

# A G E N D A

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**METRO**

## Agenda

MEETING: METRO COUNCIL REGULAR MEETING  
DATE: October 12, 2006  
DAY: Thursday  
TIME: 2:00 PM  
PLACE: Metro Council Chamber

### CALL TO ORDER AND ROLL CALL

#### 1. INTRODUCTIONS

#### 2. CITIZEN COMMUNICATIONS

#### 3. HUMAN RESOURCES/PAYROLL INTERNAL CONTROLS CAN BE IMPROVED Dow

#### 4. CONSENT AGENDA

4.1 Consideration of Minutes for the September 28, 2006 Metro Council Regular Meeting.

#### 5. RESOLUTIONS

5.1 **Resolution No. 06-3729**, Recognizing a Public/Private System of Waste Transfer Station in the Metro Area, to Continue Public Ownership of Metro's Transfer Stations, and Directing the Chief Operating Officer to Explore Opportunities to Improve the Regional Solid Waste Disposal System. Park

#### 6. EXECUTIVE SESSION HELD PURSUANT TO ORS 192.660(1)(e), DELIBERATIONS WITH PERSONS DESIGNATED TO NEGOTIATE REAL PROPERTY TRANSACTIONS. Desmond

#### 7. CHIEF OPERATING OFFICER COMMUNICATION

#### 8. COUNCILOR COMMUNICATION

### ADJOURN

**Television schedule for October 12, 2006 Metro Council meeting**

<b>Clackamas, Multnomah and Washington counties, and Vancouver, Wash.</b> Channel 11 -- Community Access Network <a href="http://www.tvctv.org">www.tvctv.org</a> -- (503) 629-8534 2 p.m. Thursday, Oct. 12 (live)	<b>Portland</b> Channel 30 (CityNet 30) -- Portland Community Media <a href="http://www.pcmtv.org">www.pcmtv.org</a> -- (503) 288-1515 8:30 p.m. Sunday, Oct. 15 2 p.m. Monday, Oct. 16
<b>Gresham</b> Channel 30 -- MCTV <a href="http://www.mctv.org">www.mctv.org</a> -- (503) 491-7636 2 p.m. Monday, Oct. 16	<b>Washington County</b> Channel 30 -- TVC-TV <a href="http://www.tvctv.org">www.tvctv.org</a> -- (503) 629-8534 11 p.m. Saturday, Oct. 14 11 p.m. Sunday, Oct. 15 6 a.m. Tuesday, Oct. 17 4 p.m. Wednesday, Oct. 18
<b>Oregon City, Gladstone</b> Channel 28 -- Willamette Falls Television <a href="http://www.wftvaccess.com">www.wftvaccess.com</a> -- (503) 650-0275 Call or visit website for program times.	<b>West Linn</b> Channel 30 -- Willamette Falls Television <a href="http://www.wftvaccess.com">www.wftvaccess.com</a> -- (503) 650-0275 Call or visit website for program times.

**PLEASE NOTE: Show times are tentative and in some cases the entire meeting may not be shown due to length. Call or check your community access station web site to confirm program times.**

Agenda items may not be considered in the exact order. For questions about the agenda, call Clerk of the Council, Chris Billington, (503) 797-1542. Public hearings are held on all ordinances second read and on resolutions upon request of the public. Documents for the record must be submitted to the Clerk of the Council to be considered included in the decision record. Documents can be submitted by e-mail, fax or mail or in person to the Clerk of the Council. For additional information about testifying before the Metro Council please go to the Metro website [www.metro-region.org](http://www.metro-region.org) and click on public comment opportunities. For assistance per the American Disabilities Act (ADA), dial TDD 797-1804 or 797-1540 (Council Office).

# Metro

## ***Human Resources/Payroll Internal Controls Can Be Improved***

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**August 2006**

A Report by the Office of the Auditor



**METRO**

PEOPLE PLACES  
OPEN SPACES

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**Alexis Dow, CPA**  
**Metro Auditor**



**METRO**

**OFFICE OF THE AUDITOR**

August 18, 2006

To the Metro Council and Metro-area citizens:

As part of the Metro Auditor risk assessment and work plan, we studied the internal controls related to Human Resources and Payroll operating changes that occurred in response to proposals by Metro's Business Process Improvement review. In the new model, the Human Resources and Payroll operations are under the leadership of the Director of Human Resources. Internal control best practices show a strong preference for segregating these two operations.

