, the CTA created a new, separate policy regarding the distribution and use of its tax-exempt letter.[8] The new policy, among other things:

- outside of "exceptional circumstances," generally limits the authorized holders of the CTA's tax-exempt letter to two employees – the Vice President, Purchasing and the Manager, Accounts Payable, or their respective designees;

- requires that any purchases using the CTA's tax-exempt letter must be paid for directly by the CTA and that, rather than providing a copy of the tax-exempt letter to an employee, the Vice President, Purchasing or the Manager, Accounts Payable present the CTA's tax-exempt letter directly to the vendor;

- in circumstances where it is impossible for Accounts Payable or Purchasing to provide the CTA's tax-exempt letter directly to the vendor, requires that an employee receive authorization to sign out a hard copy of the letter from the employee's supervisor, department vice president, and the CTA's Chief Financial Officer (CFO). The employee must also provide written justification for the use of the CTA's tax-exempt letter, must return it and sign it back in immediately after use, and may not make a copy of the letter;

- requires that the Vice President, Purchasing and the Manager, Accounts Payable maintain records of the sign out sheets for the CTA's tax-exempt letter, and records of each vendor to which the letter was sent, and provide updated copies of those records on at least a monthly basis to, among others, the CTA's CFO; and

- expressly prohibits the use of the CTA's tax-exempt letter to make personal purchases.

## III. INVESTIGATION

### A. Review Of Sam's Club Accounts And Records

In light of the misconduct discovered in Case No. 15-02091, OEIG investigators requested and obtained Sam's Club membership records and purchase histories of all tax-exempt Sam's Club accounts using the CTA's tax identification number, as of April 2016. The records show that two active CTA employees other than Ms. McClendon, and three former CTA employees, continue to maintain tax-exempt Sam's Club accounts with the CTA's tax-exempt identification number. These accounts are in the names of the current or former CTA employees, as the primary account holder, but many of them have multiple Sam's Club cards issued or multiple people on the account.

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[8] *See* Administrative Procedure # 1506, Tax Exempt Letter (2016).

Between 2009 and March 2016, the tax-free purchases made using the CTA's tax-exempt status totaled approximately $53,900. This information is further detailed below.

***Current CTA Employees***[9]

| Primary Account Holder | Account Start Date | Total Amount of Account Purchases | Total Amount of Tax-Free Purchases[10] | Date of Last Tax-Exempt Account Purchase[11] |
|---|---|---|---|---|
| Yolanda Harper | 2/18/14 | $5,495.85 | $2,826.19 | 3/29/16 |
| Chereda Hudson | 3/4/09 | $26,980.98 | $9,380.53 | 3/20/16 |

***Former CTA Employees***[12]

| | | | | |
|---|---|---|---|---|
| [redacted] | 4/29/09 | $34,314.56 | $23,933.26[13] | 3/20/16 |
| [redacted] | 8/19/13 | $11,661.43 | $6,114.07[14] | 3/25/16 |
| [redacted] | 4/29/05 | $38,645.78 | $11,654.07[15] | 3/09/16 |
| **Total:** | | **$117,098.60** | **$53,908.12** | |

### 1. Yolanda Harper's Sam's Club Membership And Purchase Records

According to records obtained from Sam's Club, Ms. Harper opened a tax-exempt CTA Sam's Club business membership on February 18, 2014. The records include a sales tax exemption

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[9] Another current CTA employee, [redacted], also has a tax-exempt Sam's Club CTA account that has been used to make tax-free purchases using the CTA's tax-exempt status. The total tax-exempt purchase amount on [redacted] tax-exempt Sam's Club CTA account was minimal ($286.15) and it was the only tax-free amount purchased from 2009 to 2013. The date of the last tax-free purchase was January 11, 2013.

[10] This column represents the approximate total amount of tax-exempt purchases made by all cardholders on the account. In calculating the tax-exempt total, OEIG investigators did not include items, such as membership renewal fees, that are normally not subject to tax.

[11] This column represents the dates of the last tax-exempt purchases made prior to March 31, 2016.

