



OFFICE OF INSPECTOR GENERAL
City of Chicago



REPORT OF THE INSPECTOR GENERAL'S OFFICE:

***DEPARTMENT OF WATER MANAGEMENT
MATERIAL TRUCK HAUL PROGRAM AUDIT***

FEBRUARY 2013

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February 15, 2013

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 (IGO) has completed an audit of the Department of Water Management's (DWM) Material Truck Haul Program (MTHP). This program facilitates the delivery of materials to sewer and water project job sites and the removal of debris from those same sites. Prior to this program DWM used trucks in the scandal-plagued Hired Truck Program for such deliveries. In 2011 alone, 999,076 tons of materials/debris were hauled to and from the job sites, resulting in \$16,707,955 of billings by MTHP vendors.

Our audit efforts focused primarily on the DWM operations that are unique to MTHP, such as assignment of service requests to contracted vendors, approval of individual work tickets, and accuracy of monthly summaries of materials/debris hauled. Based on the audit results, we found the program generally to be well-administered. Service requests were appropriately assigned to vendors with the lowest prices and invoices were accurate.

However, we also identified areas where improvements are needed. First, for the year 2011 alone, vendors were underpaid by \$612,589 and invoices totaling nearly \$10 million were paid late or remained unpaid more than seven months past the invoice date. This result was particularly surprising because the payment problems could be corrected with a relatively simple fix: working with the vendors to ensure the monthly summaries included a cumulative total. Of the three vendors involved in MTHP during 2011, the one who already included a grand total in its monthly summaries was paid timely and accurately. This vendor's summaries could easily have been used as a model for the other two, who did not include grand totals in their monthly summaries and were often underpaid or paid late. Yet a DWM representative said that prior to the IGO audit they had never considered asking the other vendors to do the same as the first and thus facilitate timely, complete payment.

Late payment and underpayment adversely affect vendors' cash flow and may discourage existing or new vendors from bidding on City contracts in the future. It is particularly harmful to small businesses that typically do not have access to or cannot afford to finance gaps in cash flow.

In addition, the audit revealed that 94.8% of signatures confirming delivery or pick-up at the job sites did not match the list of authorized signatures used in the validation process. Without authorized signatures validating delivery, the process is susceptible to fraudulent transactions. The risk of fraudulent transactions presently is mitigated by the MTHP Coordinator's familiarity

with the projects and field staff as well as her practice of documenting each service request assigned. However, reliance on that fortuity in the future cannot and should not be assumed.

Based on the IGO audit results, we recommend that DWM review the payment process and develop procedures to ensure vendors are paid both in a timely and an accurate manner. We understand that DWM has begun discussions with vendors to aid in that endeavor. We also recommend that DWM update and maintain the Authorized Signature List to ensure the delivery and pick-up of goods is properly validated.

The IGO thanks the Commissioner and especially the personnel involved in DWM's MTHP for their cooperation during this audit. I hope they, and other departments, are able to use the audit results to improve their payment practices.

Respectfully,

A handwritten signature in blue ink, appearing to be 'J. Ferguson', written in a cursive style.

Joseph M. Ferguson
Inspector General
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I. EXECUTIVE SUMMARY

The Inspector General's Office (IGO) performed an audit of the Department of Water Management's (DWM) Material Truck Haul Program (MTHP), which provides the following services for water and sewer projects throughout the City:

- Removal of construction and demolition debris from project sites;
- Acceptance of construction and demolition debris delivered by City vehicles;
- Delivery of aggregate materials (limestone, concrete, etc.) to project sites; and/or
- Provision of aggregate materials for pick-up by City vehicles.

The objectives of the audit were to determine whether:

- MTHP service requests were assigned to the lowest-priced contracted vendors;
- Invoices relating to MTHP services were appropriately reviewed, appropriately approved, and accurate; and
- Payments to the vendors were timely and accurate.

Based upon the results of our audit, we found that:

1. Service requests were assigned to the lowest-priced contracted vendors;
2. Invoices related to MTHP services were accurate;
3. Invoices totaling nearly \$10 million were paid late or remained unpaid more than seven months past the invoice date;
4. Vendors were underpaid by \$612,589; and
5. 94.8% of signatures confirming delivery or pick-up did not match the list of authorized signatures.