Our work focused on ensuring that effective internal controls are in place under the newly established structure. We evaluated the control environment by focusing on segregation of duties, access to data and systems, compensating controls, and comparison to best practices. Our purpose is to ensure that Metro's assets and its good reputation for maintaining sound business practices are protected.

We found that internal controls are generally in place within Metro's payroll and human resource operations. To mitigate risks created from the single leadership situation at Metro, we recommend:

- Adding exception-monitoring reviews of payroll data performed by Metro personnel outside of the Human Resources and Payroll departments.
- Eliminating the ability for payroll personnel to change pay rates by segregating duties.
- Properly defining use of change and correction functions within the PeopleSoft System to ensure appropriate audit trails are maintained.
- Using performance measures to provide management information to improve processes.
- Reminding managers of the requirement to monitor budget to actual expense monthly.

The detail results and recommendations resulting from this review are described on the following pages. The last section of the report presents the written response of Metro's Chief Operating Officer, Michael Jordan, to each recommendation.

We very much appreciated the assistance provided by all Human Resources, Payroll and Accounting personnel involved in the review. We also wish to recognize the many people at Metro who are actively committed to improving the efficiency and effectiveness of Metro operations.

Yours very truly,

Alexis Dow, CPA  
Metro Auditor

Auditor: The Rasmussen Group, LLC

August 18, 2006

Ms. Alexis Dow, CPA  
Metro Auditor  
600 NE Grand Avenue  
Portland, Oregon 97232

Dear Ms. Dow:

This letter summarizes the results of the Human Resources and Payroll Internal Controls portion of the Business Process Improvement Review. Our work focused on ensuring that effective internal controls are in place under the newly established structure.

The scope of this project was accomplished through interviews, observation, comparison to standard internal control models, and review of documentation. The scope did not include testing of the information provided. The review procedures included evaluating the control environment, focusing on segregation of duties, access to data and systems, compensating controls, and comparison to best practices. The purpose of the review was to ensure the protection of Metro's assets and good reputation for maintaining sound business practices.

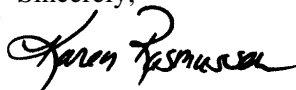
The Human Resources and Payroll services functions are provided under the leadership of Metro's Director of Human Resources. Internal control model best practices indicate a strong preference for segregating the leadership and execution of these two functions. At Metro, we found that in most instances, segregation of duties controls have been established below the manager level, except as noted in the attached *Summary of Observations & Recommendations*. This practice of segregating duties helps mitigate most risks created due to the single leadership situation instituted at Metro. We recommend:

- Strengthening the control environment by adding reviews performed by Metro personnel outside of the Human Resources and Payroll departments. The purpose of these reviews would be to monitor for exception situations permitted under current operating procedures until such time as the following recommendations are implemented:
  - Eliminate the ability for payroll personnel to change pay rates to provide proper segregation of duties
  - Properly define use of "change" and "correction" functions within the Peoplesoft System to ensure appropriate audit trails are maintained
- Using performance measures to provide meaningful management information to improve processes
- Reminding managers of the requirement to monitor budget to actual expense monthly

The detail results and recommendations resulting from this review are included in the following pages.

We very much appreciated the assistance and timely responses provided by all Human Resources, Payroll and Accounting personnel involved in the review.

Sincerely,



Karen L. Rasmussen  
Principal

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Metro Chief Operating Officer Michael Jordan	

## Summary of Observations and Recommendations

We made the following observations and recommendations while performing this review.

- 1. The control environment could be strengthened to mitigate the increased risk created from the common leadership of the Payroll and Human Resources functions by adding compensating controls and oversight reviews performed by Metro personnel outside of the Human Resources and Payroll departments.**

Periodic comparisons are not currently performed between the employee electronic master file records, personnel file information, and payroll processed to ensure the master file data and paychecks are correct. Performing this compensating control would help limit the risk of unauthorized changes to the payroll records. This compensating control should be performed by an individual independent from the human resources, payroll and bank reconciliation functions.