[12] Two other former CTA employees, [redacted] and [redacted], also have tax-exempt Sam's Club CTA accounts that have been used to make tax-free purchases using the CTA's tax-exempt status. The total tax-exempt purchase amounts on [redacted] and [redacted] tax-exempt Sam's Club CTA accounts were minimal ($669.02 and $474.56, respectively) and these were the only tax-free amounts purchased from 2009 to 2013. The date of the last tax-free purchases was July 18, 2015 on [redacted] account and May 8, 2013 on [redacted] account.

[13] OEIG investigators found that of this total, approximately $13,800 in tax-free purchases were made using Sam's Club membership cards assigned to [redacted].

[14] OEIG investigators found that of this total, approximately $2,350 in tax-free purchases were made using a Sam's Club membership card assigned to [redacted].

[15] OEIG investigators found that of this total, approximately $1,800 in tax-free purchases were made using Sam's Club membership cards assigned to [redacted].

certificate signed with the name of Ms. Harper, dated February 18, 2014. The sales tax exemption certificate certifies that Ms. Harper will purchase water, juice, chips and candy on behalf of the CTA. The records also include a copy of the CTA's tax-exempt letter issued in January 2010. The account records identify Ms. Harper as the primary cardholder. While there are three cards associated with Ms. Harper's account, all three cards are assigned to Ms. Harper.

Ms. Harper's Sam's Club purchase records show that between February 2014 and March 2016, there were approximately $2,800 of tax-free purchases made on her Sam's Club account. All these purchases were made using membership cards specifically assigned to Ms. Harper. In particular, purchase records show that Ms. Harper:

- purchased a 55 inch 1080P television tax-free on March 2, 2016.
- purchased a 50 inch 1080P television tax-free on March 28, 2016;
- purchased a 39 inch 720P television tax-free on March 28, 2016; and
- purchased a 43 inch 1080P television tax-free on March 28, 2016, but then returned it.

In addition, the following items, among other things, were purchased tax-free using Sam's Club membership cards assigned to Ms. Harper:

- scented oils;
- triple chocolate Bundt cake;
- cutlery;
- rotisserie chicken;
- disinfecting wipes;
- Bluetooth headset;
- turkey pastrami; and
- toothpaste.

### 2. Chereda Hudson's Sam's Club Membership And Purchase Records

According to records obtained from Sam's Club, Ms. Hudson opened a CTA tax-exempt Sam's Club business membership on March 4, 2009. The records include a sales tax exemption certificate signed with the name of Ms. Hudson, dated March 4, 2009. The sales tax exemption certificate certifies that Ms. Hudson will purchase cookies, chips, water, juice, candy and "sandwiches from freezer cooler" for CTA vending machines. The records also include a copy of the CTA's tax-exempt letter issued in January 2000. The account records identify Ms. Hudson as the primary cardholder. The account records also list [Relative], who Ms. Hudson later identified to OEIG investigators as her [relative], as an additional cardholder on the account.

Ms. Hudson's Sam's Club purchase records show that between March 2009 and March 2016 there were approximately $9,300 of tax-free purchases made on her Sam's Club account. Of these tax-free purchases, approximately $5,400 were made using membership cards assigned specifically to Ms. Hudson and $3,900 were made using membership cards assigned to [Relative], her [relative].

The OEIG's review of purchase records found that, among other things, the following items were purchased using Ms. Hudson's tax-exempt Sam's Club account:

- cereal;
- hot dogs;
- lotion;
- toothpaste;

- bath tissue;
- eggs;
- fleece pants; and
- sea salt.

### B. Interview Of CTA Bus Manager Yolanda Harper

OEIG investigators interviewed Ms. Harper on July 28, 2016.[16] According to CTA records, Ms. Harper has been employed by the CTA from June 1994 through the present and is currently a Bus Manager (Supervision). Ms. Harper said that she had read, and was familiar with, the CTA General Rule Book, specifically the prohibition against diverting the CTA's resources to personal use.

According to Ms. Harper, she did not have purchasing authority for the CTA. However, Ms. Harper volunteered that she did have a tax-exempt CTA Sam's Club account. Ms. Harper said that she received information about opening the CTA tax-exempt account from a former manager and that she used the account to purchase items for CTA events and fundraisers. These events, she said, were not paid for with CTA funds and she was never reimbursed with CTA funds for making purchases for these events.