Timely and accurate payment of invoices is important for the City's vendor relations and its ability to attract vendors to bid on future contracts. We recommend that DWM develop procedures to ensure vendors are paid on time and in full. We understand that DWM has begun discussions with vendors to aid in that endeavor. We also recommend that DWM update and maintain the Authorized Signature List to ensure the delivery and pick-up of materials is properly validated.

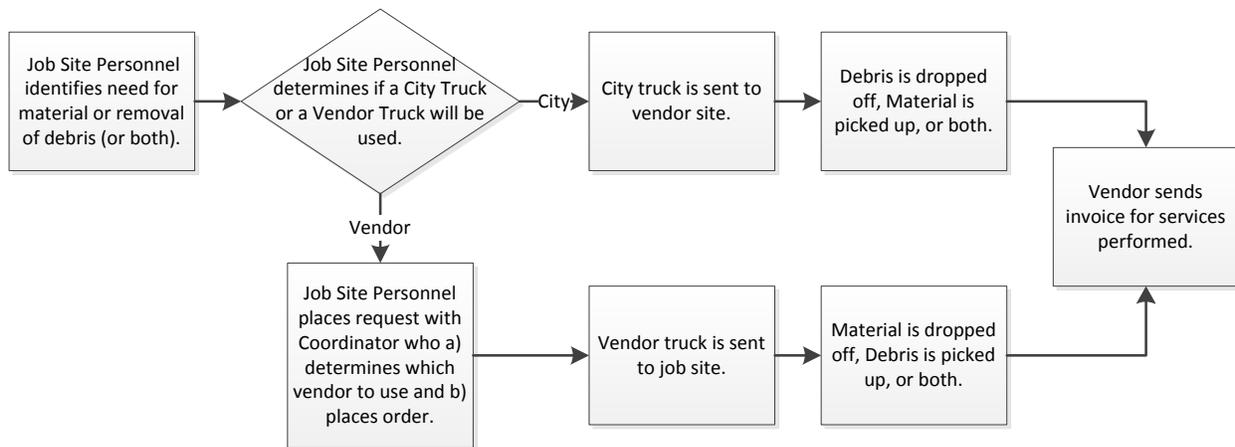
The specific recommendations related to each finding, and management's responses, are described in the "Findings and Recommendations" section of this report.

II. BACKGROUND

The Department of Water Management has contracts with five vendors to perform the following services for water and sewer projects throughout the city:

- Remove construction and demolition debris from project sites;
- Accept construction and demolition debris delivered by City vehicles;
- Deliver aggregate materials (e.g., limestone, concrete) to project sites; and/or
- Provide aggregate materials for pick-up by City vehicles.

Collectively, these services make up what is known as the Material Truck Haul Program and are depicted in the following process overview:



The City issued a Request for Qualifications (RFQ) for the delivery of materials and disposal of debris in 2008. Eight vendors submitted bids and five vendors were ultimately awarded three-year contracts effective July 1, 2009.¹ Vendors were not required to bid on all services specified, but could choose to bid on any or all of five groups of services and/or geographical areas.² Only one vendor bid on all five groups. Further analysis revealed the following:

- Three of the groups (representing 117, or 68% of the 173 contract services) were bid on by only one vendor;
- One group (representing 51, or 29% of the contract services) was bid on by only two vendors;
- Only one group (representing 5, or 3%, of the contract services) was bid on by all five vendors.

¹ Four of the five contracts were extended by one year through June 30, 2013. See City of Chicago's *Vendor, Contract and Payment Information* website at <http://webapps.cityofchicago.org/VCSearchWeb> for information related to Specification Number 64590A.

² A chart summarizing the number of vendors that bid on the various groups is available in Appendix A.

III. OBJECTIVES, SCOPE, AND METHODOLOGY

A. Objectives

The objectives of the audit were to determine whether:

- MTHP service requests were assigned to the lowest-priced contracted vendors;
- Invoices related to MTHP services were a) appropriately reviewed, b) appropriately approved, and c) accurate; and
- Payments to vendors were a) timely and b) accurate.

B. Scope

The scope of this audit included all goods and services related to MTHP between January 1, 2011 and December 31, 2011.

