

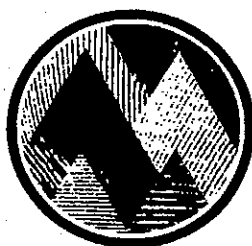
Metro

**Regional Environmental
Management:**

***Administration of Existing Contract
for Waste Disposal Services***

January 1996

A Report by the Office of the Auditor



METRO

Alexis Dow, CPA
Metro Auditor



METRO

OFFICE OF THE AUDITOR

January 22, 1996

Mike Burton, Executive Officer
Councilor Jon Kvistad, Presiding Officer
Councilor Patricia McCaig
Councilor Ruth McFarland
Councilor Susan McLain
Councilor Rod Monroe
Councilor Don Morissette
Councilor Ed Washington

Re: Regional Environmental Management: Administration of Existing Contract for
Waste Disposal Services

Dear Mr. Burton and Councilors:

The accompanying report covers our review of the administration of the existing contract with Oregon Waste Systems for waste disposal services. We undertook this study as part of our annual audit plan.

We reviewed a draft of the report with the Executive Officer and the director of the Regional Environmental Management Department. The last section of this report presents the written response of Executive Officer Burton.

We would appreciate receiving a written status report from the Executive Officer, or a designee, in six months indicating what further progress has been made to address the report's recommendations.

We appreciate the cooperation and assistance provided by staff from the Regional Environmental Management Department.

Very truly yours,

A handwritten signature in black ink, appearing to read "Alexis Dow". The signature is fluid and cursive.

Alexis Dow, CPA

Auditor: Doug U'Ren

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Executive Officer Mike Burton	

Executive Summary

The Office of the Metro Auditor has reviewed the effectiveness of the administration of the Waste Disposal Services Contract, a 20 year contract Metro signed with Oregon Waste Systems in April 1988. Under this contract, Oregon Waste Systems provides Metro with capacity to dispose 16,923,000 tons of mixed solid waste at Columbia Ridge Landfill, located 130 miles east of Portland near Arlington, Oregon. The contract expires in December 2009 or before that if Metro delivers its contractually allotted capacity of solid waste to Columbia Ridge. The Waste Disposal Services Contract is Metro's largest public contract, having a total value of about \$570 million. Metro's 1995-96 budgeted expenditures for this contract are \$19.7 million.

We found that Metro's Regional Environmental Management Department has generally effective systems and procedures for reviewing Oregon Waste Systems' billings and ensuring that both Oregon Waste Systems and Metro comply with the terms of the contract. However, we believe management should adopt additional measures to provide greater assurance that contract terms are carried out as intended. We summarize our findings and recommendations below:

- Due to small calculation errors, the base waste disposal rate applied by Oregon Waste Systems was understated by \$.01 per ton between April 1989 and March 1994, and it has been overstated by \$.02 per ton since then. The net effect of these errors was only about \$1,900 as of September 30, 1995. The Director of the Regional Environmental Management Department should negotiate a rate correction to ensure that Metro pays no more in disposal costs than necessary over the life of the contract.
- A provision of the March 1994 Amendment #4 to the contract requires Oregon Waste Systems to credit Metro for solid waste delivered to Columbia Ridge by certain other communities located in Oregon, Washington and Idaho. The Budget and Finance Division of the Regional Environmental Management Department does not have a formal procedure to verify the accuracy of these credits as part of its invoice review processes. We recommended that the Budget and Finance Division formalize a method

and document its determination that Oregon Waste Systems has provided proper billing credits to Metro in accordance with Amendment #4

- The personal computers used to record the date, time and weight of waste loads bound for Columbia Ridge Landfill have been placed inside small scalehouses that are located near the outbound scales at the transfer station. Due to the location and relatively weak construction of these scalehouses, we believe the computers inside them are unnecessarily vulnerable to damage or theft. The data on these computers is also susceptible to being altered or deleted. The Regional Environmental Management Department should consider implementing measures to reduce the risk of damage to the computers and their data.
- The waste transport contractor's shuttle drivers sometimes manually record the weights of waste loads bound for Columbia Ridge Landfill instead of using the automated scale system. These manually recorded loads usually occur when a scale or computer malfunctions. Regional Environmental Management does not have a procedure to help ensure that manually recorded loads actually occurred and that recorded weights are accurate. We recommend that Metro's scalehouse employees make sure that manually recorded loads match entries made in load logs maintained by the transfer station contractors. In addition, Metro should require the transport contractor's shuttle drivers to briefly describe the reason whenever transport invoices are manually prepared.
- Existing controls in place at Metro's transfer stations are not sufficient to prevent haulers or the public from using the waste transport contractor's entrances to the transfer stations in order to avoid Metro's weigh scales and disposal fees. Although we found no indications that a significant amount of unweighed waste has entered Metro's system, the Regional Environmental Management Department should consider adopting additional measures, such as security cameras or a greater Metro presence around the dumping and entrance areas, to better ensure that unweighed waste does not become a problem.