Ms. Harper said that she opened the tax-exempt account by providing her CTA identification, driver's license and a completed application to Sam's Club. When shown the sales tax exemption certificate and the CTA tax-exempt letter associated with her Sam's Club tax-exempt CTA business account, Ms. Harper said that she did not recall providing these documents to Sam's Club, but that the signature on the sales tax exemption certificate was hers. Ms. Harper stated that the sales tax exemption certificate was not accurate, because she had purchased items not for the CTA, but for her personal use, and she had purchased items other than those listed on the certificate.

Ms. Harper said that every time she made a tax-free purchase, she had to sign an acknowledgment of the tax-free purchase at checkout. When asked again if she has purchased items tax-free for personal use and not for the CTA, Ms. Harper stated, "I'm sure in two-and-a-half years I've purchased items not for the CTA." Ms. Harper added that both her [relative] and her [other relative], neither of whom have ever worked for the CTA, have made purchases on her Sam's Club tax-exempt CTA business account.

When asked, Ms. Harper stated that she purchased the 50 inch, 43 inch, and 39 inch televisions using her Sam's Club tax-exempt CTA business account on March 28, 2016. The televisions, she said, were for her personal use and not for the CTA. Ms. Harper said that when the cashier asked her whether the items should be charged tax-free, she responded, "I wish." She said the cashier did not realize that she was joking and it then became too late to reverse the transaction. She said the cashier directed her to go to the customer service counter, but by the time she received assistance, she became distracted because she realized that she bought the wrong 43 inch television. She said she thus returned the 43 inch television, and did not tell the representative that she needed to pay tax on the two other televisions. Ms. Harper stated, "[I] didn't ask for exemption, [I] didn't go back and change tax-exempt purchase." Ms. Harper stated the purchase

[16] OEIG investigators first attempted to interview Ms. Harper on July 19, 2016, but she stopped the interview in order to obtain a representative.

of the televisions was "solely on me." She acknowledged that when she purchased the televisions tax-free on March 28, 2016, she knew that she was violating CTA policy.

When confronted about the March 2, 2016 purchase of the 55 inch television, which was taxed, and then returned and purchased tax-free, Ms. Harper said that she did not recall purchasing the 55 inch television on a different day from the other televisions. However, she said that she had no reason to doubt Sam's Club's records and that when she purchased the 55 inch television tax-free, she knew she was violating CTA policy.

OEIG investigators pointed Ms. Harper to records of purchases made using her Sam's Club tax-exempt CTA business account on: February 18, 2014, October 19, 2014, January 9, 2015, October 18, 2015, and February 16, 2016. With respect to purchases made on these dates Ms. Harper said that:

- she made the purchases tax-free;
- the majority of the items purchased on each of the dates was for her personal use;[17] and
- she knew when she purchased the personal use items that she was violating CTA policy.

### C. Interview Of CTA Bus Manager Chereda Hudson

OEIG investigators interviewed Ms. Hudson on July 15, 2016. According to CTA records, Ms. Hudson has been employed by the CTA from September 1997 through the present and is currently a Bus Manager (Operations). Ms. Hudson said that she had read, and was familiar with, the CTA General Rule Book and specifically the prohibition against diverting the CTA's resources to personal use.

According to Ms. Hudson, she had worked for managers who asked her to make purchases for various CTA parties and fundraisers and she estimated making purchases for the CTA approximately twice a year. Ms. Hudson said that she was not reimbursed with CTA funds for these purchases, but that her managers reimbursed her with funds raised via the fundraisers.

Ms. Hudson said that she opened a tax-exempt CTA Sam's Club business account in 2009, using a CTA tax-exempt letter that she received from former supervisor [Supervisor]. When presented with the CTA's tax-exempt letter associated with her Sam's Club CTA tax-exempt business account, Ms. Hudson confirmed that was the tax-exempt letter she provided to Sam's Club. Ms. Hudson also confirmed that she signed the sales tax exemption certificate. She admitted that the sales tax exemption certificate was not accurate because she purchased items other than those specified on the certificate and because she did not purchase items for the CTA's vending machines, as stated on the sales tax exemption certificate.