C. Methodology

Audit steps included:

- Interviewing people with knowledge of MTHP processes and procedures;
- Reviewing available documentation related to MTHP processes and procedures;
- Comparing commodity line prices for five MTHP contracts;
- Reviewing service request tickets and determining if the vendor with the lowest commodity line price was awarded the request;
- Reviewing service request tickets to ensure each included signatures confirming delivery of goods;
- Determining whether monthly summary reports accurately reflect the commodities and weight of individual service request tickets;³
- Checking the accuracy of calculations in the monthly summary reports;
- Reviewing signatures related to the monthly summaries;
- Reconciling monthly summaries with related payment vouchers (with the assistance of the Assistant Director of DWM Finance); and
- Reviewing payment voucher data to determine timeliness and accuracy of payments.⁴

D. Standards

We conducted this audit in accordance with generally accepted Government Auditing Standards (GAGAS) 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

³ DWM and the vendors use a collaborative electronic workspace to store images of the individual service request tickets and the monthly summary reports. A collaborative workspace is an interconnected environment in which participants located in several locations can access the same data. Therefore, while it is a system that facilitates the sharing of data, it is not a system that *processes* data.

⁴ Payment voucher data was obtained from the City of Chicago's Financial Management and Purchasing System (FMPS). While a review of FMPS controls related to data reliability was not conducted during this audit, the IGO has completed such a review and concluded that payment voucher data within FMPS is reliable.

evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

E. Authority and Role

The authority to perform such an audit is established in the City of Chicago Municipal Code § 2-56-030 which states that the Inspector General's Office 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 the IGO is to review City operations and make recommendations for improvement.

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

IV. FINDINGS AND RECOMMENDATIONS

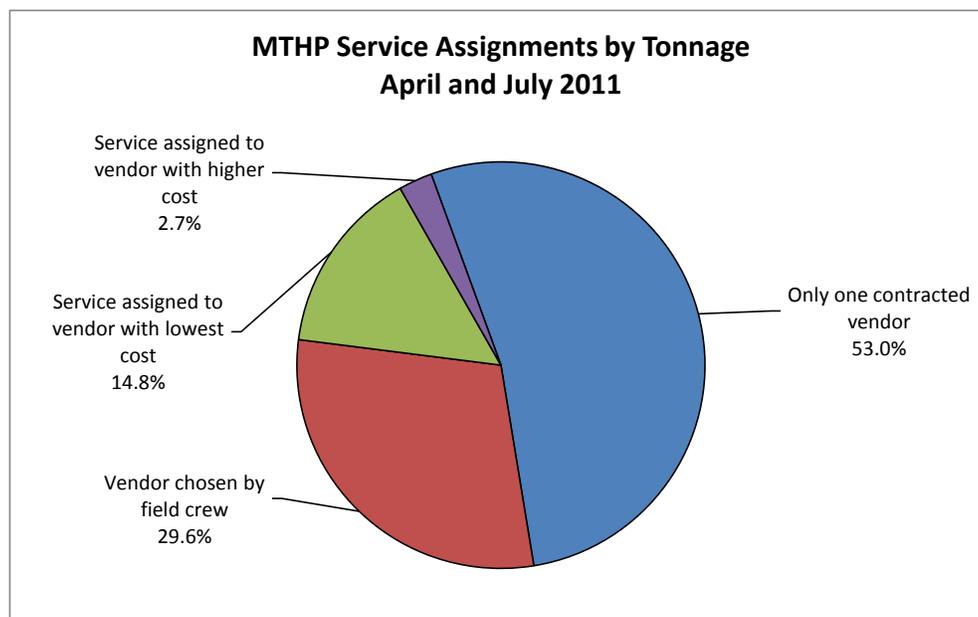
Finding 1: MTHP Coordinator Appropriately Assigned Service Requests to the Lowest-Priced Vendors

The IGO analyzed the service request assignments for the 166,854 tons of materials hauled during April and July 2011 and found that the MTHP Coordinator selected the lowest-priced vendor for 84.7% of the total tonnage for which she had a choice among vendors.⁵ The Coordinator has discretion to assign a higher-priced vendor in situations where other vendors are not immediately available or cannot perform the service in a timely manner, and we found no evidence that this discretion was misused.

During the two months we analyzed, the Coordinator had relatively little opportunity to choose among vendors. The Coordinator had no choice of vendors for 82.6% of the debris/material tonnage hauled because:

- 88,389 tons, or 53.0% of the debris/materials, were hauled in the South and Central Water Districts where there was only one contracted vendor; and
- 49,375 tons, or 29.6%, were hauled by City trucks. Therefore the job site personnel, not the Coordinator, decided which vendor to use. The contract specifications allow for the vendor's proximity to the City's construction site to be a deciding factor regarding vendor choice in these cases.