**Recommendation:** We recommend implementing a review and monitoring program over the payroll function to help mitigate the risk created from the common leadership. In addition to the item mentioned above, pay rates used in the generation of payroll should be periodically compared to the source document that provided management authorization of the change.

- 2. Eliminate access for payroll personnel to change pay rates to maintain proper segregation of duties.**

The payroll clerks and supervisor have access to change pay rates while preparing payroll. These changed rates may be different from the approved rates recorded by Human Resources. Currently, there are not adequate review procedures to ensure that changes made are appropriate, authorized, and properly updated in the master file. This does not provide adequate segregation of duties and affects the integrity of the data.

**Recommendation:** We recommend removing the permission in the payroll preparation module that allows payroll personnel to change pay rates. Until such time as this restriction is effective, we strongly recommend immediate implementation of the compensating control mentioned in Recommendation 1, as it will help identify unauthorized or erroneous pay rate changes as well as provide other mitigating internal control.

- 3. Properly define use of change and correction functions within the Peoplesoft system to ensure appropriate audit trails are maintained.**

Certain correction functions do not leave an adequate audit trail when used. The “correct” function is intended to remedy data entry mistakes. At Metro, it is also used to make changes to data for adjustments to master file data, such as pay rates, address changes, etc. These supplemental uses make it more difficult to monitor changes to critical master file payroll data.

**Recommendation:** Educate users on the proper use of the “correct” and other adjustments to ensure the integrity of payroll data. Implement a monitoring control to ensure the “correct” function continues to function effectively. This should include an on-going periodic review of how the function is being used.

#### **4. Performance Measures**

Performance measures have not been established for the payroll processes. Appropriate performance measures may include number of corrections, number of manual checks, number of reissued paychecks, and other measures that will indicate efficient and accurate processing of payroll.

**Recommendation:** Implement the use of performance indicators to manage success and efficiencies of the payroll process.

#### **5. Monitor payroll expenses.**

Ensuring that department managers fulfill their stated responsibility of comparing actual expenses to prior period and budgeted amounts could strengthen the accuracy and monitoring of payroll expenses.

**Recommendation:** Remind managers of expectations regarding monthly review of expenses and clearly communicate expectations. Implement monitoring procedures of this practice.



## Payroll Risk and Control Analysis

The following is a listing of best practice payroll control objectives that help ensure risks are properly minimized. As applicable to the scope of this review, these control objectives were compared to Metro's current control practices as noted.

### Reliability of information

- Employee record changes are properly authorized and accurately recorded.
- All payroll costs are accurately calculated from authorized sources and recorded on a timely basis.
- Recorded payroll balances are substantiated.
- Recorded payroll balances are evaluated.
- All payroll disbursements are accurately processed and recorded on a timely basis.
- Payroll changes, costs, and disbursements are reliably processed and reported.
- Performance measures used to control and improve the process are reliable.

### Operational effectiveness and efficiency

- Payroll disbursements and critical records are safeguarded.
- Payroll is processed in a cost-effective manner.
- Payroll is distributed in a cost-effective manner.
- A quality payroll service is provided to employees.

### Compliance with laws and regulations

- The company complies with payroll laws and regulations.
- The company complies with taxation withholding requirements.

Following is a listing of procedures that support the control objectives outlined above. Our interviews with Metro personnel included inquiry regarding these procedures to the extent they were covered in our scope. Answers indicated whether applicable procedures falling within the scope of our review were in place.

### Reliability of information

#### Employee record changes are properly authorized and accurately recorded.

- Written approval is required for changes to employee information (e.g., additions and deletions, changes to salary and wage rates, and authorized payroll deductions).
- Properly authorized input forms are used to document changes to employee information.
- Appropriate hard copy records for employee record changes are maintained.
- Electronic employee records are periodically compared with selected information in personnel files.
- Computer systems have access controls in place to preclude unauthorized access to employee records.