- The Regional Environmental Management Department does not have an adequate process for monitoring Metro's guarantee to deliver at least 90% of "acceptable" waste to Oregon Waste Systems each calendar year. We recommend that responsibility for monitoring Metro's performance against the 90% guarantee be assigned and that performance be assessed at least semiannually.
- The Regional Environmental Management Department should continue to carefully monitor waste flows into and out of each transfer station. The Department should also give added consideration to operational changes and the potential need for increasing Metro's oversight of activities at transfer stations.
- Present procedures provide reasonable assurance that waste quantities listed on Oregon Waste Systems' invoices are accurate. However, a greater certainty of invoice accuracy could be attained by implementing a review of waste load operational data.
- Currently, no regular verification of Oregon Waste Systems' compliance with insurance requirements of the Waste Disposal Services Contract occurs. This verification should be performed annually.

During the course of our review two other matters related to the Waste Disposal Services Contract were considered: the rate Metro pays for waste disposal under this contract and the net benefit, if any, from Amendment #4.

- The rate Metro pays under the Waste Disposal Services Contract is higher than the rates paid by most communities in the western United States. We were unable to identify any actions Metro could take to significantly reduce the rate.
- Oregon Waste Systems provides Metro with waste disposal services only. Oregon Waste Systems and other WMX Technologies subsidiaries provide many other Pacific Northwest communities with both waste transport and waste disposal services for a single rate. Due to the technical difficulties involved in determining the portion of WMX Technologies' rate under each contract that is attributable to disposal services only, we concluded that

Metro's net benefits from Amendment #4 cannot be accurately identified.

Staff members of the Regional Environmental Management Department provided us with excellent cooperation during the course of our review.

Background

Metro's involvement in the waste disposal industry began in 1980, when it took over responsibility for operating the St. Johns Landfill from the City of Portland. In 1987 about half of the region's solid waste was disposed of at St. Johns. Due to limited capacity at St. Johns and an agreement with the City of Portland, Metro had to close the landfill by 1991. Metro developed a new framework for handling the region's solid waste and in late 1987 it issued an Invitation to Bid for the waste disposal portion of the region's solid waste system. Agreements to operate Metro's transfer stations and to transport waste from the transfer stations to Columbia Ridge Landfill were separately bid.

Metro's bid specifications for the waste disposal contract required the successful bidder to provide 16,923,000 tons of mixed solid waste capacity beginning January 1990 and ending December 2009. Metro could extend the contract if the capacity had not been reached by the end of 2009. The landfill had to be located outside Metro's boundaries. The bidder would own and operate the landfill, and bear complete responsibility for complying with all federal, state and local laws. Metro agreed in the bid specifications to deliver to the contractor's designated disposal site a minimum of 90% of Metro's acceptable waste.

Although several companies expressed interest in making bids for Metro's waste disposal business, only one company, Oregon Waste Systems, actually submitted a bid. Oregon Waste Systems' proposal called for Metro to pay a fixed charge of \$150,245.83 per month plus \$19.50 for each ton of solid waste. The per ton rate would change annually based on changes in the Consumer Price Index. Oregon Waste Systems' disposal site is Columbia Ridge Landfill, located about 130 miles east of Portland near Arlington, Oregon. Metro awarded the waste disposal contract to Oregon Waste Systems (a subsidiary of WMX Technologies) in April 1988, but only after Metro and Oregon Waste Systems entered into another agreement, the Most Favorable Rate Agreement, in March 1988. In the Most Favorable Rate Agreement, Oregon Waste Systems agreed to charge Metro no more for waste

disposal than it charged to other public and private users of Columbia Ridge Landfill.

The current version of the Waste Disposal Services Contract is 297 pages long and incorporates the following documents:

- Instructions to Bidders
- Proposal
- Contract
- General Conditions
- Specifications
- Most Favorable Rate Agreement
- Addenda (Nos. 1 through 5)
- Amendments (Nos. 1 through 6)

Of the six amendments to the Waste Disposal Services Contract, Amendment #2 and Amendment #4 have had the most significant and lasting impact. In July 1990 Metro agreed in Amendment #2 to pay Oregon Waste Systems \$1.5 million to settle allegations that it had not fulfilled its contractual pledge to deliver 90% of the region's acceptable waste to Columbia Ridge Landfill during early 1990. The settlement was to be paid by increasing the waste disposal fee by \$.28 per ton, with annual adjustments tied to changes in the Consumer Price Index. Metro will continue to pay Oregon Waste Systems this supplemental rate until the \$1.5 million settlement amount has been paid off

In March 1994, Metro's former Executive Officer signed the controversial Amendment #4 to the Waste Disposal contract. Amendment #4 effected the following changes:

- Terminated the Most Favorable Rate Agreement and granted Metro billing credits based on the amount of waste delivered to Columbia Ridge Landfill by others.