The 4,445 tons of material for which the Coordinator did not choose the lowest-price vendor represented only 2.7% of the total tonnage for those two months. The following chart illustrates the breakdown of service assignments for the two months we examined:



⁵ A total of 999,076 tons of materials/debris were hauled in 2011. Therefore the 166,854 tons hauled during the two months we sampled represented 16.7% of the total tons hauled in 2011.

Finding 2: MTHP Invoices were Accurate

The IGO sampled and tested documentation from the MTHP invoice process and found that invoices were accurate. The invoice process includes the following documentation from vendors:

- Work tickets including details regarding specific service provided (delivery/pick-up of materials/debris), commodity, and quantity for each service request;
- Daily summaries of work tickets applying the contract price to the service provided; and
- Monthly summaries, representing all work tickets for the month, which are reviewed and submitted to DWM Finance for payment approval.

The IGO sampled daily and monthly summaries to ensure the documentation a) accurately reflected the commodities and quantities of the individual work tickets, b) showed correct prices, and c) were free of mathematical errors. Specifically, the IGO found the following:

- Daily summary reports accurately reflected the commodities and quantities of 1,293, or 99.9% of 1,294 work tickets sampled;⁶
- Monthly invoices showed correct commodity contract prices for 100% of 4,361 work tickets reviewed; and
- Monthly invoices were free of mathematical errors and, thus, accurately reflected the total amount due for all services related to 59 projects reviewed.

Management Response:

“The Department of Water Management appreciates the opportunity for the IGO to review the work processes relating to the Material Truck Haul Program. Implementing this program required top to bottom review and process development to ensure that these contracts provide the services intended without negatively impacting our operations. The Material Truck Haul Program was designed to ensure DWM employees receive materials in a timely fashion, are accountable for the receipt of materials and the removal of waste, and ensure that vendors are paid in accordance with their contracts. The findings of the IGO and its recommendations validate the program that we developed while at the same time provide constructive recommendations for improvement and the continued integrity of the program.”

⁶ The commodity and quantity of one work ticket could not be validated as the work ticket could not be located.

Finding 3: Invoices Totaling Nearly \$10 Million were Paid Late or Remained Unpaid More Than Seven Months Past Invoice Date

Three MTHP vendors provided goods and services totaling \$16,707,955 during 2011.⁷ The City’s contracts with the vendors state that “The City will process payment within sixty [60] calendar days after receipt of invoices completed in accordance [with] the terms herein and all supporting documentation necessary for the City to verify the services provided under this contract.” The IGO compared the dates invoices were received by DWM to the dates the payments were processed and found that \$9,933,240, or 60% of the amount due, was paid after the contractually required sixty days or remained unpaid, thereby negatively impacting vendors’ cash flow.

Furthermore, we found that nearly all of the late payments were owed to two of the three vendors. The third vendor was paid between 8 and 63 days after DWM received its monthly summary. This vendor included a grand total in its monthly summary, while the other two vendors did not include a grand total.⁸ Although the DWM’s written “Truck Haul Processing” guidelines describe a vendor’s monthly summary as the basis for its monthly invoice, the Assistant Director of DWM Finance said that he does not treat a monthly summary as the basis for a single invoice when it does not include a grand total. Instead, he bases payment approval on sub-invoices documented within the monthly summary. The Assistant Director of DWM Finance stated that, as a result of the IGO audit, he initiated discussions with the two underpaid vendors about including a grand total on their monthly summaries.

The following summarizes the timeliness of payments:

Payment Date	Number of Sub-Invoices	Percent of Sub-Invoices	Amount
Within 60 Days	213	40%	\$ 6,771,631
Between 60 Days and 6 Months	298	41%	6,920,119
Between 6 Months and 1 Year	78	15%	2,403,611
Unpaid	22	4%	609,510
Total	611	100%	\$ 16,704,871 ⁹

At the time of the audit, the 22 unpaid sub-invoices ranged from 231 to 577 days (7.6 to 19.0 months) past the invoice receipt date.¹⁰

The Assistant Director of DWM Finance stated that delays in payment could have been caused by the City’s transition to Centralized Invoice Processing.¹¹ While the DWM Finance staff

⁷ Two of the five vendors with MTHP contracts did not provide services during 2011.