Control Identified	Exception	Out of scope
✓		
✓		
✓		
		✓
		✓

	Control Identified	Exception	Out of scope
<ul style="list-style-type: none"> <li>Managers are told to promptly notify the personnel department of terminated and transferred employees, or of any payroll changes, so that the employee records can be updated in a timely manner.</li> <li>Special payments made by the payroll function are properly authorized, approved, and documented (e.g., relocations, education, bonuses and awards).</li> </ul>	✓		✓
<b>All payroll costs are accurately calculated from authorized sources and recorded in a timely manner.</b>			
<ul style="list-style-type: none"> <li>All time records are approved prior to input.</li> <li>Control totals are prepared for time record input and verified to ensure all records have been accurately entered.</li> <li>Computer validation routines verify the accuracy of time record data (e.g., employee number, number of hours and department number).</li> <li>Computer validation routines will match time records for the payroll period with employee records.</li> <li>Processing controls are in place to ensure that all payroll source data is valid and authorized and duplicate source data is not processed.</li> <li>A payroll supervisor reconciles payroll earnings records with payroll check/direct deposit registers.</li> <li>A payroll supervisor reviews payroll withholdings to ensure the propriety of amounts, compliance with applicable governmental requirements, timely remittance to the appropriate entity and timely reconciliation to the general ledger accounts.</li> </ul>	✓ ✓    ✓ ✓		✓ ✓ ✓
<b>Recorded payroll balances are substantiated.</b>			
<ul style="list-style-type: none"> <li>The payroll department analytically compares recorded amounts with budgeted amounts and prior period amounts.</li> </ul> <p><i>Not performed by the payroll department at Metro. Budget and prior period comparisons are the responsibility of the department managers at Metro.</i></p> <ul style="list-style-type: none"> <li>Gross earnings records are periodically reconciled with the general ledger.</li> <li>Payroll register information is periodically confirmed with employees.</li> </ul> <p><i>This is not performed at Metro. Alternative procedures may achieve the same objective as this "best practice" activity.</i></p>	 ✓ ✓	✓ ✓	
<b>Recorded payroll balances are evaluated.</b>			
<ul style="list-style-type: none"> <li>Formulas used for accruals are periodically reviewed and approved.</li> </ul>			✓
<b>All payroll disbursements are accurately processed and recorded on a timely basis.</b>			
<ul style="list-style-type: none"> <li>Computer routines automatically generate payroll checks or electronic funds deposits based on the amounts recorded in the payroll register, automatically calculate the total value of disbursements and automatically post accounting entries to the related ledgers.</li> </ul>			✓

	Control Identified	Exception	Out of scope
<ul style="list-style-type: none"> <li>An imprest or zero balance payroll bank account is used.</li> <li>A payroll supervisor reviews amounts in recurring entries from one period to the next for reasonableness.</li> <li>Payroll disbursements are reconciled with the payroll register and payroll deductions per the payroll records are reconciled with actual disbursements.</li> </ul>	✓		✓ ✓
<b>Payroll changes, costs, and disbursements are reliably processed and reported.</b>			
<ul style="list-style-type: none"> <li>Controls are in place to maintain the integrity of payroll systems programs (e.g., authorization for program changes, security controls).</li> <li>Only authorized versions of programs and master files are used for transaction processing.</li> <li>Individuals who can update the payroll master file information are not allowed to also authorize payroll, prepare payroll or print checks.</li> </ul> <p><i>The payroll clerks and supervisor have access to change pay rates while preparing payroll. These changed rates may differ from the approved rates recorded by Human Resources. There are not adequate review procedures to ensure that those changes made are appropriate, authorized, and properly updated in the master file. This situation does not maintain adequate segregation of duties and may adversely affect the integrity of the data.</i></p>		✓	✓ ✓
<b>Performance measures used to control and improve the process are reliable.</b>			
<ul style="list-style-type: none"> <li>Data needed to assess process performance is being collected and compared historically and externally.</li> </ul> <p><i>Performance measures have not been established for the payroll processes. Appropriate performance measures may include number of corrections, number of manual checks, number of reissued paychecks, and other measures that will indicate efficient and accurate processing of payroll.</i></p>		✓	
<b>Operational effectiveness and efficiency</b>			
<b>Payroll disbursements and critical records are safeguarded.</b>			
<ul style="list-style-type: none"> <li>Adequate controls over payroll checks exist (e.g., account for spoiled checks, restrict access to checks, use prenumbered checks, restrict access to check-signing equipment, secure checks and direct deposit advices until distributed to employees, obtain signed receipts from individuals who receive checks for distribution, return unclaimed wages to the treasury function).</li> <li>Adequate controls over payroll cash exist (e.g., implement written procedures regarding access to cash, require or heavily encourage direct deposit of funds via bank transfer).</li> <li>Adequate controls over critical records exist (e.g., implement written procedures regarding access, use safes and locked cabinets or off-site storage, install access controls over computerized records, restrict access to master files).</li> </ul>	✓  ✓		✓