- Relieved Metro of potential liability for delivering less than 90% of the region's solid waste to Columbia Ridge Landfill during 1991 through 1993.
- Reduced by 1/2% the annual adjustments to the disposal rate that are based on changes in the Consumer Price Index.

Amendment #4 has been neither ratified nor rescinded by the Metro Council.

Metro began delivering mixed solid waste to Columbia Ridge Landfill on January 2, 1990. From that date through July 1995, Metro transported 3,451,885 tons of waste to the landfill and paid Oregon Waste Systems \$92,180,000. The cumulative value of the Waste Disposal Services Contract over the full term of the contract is \$570,421,619. Metro's FY 1995-96 budget for waste disposal services is \$19,736,068. The Waste Disposal Services Contract is Metro's largest contract in dollar terms.

Responsibility for managing the Waste Disposal Services Contract is split among several divisions within the Regional Environmental Management Department. The Environmental Service Division maintains the scales used to weigh trailers bound for the landfill and helps ensure waste load information is accurately recorded and transmitted to the Budget and Finance Division. The Budget and Finance Division has primary responsibility for administering the contract, including verifying the accuracy of Oregon Waste Systems' monthly invoices. The Engineering and Analysis Division takes a lead role in negotiating changes to the contract.

Audit Objectives, Scope and Methodology

This review was performed in accordance with our annual audit plan. The primary objective of the audit is to determine whether the Regional Environmental Management Department is effectively administering the Waste Disposal Services Contract. A secondary objective is to identify opportunities to reduce Metro's waste disposal costs.

To gain an understanding of Metro's solid waste disposal system, we reviewed Metro solid waste management plans, budget submittals and other operating information. We read the Waste Disposal Services Contract and interviewed key personnel in the General Counsel's Office and the Regional Environmental Management Department.

During field work, we reviewed internal controls over the contract and performed numerous tests to determine if the controls were functioning as described. Since Metro's billings from Oregon Waste Systems are largely based on the quantity of mixed solid waste sent to Columbia Ridge Landfill from the transfer stations, we visited the transfer stations to help gain an understanding of controls over waste loads.

Our review was conducted from September through December 1995 in accordance with generally accepted government auditing standards.

Conclusions and Findings

The Regional Environmental Management Department has developed procedures to ensure that (1) Oregon Waste Systems' invoices are accurate, and (2) Metro and Oregon Waste Systems comply with the terms of the Waste Disposal Services Contract. Virtually all solid waste delivered to each transfer station is weighed on scales manned by Metro employees, and the quantity of waste delivered to Columbia Ridge Landfill each month closely reconciles to the amount of inbound waste recorded by Metro scalehouse employees. Invoice review practices are reasonably effective in ensuring that contract rates have been accurately applied and calculations have been performed correctly. All evidence evaluated indicates that Metro and Oregon Waste Systems have complied with the terms of the Waste Disposal Services Contract.

While contract administration measures have been generally adequate, improvements could be made in a number of areas to provide greater certainty that Metro pays no more for waste disposal services than necessary. Following are our findings and suggestions for improving these areas.

Disposal rate error *Oregon Waste Systems and Metro's Regional Environmental Management Department staff have made minor errors in calculating the waste disposal rate. As a result, the current disposal rate paid by Metro is slightly overstated.*

The Waste Disposal Services Contract specifies that Oregon Waste Systems will receive \$19.50 for each ton of solid waste disposed at Columbia Ridge Landfill, with annual changes to this base rate tied to changes in the Consumer Price Index. The base rate covered the initial year of the contract, which began in April 1988. Oregon Waste Systems proposes a new rate each year, and the Budget and Finance Division reviews Oregon Waste Systems' calculations to ensure they have been determined accurately and in accordance with the Waste Disposal Services Contract.

Due to errors that have been made since 1989, the current rate that Oregon Waste Systems charges Metro, \$25.15 per ton, is overstated by \$.02.