⁸ DWM’s list of “Truck Haul Processing” steps states that vendors are to submit a monthly summary, which is reviewed and approved by MTHP staff, then sent to DWM Finance for approval. DWM Finance approves it and gives the vendor a receipt number, which the vendor includes on an invoice sent to the City Comptroller for payment.

⁹ The difference between the total invoiced and the total paid includes a \$3,079 reduction for a supposed mathematical error (see Finding 4) as well as a \$5 cumulative rounding effect.

¹⁰ The \$609,510 in unpaid invoices is described in Finding 4.

creates the receiving record and submits it to the City Comptroller's Office, the Comptroller's Office makes the actual payment. The IGO examined a sample of 34 MTHP vendor invoices for 2011 and found that 14 days was the median time from the date of invoice receipt at the Comptroller's Office to the payment date.¹² Therefore, the Comptroller's Office does not appear to be the source of significant delays.

When asked if he was aware of how much the City owed in past due payments, the Assistant Director said that the vendors had informed him via e-mail of the amounts due and that he was working with them to get caught up. DWM Finance does not reconcile the amounts actually paid to the original invoices, and does not have a process to ensure that the monthly invoices are paid on time and in full.

Recommendation:

To improve vendor relations and avoid negatively impacting vendors' cash flow, we recommend that DWM Finance take steps to ensure that vendors are paid within the 60-day period stated in their contracts with the City. We recommend that DWM work with the vendors to ensure the monthly summary amounts include grand totals, thus allowing DWM Finance to approve payments in a timely manner. DWM should also track received yet unpaid invoices and not rely on vendors to identify the amount past due.

Management Response:

"To ensure that the Department of Water Management Finance Division ("DWM Finance Division") improves the payment and tracking process of the Material Truck Haul Program vendors, the Department is improving the process to receive and validate Material Truck Haul Program vendor invoices. DWM Finance Division is in the process of creating a single "monthly summary" Invoice Format that will be submitted by each Material Truck Haul Program vendor. This Invoice will have a "monthly summaries" or "sub-invoices" identify grand totals and any issues. This document will be attached to the signature page of each Material Truck Haul Program vendor monthly packet.

Thereafter, the DWM Finance Division will enter one monthly summary per Material Truck Haul Program vendor according to the monthly summary and contact the vendor with the receipt number. Material Truck Haul Program vendors will then submit a single monthly invoice per the monthly summary. The Material Truck Haul Program vendor will submit the invoice to the Comptroller's Office for payment. To ensure uniformity among Material Truck Haul Program vendors, and improve vendor relations, the DWM Finance Division met with each vendor during the week of January 28, 2013. It is the goal of the DWM Finance Division to reduce the time to process the invoices for payment and ensure accurate accounting and payment of invoices."

¹¹ In April 2011 the City of Chicago centralized the invoice entry and payment processing at the Office of the City Comptroller for the MTHP vendors. Therefore, the Comptroller's Office processed the payment vouchers for any invoices submitted after that time.

¹² This sample included invoices received by the Comptroller's Office both before and after the April 2011 introduction of Centralized Invoice Processing.

Finding 4: Vendors Were Underpaid by \$612,589

Each of the three MTHP vendors who provided goods and services during 2011 billed the City monthly, resulting in a total of 36 invoices. The IGO reviewed the 36 monthly invoices and found that 11, or 31% of the invoices, were not paid in full, thereby negatively impacting the vendors' cash flow.

Specifically:

- Ten monthly invoices were not paid in full because DWM Finance approved them for payment as multiple partial invoices, some of which had not been paid as of the time of the audit.¹³ These unpaid partial invoices totaled \$609,510.

As in Finding 3, we found that all ten partially paid invoices were from two of the three vendors, while the third vendor's invoices were always paid in full. The vendor whose invoices were always paid in full included a grand total in its monthly summary submitted to DWM, while the other two vendors did not include a grand total.

- Another monthly invoice was incorrectly reduced by \$3,079. This occurred because staff at the City Comptroller's Office erroneously reduced two partial invoices for this vendor to correct a supposed mathematical error when, in fact, there was no error to correct. The Assistant Director of DWM Finance said that he would not be aware of such underpayments unless a vendor complained to DWM because he does not reconcile the amounts DWM approves for payment against the actual payments made by the City.