	Control Identified	Exception	Out of scope
<ul style="list-style-type: none"> <li>There is appropriate segregation of duties between payroll preparation and authorization, bank account reconciliation, check signing, and check distribution.</li> </ul>	✓		
<ul style="list-style-type: none"> <li>On a test basis, payroll distributions are audited.</li> </ul> <p><i>These audits are not performed at Metro. Alternative procedures may achieve the same objective as this "best practice" activity.</i></p>		✓	
<ul style="list-style-type: none"> <li>Bank accounts are reconciled with reconciling items traced to bank statements.</li> </ul>	✓		
<ul style="list-style-type: none"> <li>Bank accounts are confirmed periodically.</li> </ul>			✓
<ul style="list-style-type: none"> <li>Cash wages are avoided at all costs; if wages are paid in cash, signed receipts are required.</li> </ul>	✓		
<b>Payroll is processed in a cost-effective manner.</b>			
<ul style="list-style-type: none"> <li>The cost of processing payroll in-house is periodically compared to outsourcing service bureau quotes.</li> </ul>			✓
<ul style="list-style-type: none"> <li>Employees are grouped into different pay cycles to balance the processing efforts each month.</li> </ul>			✓
<ul style="list-style-type: none"> <li>Each exception to normal payroll processing is followed up to determine the root cause.</li> </ul>			✓
<ul style="list-style-type: none"> <li>Expense advances are not permitted or are used only in very special circumstances.</li> </ul>			✓
<ul style="list-style-type: none"> <li>The payroll process has been analyzed from a workflow perspective to pinpoint bottlenecks and opportunities for improvement.</li> </ul>			✓
<ul style="list-style-type: none"> <li>The payroll system is simple. There are a minimum number of fields and options per field.</li> </ul>			✓
<b>Payroll is distributed in a cost-effective manner.</b>			
<ul style="list-style-type: none"> <li>An effort has been made to move employees to fewer pay cycles (e.g., once or twice a month).</li> </ul>			✓
<ul style="list-style-type: none"> <li>An effort has been made to have all employees on a direct deposit system.</li> </ul>			✓
<ul style="list-style-type: none"> <li>Relevant performance measures are used to monitor the efficiency of payroll distribution (e.g., payroll department cost per employee, number of employees on a monthly payroll cycle, percentage of employees paid by direct deposit).</li> </ul>			✓
<b>A quality payroll service is provided to employees.</b>			
<ul style="list-style-type: none"> <li>Controls are in place to ensure timely and accurate payments.</li> </ul>	✓		
<ul style="list-style-type: none"> <li>A designated point of contact is provided for employees' queries.</li> </ul>			✓
<ul style="list-style-type: none"> <li>Relevant performance measures are used to monitor the quality of the payroll service (e.g., number of queries raised by employees, time to respond to queries).</li> </ul>			✓

## Compliance with laws and regulations

### The company complies with payroll laws and regulations.

- The legal and personnel departments have developed payroll procedures that comply with relevant laws and regulations (or they have at least reviewed procedures for compliance).
- An up-to-date policy and procedure manual exists that outlines policies and procedures concerning compliance with laws and regulations. This is distributed to responsible parties who administer payroll.
- A legal officer has been designated as the party for ensuring the company is complying with laws and regulations as it relates to payroll.