The first error occurred in April 1989. We believe it was due to incorrect rounding. The error resulted in an undercharge of \$.01 per ton for every ton delivered to OWS during April 1989 through March 1994, a total of \$24,841.76. Subsequently, in April 1994 another calculation error was made which produced a \$.02 per ton overcharge for every ton delivered to OWS during April 1994 through September 1995, a total of \$22,961.48. A faulty spreadsheet used by the Budget and Finance Division failed to detect this error. The following table summarizes the effects of these errors:

<u>Year Ended</u>	<u>Rate per Ton</u>		<u>(Undercharge) / Overcharge</u>		
	<u>Actual Applied</u>	<u>Corrected</u>	<u>Per Ton</u>	<u>Annual Total</u>	<u>Cumulative Net</u>
3/89	\$ 19.50	\$ 19.50	—	—	—
3/90	20.37	20.38	\$ (0.01)	\$ (829)	\$ (829)
3/91	21.39	21.40	(0.01)	(4,217)	(5,046)
3/92	22.59	22.60	(0.01)	(6,069)	(11,115)
3/93	23.47	23.48	(0.01)	(6,607)	(17,722)
3/94	24.29	24.30	(0.01)	(7,117)	(24,839)
3/95	24.78	24.76	0.02	15,602	(9,237)
9/95	25.15	25.13	0.02	7,359	(1,878)

The Budget and Finance Division told us they have corrected their spreadsheet so that it will accurately compute future rate changes. In addition to this action, we recommend that the Regional Environmental Management Department contact Oregon Waste Systems and negotiate a rate correction from \$25.15 to \$25.13 per ton to preclude unnecessary overpayments.

Credit to Metro for waste delivered to Columbia Ridge by others *The Budget and Finance Division does not have a formal procedure for determining if Oregon Waste Systems accurately credits Metro for waste delivered to Columbia Ridge Landfill by other local governments.*

Amendment #4 to the Waste Disposal Services Contract contains a provision that entitles Metro to a credit for every ton of solid waste delivered to Columbia Ridge Landfill by certain other local governments. The credit is currently set at \$1.02 for each ton of Seattle waste, and \$.52 for each ton of waste received from other local governments. During FY 1994-95, Metro's waste disposal costs were reduced by \$267,000 as a result of other governments' delivering their solid waste to Columbia Ridge.

Our review of invoice verification processes revealed that the Budget and Finance Division has not developed a formal procedure to ensure Oregon Waste Systems properly credits Metro for waste delivered to Columbia Ridge Landfill by other local governments. In our opinion, a procedure to verify the amount of waste being delivered to Columbia Ridge by others is needed, primarily to address the risk that Oregon Waste Systems might inadvertently understate the tonnage of non-Metro solid waste. We contacted three of the seven local governments that had their waste delivered to Columbia Ridge Landfill during January, May and July 1995 and two of them gave us information which confirmed Oregon Waste Systems accurately reported the amount of solid waste they sent to Columbia Ridge. The third government agreed to provide us with information but did not do so.

Better checks on accuracy of tonnage measurement *Additional invoice review procedures would help provide a higher level of assurance that Metro receives accurate information regarding the quantities of waste that are disposed of at Columbia Ridge Landfill.*

At the beginning of each month, Metro scalehouse personnel prepare data files containing information about every trailer load of waste transported from Metro's transfer stations to Columbia Ridge Landfill during the previous month. The information contained in these files includes the date and time

each load was weighed on the transfer station's outbound scales, the transfer station from which the load originated, the gross weight of the load, the tare weight of the shuttle vehicle and trailer combination that was used to weigh the load, and the net weight of the load. After preparing the data files, the scalehouse employees send copies of them to a Management Analyst in the Budget and Finance Division using Metro's electronic mail system. The Management Analyst downloads the information into a personal computer spreadsheet. She then compares the total tons of waste listed on the spreadsheet to a preliminary tonnage amount provided to her by Oregon Waste Systems. If the two tonnage figures do not match, she examines daily load reports and source documents (Transport Invoices) until the cause of the error is identified and corrected. If the tonnage figures do match, the Management Analyst contacts Oregon Waste Systems, which sends her an invoice. The Management Analyst then verifies rates, computations and other aspects of the invoice.

This process, in conjunction with scalehouse employees' comparing information contained in the data files with the information recorded on Transport Invoices, provides reasonable assurance that waste quantities listed on Oregon Waste Systems invoices are accurate. However, a greater certainty of invoice accuracy could be attained with minimal additional effort. By sorting waste load data by trailer number, Budget and Finance Division personnel could determine if trailer usage patterns are logical. For example, if any trailer is weighed on Metro's outbound scales more than once in a six hour period, either the trailer number has been erroneously recorded or the load did not occur. Load data from both transfer stations need to be combined to achieve a meaningful analysis.