Ms. Hudson admitted that she sometimes used her Sam's Club tax-exempt account to make personal purchases, and that most times she did not pay sales tax on her personal purchases. Ms.

[17] In the course of her interview, Ms. Harper stated that she occasionally purchased cleaning supplies at Sam's Club that she used at the garage where she worked, implying that she may not have thought of such purchases as ones for personal use. However, Ms. Harper also conceded that she was never asked by the CTA to purchase cleaning supplies and she was never reimbursed by the CTA for buying cleaning supplies.

Hudson confirmed that each time she made a Sam's Club purchase she was asked by the cashier whether she was going to pay tax on the merchandise and would indicate to the cashier which purchases were to be exempt from tax. Ms. Hudson said that she added her [relative], [Relative], a non-CTA employee, to her Sam's Club tax-exempt account and that she had personal knowledge that [Relative] did not pay taxes on some of her purchases. Ms. Hudson said that she has been with [Relative] shopping at Sam's Club and on those occasions she was aware that [Relative] did not pay tax on her purchases. Ms. Hudson admitted that not paying tax and putting her [relative] on the Sam's Club tax-exempt account both violated CTA policy.

### D. Interview Of CTA [Employee 1]

On April 26, 2016, the OEIG interviewed CTA [Employee 1]. [Employee 1] stated that the CTA's tax-exempt status is only for CTA purchases and CTA employees are not allowed to use the CTA's tax-exempt letter to make personal purchases.

[Employee 1] was asked about all of the current and former CTA employees mentioned in this report. She stated that all of the individuals mentioned did not have permission to use the CTA's tax-exempt letter to set up a personal tax-exempt account at Sam's Club.

## IV. ANALYSIS

### A. Yolanda Harper Diverted A CTA Resource To Personal Use

According to the CTA General Rule Book, CTA employees are prohibited from "diverting [CTA] resources to personal use."[18] The IDOR provides a limited set of organizations, including units of government, a tax-exempt number so that these entities are able to make organization-related purchases tax-free.[19] The tax-exempt number is a resource of the organization – not that of the organization's employees.

In her interview, Ms. Harper stated that she was aware that it was a violation of CTA policy to divert a CTA resource to personal use. Ms. Harper said that she had no purchasing authority for the CTA and that she did not make any purchases that were reimbursed by the CTA. Sam's Club account records obtained by the OEIG show that Ms. Harper subsequently signed a sales tax exemption certificate certifying that she may make tax-free purchases on behalf of the CTA—a certificate that Ms. Harper admitted she signed.

Sam's Club account purchase records show that there were approximately $2,800 in tax-free purchases made on Ms. Harper's Sam's Club tax-exempt CTA business account since 2014. All those purchases were made using membership cards directly assigned to her. Ms. Harper admitted that she made purchases not on behalf of the CTA and that each time she purchased personal items tax-free, she had to sign an acknowledgment that she was purchasing the items tax-free.

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[18] Chicago Transit Authority General Rule Book, §14(q) (2014).

[19] *See* PIO-37, Sales & Property Tax Exemptions, *available at* http://www.revenue.state.il.us/Publications/PIOs/PIO-37.htm.

In addition, Ms. Harper confirmed that she purchased 55 inch, 50 inch, and 39 inch televisions tax-free—all for her personal use. While Ms. Harper stated that she intended to pay tax on the televisions and that her failure to do so was an oversight, such statements are inconsistent with Sam's Club's purchase records. Even if there was an instance of a miscommunication between Ms. Harper and a Sam's Club cashier, the televisions were purchased on two separate days. Records also show that she purchased items such as scented oils, a Bluetooth headset, and toothpaste, all of which are all highly unlikely to have CTA uses. Ms. Harper admitted that it was her responsibility to pay taxes on the purchase of her personal items and that she knew that her failure to do so was a violation of CTA policy.

Because Ms. Harper took a CTA resource, the CTA's tax-exempt status, and used it for her own benefit to avoid paying sales tax on the purchase of personal items, the allegation that Ms. Harper diverted a CTA resource to personal use is **FOUNDED**.[20]

### B. Chereda Hudson Diverted A CTA Resource To Personal Use

Sam's Club account purchase records show that there were approximately $9,300 in tax-free purchases made on Ms. Hudson's tax-exempt CTA business account since 2009. Of those purchases, approximately $5,400 were made using membership cards directly assigned to Ms. Hudson.