### The company complies with taxation withholding requirements.

- An outside payroll processing bureau is used that has a withholding tax service.
- The payroll system has a fully tested tax-withholding processing module.
- A timeline and checklist is used for withholding tax payments and filing tax forms.
- Annual summaries of wages and withholding are mailed to employees in accordance with applicable government requirements.
- Special payments processed by payroll comply with tax requirements.
- The legal department or internal audit department will periodically review the adequacy of withholding procedures.

Control Identified	Exception	Out of scope
		✓
		✓
		✓
		✓
		✓
		✓

## Human Resources Risk and Control Analysis

The following is a listing of Human Resources best practices control objectives that help ensure risks are properly minimized. As applicable to the scope of this review, these control objectives were compared to Metro's current control practices as noted.

### Reliability of information

- The integrity of employee information is maintained.

### Operational effectiveness and efficiency

- Employee turnover rates are minimized.

### Compliance with laws and regulations

- Human resource policies comply with applicable laws and regulations.
- Adequate records of compliance are maintained.

Following is a listing of procedures that support the control objectives outlined above. Our interviews with Metro personnel included inquiry regarding these procedures to the extent they were covered in our scope. Answers indicate whether applicable procedures falling within the scope of our review were in place.

### Reliability of Information

#### The integrity of employee information is maintained.

- Physical access to personnel records is restricted to authorized employees and managers with a genuine need for such information.
- Adequate physical and logical security controls are in place to restrict access to personnel information stored electronically.

*The payroll clerks and supervisor have access to change pay rates while preparing payroll. These changed rates may differ from the approved rates recorded by Human Resources. There are not adequate review procedures to ensure that those changes made are appropriate, authorized, and properly updated in the master file. This situation does not maintain adequate segregation of duties and may adversely affect the integrity of the data.*

- Human Resources personnel are trained in ethical standards and privacy issues.
- Disciplinary protocols are in place to reprimand individuals who improperly use or disclose confidential information.

### Operational effectiveness and efficiency

#### Employee turnover rates are minimized.

- Compensation and benefits are reviewed and evaluated on a regular basis.
- Compensation and benefits are benchmarked to other companies in the industry and geographical area.

In compliance	Exception	Out of scope
✓		
	✓	
		✓
		✓
		✓

	In compliance	Exception	Out of scope
<ul style="list-style-type: none"> <li>• A process is in place that seeks employee feedback about their level of satisfaction with compensation and benefits.</li> <li>• Employee performance evaluations are regularly conducted.</li> <li>• Employee compensation is linked to the performance evaluation process.</li> <li>• Employee turnover rates by department, location, level and job type are monitored regularly.</li> </ul>			<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> </ul>
<b>Compliance with laws and regulation</b>			
<b>Human resource policies comply with applicable laws and regulations</b>			
<ul style="list-style-type: none"> <li>• Legal review of all relevant human resource-related laws and regulations is required.</li> <li>• The legal department assists in preparing and then reviews all finalized human resource policies.</li> <li>• Trade unions and regulatory bodies are consulted about compliance with laws and regulations and possible future requirements.</li> <li>• The political, law-making and regulatory environment is monitored to ensure that the company's policies remain in accordance with industry standards and applicable laws and regulations.</li> <li>• The company's policies and procedures concerning compliance with laws and regulations have been formally documented.</li> <li>• Policies and procedures related to compliance with laws and regulations have been distributed to managers responsible for the formulation and administration of the company's human resource policies and procedures.</li> <li>• Supervisory and management personnel are required to attend appropriate training on labor laws and regulations and company policies.</li> <li>• A legal officer has been designated as being generally responsible for compliance with laws and regulations and is available to advise management about such compliance.</li> <li>• A communications process with trade unions is in place to exchange information and views about the compliance of the company's policies with relevant laws and trade union regulations.</li> <li>• Procedures are in place for the reporting and handling of potential violations of laws and regulations.</li> <li>• Appropriate disciplinary actions for actual violations of laws and regulations are taken when necessary.</li> </ul>			<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> </ul>
<b>Adequate records of compliance are maintained.</b>			
<ul style="list-style-type: none"> <li>• Written procedures have been developed that address the essential documentation requirements that demonstrate adequate compliance with laws and regulations.</li> <li>• Appropriate databases and checklists are used to ensure appropriate records are received and retained for every employee.</li> </ul>			<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> </ul>