Protecting computers and data *Measures should be taken to ensure the physical security of personal computers that are connected to each transfer station's outbound scales. Measures also should be taken to prevent the alteration or destruction of data recorded on these computers.*

Each Metro transfer station has two sets of scales: one set is for recording the weights of all solid waste loads delivered to

the stations by franchised haulers and the public; and the other set is for recording the weights of all trailers bound for Columbia Ridge Landfill from the transfer stations. The inbound scales are operated by Metro employees; the outbound scales are unmanned. The outbound scales at each station are not visible to the Metro's employees working in the inbound scalehouses. Connected to each outbound scale is a personal computer, which records the date, time and weight of each load placed on the scale. The personal computers are located in small scalehouses placed about 100 feet from the scales.

After the waste transport shuttle drivers type waste load information into the personal computer, they type in a short series of keystrokes that record the load data onto the computer's hard drive. Once a day, a waste transport contractor's employee runs a program on the computer that transfers all load data recorded for the day from the hard drive to a floppy diskette. The waste transport contractor's employee then takes the floppy diskette out of the computer, replaces it with a blank one, and takes the full one to the Metro scalehouse.

We have two concerns about this process. First, the scalehouses containing the outbound scale personal computers are not as sturdily constructed as the inbound scalehouses and are not visible to Metro's scalehouse employees. As a result, the computers are more vulnerable to theft or damage than they would be if the computers were located inside the inbound scalehouses. Second, we do not believe it is prudent to allow non-Metro persons to access and handle the floppy diskettes that waste load data is recorded on, since this increases the risk that data on the diskettes could be altered. It is suggested that Regional Environmental Management either move the computers back into the Metro operated in-bound scalehouses, or place them inside cabinets that would provide them with additional protection against damage. In either case, procedures should be changed to ensure that only Metro employees handle the floppy diskettes that contain load data.

Bypassing inbound scales to avoid paying Metro's fees *The Operations Division of the Regional Environmental Management Department should implement a control that would prevent unweighed waste from being taken into Metro's transfer stations.*

Each Metro transfer station has two main entrances: one that is used by franchised haulers and the public to take waste into the station; and another that is used by the waste transport contractor to load and weigh trailers bound for Columbia Ridge Landfill.

All mixed solid waste going into each transfer station should be weighed on the inbound scales operated by Metro personnel. Vehicles are weighed going into the dumping areas, then are weighed again after they have been emptied.

We observed there are no adequate measures in place to prevent haulers or the public from avoiding Metro's inbound scales and tipping fees by entering the transfer stations through the entrances used by the waste transport contractor's vehicles. The entrances used by the transport contractor are not visible to Metro personnel in the inbound scalehouses, and scalehouse personnel are primarily responsible for weighing vehicles containing inbound waste and collecting the appropriate fees.

Although analysis of waste flow reconciliations performed by Regional Environmental Management staff seems to indicate that unweighed waste is not a problem, we suggest that processes be put into place to prevent unweighed waste from entering each transfer station. Such processes could include placing cameras near the transport contractor entrances or reallocating staff resources to randomly monitor the outbound waste entrances.

Monitor 90% commitment *Clear assignment of responsibility for timely analysis of Metro's deliveries of mixed solid waste to area landfills would help ensure that Metro continues to comply with its contractual commitment to deliver 90% of "acceptable" waste to Oregon Waste Systems.*

As noted earlier in this report, Metro agreed in the Waste Disposal Contract to deliver to the contractor's disposal site a minimum of 90% of the acceptable waste delivered to any general purpose landfill during the year.

Discussions with Regional Environmental Management Department staff indicated that responsibility for monitoring Metro's compliance to the annual waste flow guarantee has been unclear since the prior Solid Waste Department Director left Metro early in 1995. Also, Metro's performance against the waste flow guarantee has been determined after the end of each calendar year, thereby precluding timely detection and correction of any noncompliance with the guarantee.

We recommend the Regional Environmental Management Department Director assign responsibility for monitoring Metro's performance against the annual waste guarantee provision of the Waste Disposal Services Contract. Metro's performance in complying with the guarantee should be calculated at least once prior to year-end to help ensure that Metro adheres to this provision of the Waste Disposal Contract.

Closely monitor operational data

The Regional Environmental Management Department should continue to carefully monitor waste flows into and out of each transfer station.