Ms. Hudson admitted that she provided Sam's Club with the CTA's tax-exempt letter to open her Sam's Club tax-exempt CTA business account. She also stated that she signed the sales tax exemption certificate certifying that she was authorized to make purchases for the CTA, and that she was buying items for the CTA's vending machines, even though this was not accurate. According to Ms. Hudson, she had no formal purchasing authority for the CTA and did not make any purchases that were reimbursed with CTA funds. Ms. Hudson admitted that she purchased personal items tax-free, and she had to indicate to the cashier that those purchases were to be exempt from tax.

In addition, Ms. Hudson stated that she added her [relative], [Relative], to her tax-exempt CTA Sam's Club business account. Ms. Hudson said that she knew that [Relative] was using Ms. Hudson's CTA tax-exempt business account to buy personal items tax-free, and Ms. Hudson even said that she had witnessed [Relative] doing this.

Because Ms. Hudson took a CTA resource, the CTA's tax-exempt status, used it for her own benefit to avoid paying sales tax on the purchase of personal items, and allowed her [relative] to do the same, the allegation that Ms. Hudson diverted a CTA resource to personal use is **FOUNDED**.

[20] The OEIG concludes that an allegation is "founded" when it has determined that there is reasonable cause to believe that a violation of law or policy has occurred, or that there has been fraud, waste, mismanagement, misconduct, nonfeasance, misfeasance, or malfeasance.

### C. Former Employees' Use Of The CTA's Tax-Exempt Sam's Club Accounts

During this investigation, the OEIG learned that three former CTA employees maintained tax-exempt CTA Sam's Club accounts and that tax-free purchases on these accounts continued even after these employees left the CTA. Former Bus Operator [redacted] left CTA employment in February 2015 and tax-exempt purchases on her tax-exempt CTA Sam's Club account continued to be made until at least March 20, 2016. Former Project Specialist II [redacted] left CTA employment in January 2014 and tax-exempt purchases on her tax-exempt CTA Sam's Club account continued to be made until at least March 25, 2016.[21] Former Bus Manager [redacted] left CTA employment in June 2010 and tax-exempt purchases on her tax-exempt CTA Sam's Club account continued to be made until at least March 9, 2016.[22]

The OEIG recommends that the CTA attempt to cancel these CTA tax-exempt accounts with Sam's Club. If the CTA believes the OEIG can assist in the closing of these accounts, the OEIG is willing to provide such assistance.

## V. FINDINGS AND RECOMMENDATIONS

As a result of its investigation, the OEIG concludes that there is **REASONABLE CAUSE TO ISSUE THE FOLLOWING FINDINGS:**

- **FOUNDED** – Yolanda Harper violated CTA policies[23] by using the CTA's tax-exempt status for her personal use.

- **FOUNDED** – Chereda Hudson violated CTA policies[24] by using the CTA's tax-exempt status for her personal use.

The OEIG recommends that the CTA discipline Ms. Harper and Ms. Hudson.

As noted in this report, if it has not already done so, the OEIG recommends that the CTA contact Sam's Club in order to close all tax-exempt Sam's Club CTA accounts.

The OEIG is also referring the names of all the current and former CTA employees with Sam's Club tax-exempt CTA business accounts to IDOR for the collection of all unpaid sales taxes.[25]

No further action is necessary and this matter is considered closed.

Date: **October 27, 2016**

Office of Executive Inspector General
for the Agencies of the Illinois Governor
69 West Washington Street, Ste. 3400
Chicago, IL 60602

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[21] The last tax-free purchase using a Sam's Club card assigned specifically to [redacted] occurred on June 25, 2015.
[22] The last tax-free purchase using a Sam's Club card assigned specifically to [redacted] occurred on April 13, 2010.
[23] *See* Chicago Transit Authority General Rule Book, §§7(a-c), 14(q, w), 24 (2014).
[24] *Id.*
[25] *See* 35 ILCS 120/13(b).