Recommendation:

To improve vendor relations and avoid negatively impacting vendors' cash flow, we recommend that DWM work with the vendors to ensure the monthly summary amounts include grand totals, thus allowing DWM Finance to submit payment for the total monthly summary amounts. We also recommend that, until the monthly summaries are changed to include the grand total, DWM Finance perform monthly reconciliations to ensure the amount submitted for payment equals the amount actually paid.

Management Response:

"Please see Management Response to Finding 3."

¹³ The unpaid portions of these 10 monthly invoices are the 22 unpaid sub-invoices described in Finding 3.

Finding 5: 94.8% of Signatures Confirming Delivery or Pick-Up Did Not Match the List of Authorized Signatures

When materials are delivered or picked up at the various job sites, City employees sign the individual service request tickets, thereby confirming that each delivery or pick-up actually occurred. While the written MTHP process description provided by DWM does not mention these signatures, the MTHP Coordinator said that the signatures should be listed on the Authorized Signature List because only individuals on this list have authority to confirm delivery and pick-up.

We reviewed all MTHP service request tickets for the month of July 2011 (1,294 in total). All of the tickets were signed, but only 5.2% of the signatures matched the Authorized Signatures List. In fact, 562, or 43.4% of the signatures, were indiscernible scribbles, swipes, or single initials. Without authorized signatures validating delivery, the process is susceptible to fraudulent transactions. The risk of fraudulent transactions is, however, mitigated by the MTHP Coordinator's familiarity with the projects and field staff as well as her practice of documenting each service request assigned.

The MTHP Coordinator said that the Authorized Signature List was created on July 21, 2009 and has not been updated, but that she relied on her familiarity with the active work sites and employees to confirm each delivery/pick-up was valid.

Recommendation:

To avoid potential fraudulent transactions, DWM should create a new Authorized Signature List and ensure that list is used to validate the signatures on service request tickets. In addition, DWM management should develop procedures to update the list periodically. DWM management should also ensure authorized employees sign the service request tickets in the same manner in which they signed the authorized signature list rather than scribbling, swiping, or initialing.

Management Response:

"As mentioned in Finding 5 above, the MTHP Coordinator documents each service request assigned and is very familiar with the projects and field staff, so the risk of fraudulent transactions is extremely minimal. However, DWM recognizes the benefits in updating its Authorized Signature list and process and is actively taking steps to do so. In order to improve the Payment and Tracking Process of Material Truck Haul Program vendor invoices, the Department of Water Management is improving its sign-off Process for materials, equipment or other drop-offs and debris pick-ups. Only Foreman and other supervisors ("Authorized Employees") will be able to sign off on these items. The list of Authorized Employees will be updated on regular basis at least once a year. Further, the Tickets will be modified to ensure that identification of the Authorized Employee is easily discernible."

V. APPENDIX A: CONTRACTED MTHP VENDORS BY COMMODITY CATEGORY

The following chart summarizes the number of vendors that bid on the various MTHP commodity categories:

Group	Location	Service	# of Vendor Lines	Vendor 1	Vendor 2	Vendor 3	Vendor 4	Vendor 5
Services Requiring Transportation Provided by Vendor								
A	North	Pick Up Debris	10	✓	✓			
	North	Deliver Material	30	✓	✓			
	North	Pick Up Debris / Deliver Material	10	✓	✓			
	North	Return Contaminated Debris	1	✓	✓			
B	Central	Pick Up Debris	10	✓				
	Central	Deliver Material	30	✓				
	Central	Pick Up Debris / Deliver Material	10	✓				
	Central	Return Contaminated Debris	1	✓				
C	South	Pick Up Debris	10	✓				
	South	Deliver Material	30	✓				
	South	Pick Up Debris / Deliver Material	10	✓				
	South	Return Contaminated Debris	1	✓				
Services Requiring Transportation Provided by City								
D	Vendor Site	Accept Debris	5	✓	✓	✓	✓	✓
E	Vendor Site	Provide Material	15	✓				
		Total / # of lines bid upon	173	173	56	5	5	5
		% of lines bid upon		100%	32%	3%	3%	3%

CITY OF CHICAGO OFFICE OF THE INSPECTOR GENERAL

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

- Administrative and Criminal Investigations
- Audits of City programs and operations
- Reviews of City programs, operations and policies

From these activities, the IGO issues reports of findings, and disciplinary and policy 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.