From the time a load of mixed solid waste is brought to one of the transfer stations until it is deposited in Columbia Ridge Landfill, it is handled almost entirely by contractors. The transfer station contractors operate the bulldozers used to push waste into the compactors, run the compactors, and push the loads into trailers. The waste transport contractor's truck drivers weigh the trailers on Metro's outbound scales, then drive the trailers to Columbia Ridge Landfill. Oregon Waste Systems empties the trailers at Columbia Ridge and operates all aspects of the landfill. Metro's only direct role in this waste disposal process is to weigh the solid waste being taken into each transfer station.

Given Metro's limited presence in the waste handling process, it is crucial that the Regional Environmental Management Department continue to closely compare incoming waste to

outgoing waste at each transfer station, and investigate the reasons for any significant differences. If differences arise and continue over several months' time, consideration should be given to increasing Metro's oversight of activities at the transfer stations. Also, any operational changes should be reflected in the comparisons. For example, if the operator of Metro South Transfer Station begins to salvage materials from the incoming waste stream that now go to Columbia Ridge Landfill, staff should consider weighing or estimating the weight of the recovered material and incorporating this data into their comparisons. It may be that the reconciliation method appropriate for one transfer station will substantially differ from the method appropriate for the other.

**Manually
recorded
transactions**

Better controls are needed over manually recorded outbound waste load transactions.

Due to occasional malfunctions of the outbound scales or the personal computers used to record waste load information, the waste transport shuttle drivers sometimes manually record waste load data that is ordinarily captured automatically. This data includes the date and time each trailer load was placed on the scale, together with its gross weight.

We found that the shuttle drivers are not required to document the reason for recording load information manually.

Furthermore, there is no procedure in place to help ensure manually recorded loads actually occurred. This can be accomplished by comparing the tonnage of outbound waste for days in which a significant number of manual loads were recorded to the tonnage of inbound waste recorded for that day.

We recommend that the shuttle drivers be required to briefly note the reason for hand recording the date, time and weight of outbound loads on Transport Invoices. In addition, for periods in which manual Transport Invoices are extensively used, the Budget and Finance Division should perform analyses to determine the likelihood that such loads actually occurred.

Compliance with contract's insurance requirements *Regional Environmental Management staff should annually verify Oregon Waste Systems has complied with the insurance requirements of the Waste Disposal Services Contract.*

The Waste Disposal Services Contract requires Oregon Waste Systems to maintain \$5 million in liability insurance coverage, and lesser amounts of other kinds of insurance. Although the contract does not obligate Oregon Waste Systems to provide Metro with proof of insurance, the Budget and Finance Division should obtain a certificate of insurance annually and verify that the coverage complies with the contract. Oregon Waste Systems' insurance coverage currently complies with the terms of the Waste Disposal Services Contract.

Other Issues

Can disposal costs be reduced?

Can Metro reduce the cost of disposing of its mixed solid waste?

During the past year, Portland-area media have pointed out that waste disposal rates within Metro's boundaries are higher than those charged by virtually all other western US cities, and they have pinned much of the blame for this on Metro's waste disposal contract with Oregon Waste Systems. Indeed, one member of Metro's Regional Environmental Management staff told us that the market rates for disposing waste currently range from about \$18 per ton to \$22 per ton. Under its contract with Oregon Waste Systems, Metro pays about \$27.50 per ton for disposal only. Recent bids that were offered to Metro for both transport and disposal of Forest Grove area waste, which represents about 10% of the Metro's total solid volume, came in at about \$25 a ton.

It is clear that Metro's disposal costs are higher than those paid by other communities in this part of the United States. The question then becomes this: does Metro have any significant opportunities to reduce its costs under the Waste Disposal Services Contract?

After analyzing the Waste Disposal Services contract, performing a number of audit tests, and interviewing staff from Metro's Regional Environmental Management Department and General Counsel's Office, we conclude that Metro has no effective options at this time to significantly reduce its costs under the contract. We were told that Oregon Waste Systems has not significantly breached any part of the contract, nor did we uncover evidence to the contrary. The contract contains no provision entitling either party to rate relief in the event market rates for waste disposal move significantly higher or lower than the contractually set rate.

Impact of Amendment #4 *The net effect of Amendment #4 on Metro's waste disposal costs cannot be quantified to a reasonable level of certainty.*

The decision by Metro's former Executive Officer to sign Amendment #4 to the Waste Disposal Services Contract sparked considerable controversy regarding her legal authority to approve the Amendment without the Council's consent and the impact of the Amendment's provisions on Metro's waste disposal costs.