By: **Daniel Ostrovsky, #105**
Assistant Inspector General

**Daniel Bohaczyk, #114**
Investigator II

# Office of Executive Inspector General
**for the Agencies of the Illinois Governor**
*www.inspectorgeneral.illinois.gov*

## OEIG RESPONSE FORM

Case Number: 15-02184 Return By: 20 Days of Receipt of Report

Please check the box that applies. (Please attach additional materials, as necessary.)

☐ We have implemented all of the OEIG recommendations. Please provide details as to actions taken:

☒ We will implement all of the OEIG recommendations but will require additional time. We will report to OEIG within 60 days from the original return date.

☐ We do not wish to implement any of the OEIG recommendations. Please provide details as to actions taken, if any, in response to OEIG recommendations:

Signature

Chicago Transit Authority
Vice-President, Bus Operations
Print Agency and Job Title

Patricia Thomas-Miller
Print Name

November 3, 2016
Date

**TO:** Office of Executive Inspector General

**FROM:** Patricia Thomas-Miller
Vice President, Bus Operations

**DATE:** February 27, 2017

**RE:** **OEIG Case No. 15-2184– FINAL REPORT**
**RESPONSE REQUIRED**

The above-referenced final report involves allegations of misconduct by Bus Supervision Manager Yolanda Harper and Bus Operations Manager Chereda Hudson. The OEIG found that Ms. Harper and Ms. Hudson violated CTA policies by misusing the CTA's tax-exempt status for personal use. The OEIG recommended that CTA discipline Ms. Harper and Ms. Hudson. Additionally, the OEIG recommended that CTA contact Sam's Club in order to close all tax-exempt Sam's Club CTA accounts.

***Ms. Harper and Ms. Hudson's Discipline***

In response to the OEIG's findings and recommendations, CTA management cited both Ms. Harper and Ms. Hudson with violating CTA General Rules No. 7 (a, b, c): Obedience to Rules, No. 14 (e, q): Personal Conduct, and No. 24: Use of Best Judgment. As a result of these rule violations, CTA suspended (without pay) both Ms. Harper and Ms. Hudson for 30 days. As an additional component of the discipline, CTA directed Ms. Hudson and Ms. Harper to pay to the Illinois Department of Revenue (IDOR) all of the taxes due for their respective personal purchases that they had made using CTA's tax-exempt status.

***CTA's Request to Sam's Club***

In response to the OEIG's recommendation, on November 30, 2016, CTA sent Sam's Club a letter which requested that Sam's Club terminate any business membership accounts that are associated with CTA, including but not limited to those business membership accounts connected to a tax exemption identification number ("tax-exempt number") that was assigned by IDOR to CTA. Additionally, CTA requested that its tax-exempt number be removed from any personal membership accounts to which it may have been assigned. Lastly, CTA informed Sam's Club that any membership applications received in the future that request a CTA business membership account or otherwise attempt to connect a personal account with CTA's tax-exempt number should be denied.

In its November 30 letter to Sam's Club, CTA also emphasized the Illinois Administrative Code's ("Illinois Code") requirements on retailers regarding sales to governmental bodies. Specifically, CTA noted that, in accordance with Title 86 Part 130 Section 130.2080 of the Illinois Code, and in order to protect the integrity of CTA's tax-exempt status, CTA's tax-exempt number should only be recorded with regards to each individual eligible purchase and should not otherwise be retained in any way that perpetually connects the tax-exempt number to any account or links it to any specific individual.

This control closely aligns with the requirements of the Illinois Code because it obliges each individual purchaser to provide the tax-exempt number for each individual eligible purchase. This would also work towards supporting the retailer's obligation to ensure that each tax-exempt transaction is invoiced to and paid directly by the governmental body that properly possesses the tax-exempt number, as the Illinois Code also requires. Despite this requirement, Sam's Club repeatedly processed tax-exempt purchases that were *not* invoiced to and paid directly by CTA. Had Sam's Club complied with the Illinois Code in these instances, the misuse of CTA's tax-exempt number would have been prevented. Similarly, Sam's Club's future compliance with the Illinois Code, along with CTA's additional internal control measures, will prevent future misuse.

cc: Michael McLaughlin
Sylvia Garcia
David Biggs
Joselynne Gardner