Amendment #4 accomplished the following:

- Terminated the Most Favorable Rate Agreement.
- Gave Metro a \$1.00 per ton credit for communities disposing of greater than 75,000 tons of waste at Columbia Ridge Landfill annually. The credit rises to \$1.50 per ton in 1996 and is subject to CPI adjustment;
- Gave Metro a \$.50 per ton credit, subject to CPI adjustment, for communities delivering less than 75,000 tons of waste to Columbia Ridge each year;
- Oregon Waste Systems agreed to waive any claims against Metro arising from assertions that Metro failed to deliver at least 90% of the region's waste to Columbia Ridge Landfill during 1991, 1992 and 1993;
- Gave Metro a one-half percent reduction in the annual Consumer Price Index adjustment to the disposal fee; and
- Eliminated Oregon Waste Systems' requirement to maintain a performance bond and a labor and materials bond.

After studying Amendment #4 and discussing its ramifications with staff from Metro's Regional Environmental Management Department and General Counsel's Office, we conclude that Amendment #4's affect on Metro's waste disposal costs cannot be quantified to a useful degree of certainty. We calculated that Metro saved about \$371,000 in FY 1994-95, or approximately 1.9% of Metro's total payments to Oregon Waste Systems from the one-half percent reduction in CPI adjustment and the credits for waste delivered to Columbia

Ridge Landfill by other communities. To compute the net effect of Amendment #4, the loss of benefits from the Most Favorable Rate Agreement must be netted against the \$371,000. This is where the analysis begins to lose its usefulness. First, Waste Management's disposal rates in contracts with other Northwest communities generally include transport and disposal, whereas Metro's contract with Oregon Waste Systems is for disposal services only. This makes it difficult, if not impossible, to compare rates and establish a most favorable rate. As a result, Metro received nominal monetary benefit under the Most Favorable Rate Agreement. Second, if Metro's savings under the Most Favorable Rate Agreement had been substantial, Waste Management would have had a larger incentive to divert waste from its non-Metro customers away from Columbia Ridge, either by starting another regional landfill or by purchasing landfill capacity from another landfill operator. We were told by one Regional Environmental Management staff member that Metro would have had much lower waste disposal costs under the Most Favorable Rate Agreement than it now has under Amendment #4, but only until Oregon Waste Systems succeeded in finding less expensive landfill capacity than Columbia Ridge.

Currently, Oregon Waste Systems is in the process of obtaining permits to construct a landfill in Adams County, Washington; however, we understand no final decision has been made.

Recommendations

1. The Director of the Regional Environmental Management Department, or his designee, should contact Oregon Waste Systems and request a correction to the current waste disposal rate from \$25.15 per ton to \$25.13.
2. The Budget and Finance Division should formalize a method to verify the accuracy of billing credits for waste delivered by others that Metro receives under Amendment #4 to the Waste Disposal Services Contract.
3. Additional security measures should be taken to prevent damage to or theft of the personal computers that are hooked to the outbound scales. Access to the diskettes used to store waste load data should be limited to Metro employees.
4. The Operations Division of the Regional Environmental Management Department should implement a control that would prevent unweighed waste from being taken into Metro's transfer stations.
5. Clear assignment of responsibility and timely analysis of Metro's deliveries of mixed solid waste to area landfills would help ensure that Metro continues to comply with its contractual commitment to deliver 90% of "acceptable" waste to Oregon Waste Systems.
6. The Regional Environmental Management Department should continue to carefully monitor waste flows into and out of each transfer station. The Department should also give added consideration to operational changes when analyzing inflow and outflow reconciliations, and should consider the potential need to increase Metro's oversight of activities at transfer stations.
7. Consideration should be given to implementing a review of waste load operational data as a means of providing a higher level of assurance that Metro receives accurate information regarding the quantities of waste disposed of at Columbia Ridge Landfill.

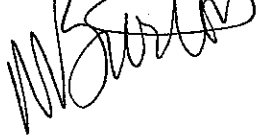
8. The Regional Environmental Management Department should require shuttle drivers to document the reason for manually recording waste load weights. In addition, for periods in which manual Transport Invoices are extensively used, the Budget and Finance Division should perform analyses that would help determine the likelihood that such loads actually occurred.
9. Regional Environmental Management staff should annually verify Oregon Waste Systems has complied with the insurance requirements of the Waste Disposal Services Contract.

Response to the Report



METRO

TO: Alexis Dow, CPA, Auditor

FROM: Mike Burton, Executive Officer 

DATE: January 22, 1996

RE: Response to Audit Report on the Waste Disposal Contract

The following constitutes the response of the Executive Officer and staff to the Audit Report on the Waste Disposal Contract by the Office of the Auditor.

I. **CONCLUSION AND FINDING: "A DISPOSAL RATE ERROR."**

The first conclusion and finding notes that staff have made minor errors in calculating the waste disposal rate. Staff are in agreement with the information presented. Staff have corrected the spreadsheet which allowed the 1994 rounding error to occur, and will indicate to OWS that a correction to the waste disposal rate is necessary.

II. **CONCLUSION AND FINDING: "CREDIT TO METRO FOR WASTE DELIVERED TO COLUMBIA RIDGE BY OTHERS."**

The Budget and Finance Division will formalize and document the procedures currently in place for verifying Amendment 4 credits. Budget and Finance Division and Administrative Services Accounting Division staff will include these matters in future audits that are performed on the Columbia Ridge Landfill as a Metro-Designated Facility.

III. **CONCLUSION AND FINDING: "BETTER CHECKS ON ACCURACY OF TONNAGE MEASUREMENT."**

This conclusion recommends that waste loads be sorted by trailer number. Budget and Finance will evaluate the information generated and determine whether such a data sort should be run quarterly, or at some other frequency.

IV. CONCLUSION AND FINDING: "PROTECTING COMPUTERS AND DATA."

The Environmental Services Division is presently investigating or putting into place specific measures that should alleviate the various concerns about computers and data expressed in this conclusion. The specific measures are as follows.

- 1.) Install security grates over windows in the outbound scalehouses.
- 2.) Provide a locking cover for the computer processing unit in the outbound scalehouses.
- 3.) Metro staff will run the "close-out procedure" each morning.
- 4.) Access to and handling of the "floppy diskette" will be restricted to Metro staff.

V. CONCLUSION AND FINDING: "BYPASSING INBOUND SCALES TO AVOID PAYING METRO'S FEES."

The Environmental Services Division is working on a project that should alleviate the concerns about bypassing scales expressed in this conclusion. Video cameras will be placed at both stations in the following areas: commercial and public tipping floors; all entrances and exits; all scales; all scalehouse transaction windows; and at the compactor chutes. These cameras will allow staff to randomly monitor activities during all hours of operation.

VI. CONCLUSION AND FINDING: "MONITOR 90% COMMITMENT."

Since the beginning of the waste disposal contract, the "90% commitment" has been a disputed and highly sensitive matter, under fairly constant discussion and review by the Office of General Counsel, the director and managers of the Regional Environmental Management Department, and Oregon Waste Systems. Of the four substantive amendments to the waste disposal contract, two speak directly to the 90% commitment (amendment 2 entered into in 1990, and amendment 4 entered into in 1994). Within this context, the 90% commitment has been monitored, analyzed and calculated with extreme care and sensitivity.

In consultation with the Office of General Counsel, the Budget and Finance Division is developing a procedure for routine monitoring and internal reporting of this matter.

VII. CONCLUSION AND FINDING: "MONITORING OPERATIONAL DATA MORE CLOSELY."

This conclusion recommends that Regional Environmental Management staff should continue to carefully monitor waste flows into and out of each transfer station. Regional Environmental Management staff agrees and will continue to do so.

VIII. CONCLUSION AND FINDING: "MANUALLY RECORDED TRANSACTIONS."

This conclusion recommends that drivers explain the reason for manually recorded transactions. Regional Environmental Management staff agrees with this recommendation and will implement such a procedure.

IX. CONCLUSION AND FINDING: "COMPLIANCE WITH CONTRACT'S INSURANCE REQUIREMENTS."

This conclusion recommends that Regional Environmental Management staff obtain a certificate of insurance and verify compliance. Budget and Finance staff agrees and will make such a request upon expiration of current insurance certificates.

X. OTHER ISSUES: "CAN DISPOSAL COSTS BE REDUCED?"

We are in general agreement with the commentary on this issue. The Executive Officer has directed Regional Environmental Management staff to study and develop methods of reducing the impact of the current waste disposal rates, and that study and development process is presently under way.

XI. OTHER ISSUES: "IMPACT OF AMENDMENT #4."

The commentary on this issue indicates the value of amendment 4 cannot be quantified, but some of the language in the commentary directly demonstrates the value of the amendment.

First, Waste Management's disposal rates in contracts with other Northwest communities generally include transport and disposal, whereas Metro's contract with Oregon Waste Systems is for disposal systems only. This makes it difficult, if not impossible, to compare rates and establish a most favorable rate.

This point demonstrates one of the primary difficulties with enforcing the Most Favorable Rate Agreement, namely, if Metro could not show that another customer paid a lower disposal rate, Metro got no compensation. Metro did in fact encounter this very difficulty; this raises the rather fundamental question of whether the Most Favorable Rate Agreement had much if any value. If the Most Favorable Rate Agreement had nominal if any value, then whatever increased revenue has been generated from Amendment 4 is a possible indication of its value.

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