	In compliance	Exception	Out of scope
• The validity, accuracy and completeness of information received by employees are reviewed periodically.			✓
• Management review and approval of files scheduled to be destroyed is required.			✓



## **Response to the Report**

Metro Chief Operating Officer Michael Jordan

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**Audit:** Human Resources/Payroll Internal Controls Can Be Improved

**Date:** August 2006

## AUDIT RESPONSE

### Recommendation 1

Perform periodic comparisons between the employee electronic master file records, personnel file information, and processed payroll to ensure the master file data and paychecks are correct and to help limit the risk of unauthorized changes to the payroll records. This compensating control should be performed by an individual independent from the human resources, payroll and bank reconciliation functions.

In addition, pay rates used in the generation of payroll should be periodically compared to the source document that provided management authorization of the change.

### Agree

Yes ☒X

No ☐ (specify reasons for disagreement)

### What action will be taken (if any)?

Periodic comparisons of processed payroll to the employee electronic records and hard copy personnel file would serve as an additional control. The recommendation notes that this comparison should be performed by an individual independent from human resources, payroll and bank reconciliation functions. As such, the Finance and Administrative Services Department will evaluate this task, along with others, in establishing the work priorities for its compliance-monitoring role.

### Who will take action?

The Chief Financial Officer will determine the work priorities noted above and any associated work will be performed by the recently-formed Accounting Compliance section of the Finance department.

### When will action be accomplished?

Work priorities for the Accounting Compliance section will be identified in the fall of 2006.

**Follow-up** necessary to correct or prevent reoccurrence.

**Audit:** Human Resources/Payroll Internal Controls Can Be Improved

**Date:** August 2006

## AUDIT RESPONSE

### Recommendation 2

Eliminate access for payroll personnel to change pay rates to maintain proper segregation of duties and thereby limit the possibility of unauthorized pay rate changes. This can be accomplished by removing the permission in the payroll preparation module that allows payroll personnel to change pay rates.

### Agree

Yes \_\_\_\_

No ☒ (specify reasons for disagreement)

Many employees have multiple jobs with different rates of pay. This information is recorded in the HRIS system job data panel as record 0, 1,2,3, etc. When the information comes into payroll via the pay line the HRIS system automatically populates the pay line with the employees job record 0. However, if the employee has worked in one of their other jobs during the pay period the payroll clerk must update the job code and the rate of pay.

### What action will be taken (if any)?

Payroll will explore with IT if it is feasible to modify the HRIS system so that it can:

- 1) Automatically update the rate of pay when the job code is changed.
- 2) Allow payroll clerks to change the rate of pay only to one of the other pay rates set up on the job data panel for that particular employee.
- 3) Provide a report that shows any rates of pay that were changed during the payroll process.

### Who will take action?

Payroll and IT.

### When will action be accomplished?

By calendar year end.

**Follow-up** necessary to correct or prevent reoccurrence.

**Audit:** Human Resources/Payroll Internal Controls Can Be Improved

**Date:** August 2006

## AUDIT RESPONSE

### Recommendation 3

Properly define use of "change" and "correct" functions within the PeopleSoft system to ensure appropriate audit trails are maintained. Educate users on the proper use of the "correct" and other adjustments to ensure the integrity of payroll data. Implement a monitoring control to ensure the "correct" function is used only for authorized purposes by establishing an on-going periodic review of how the function is actually being used.

### Agree

Yes ☒

No ☐ (specify reasons for disagreement)

### What action will be taken (if any)?

HR has already removed the correction function from clerk staff. Only leads and manager have correction functionality. We will continue to monitor the appropriate use of correction mode.

### Who will take action?

Payroll manager and IT security staff.

### When will action be accomplished?

Action completed.

### Follow-up necessary to correct or prevent reoccurrence.

We will continue to monitor on a quarterly basis.

**Audit:** Human Resources/Payroll Internal Controls Can Be Improved

**Date:** August 2006

## AUDIT RESPONSE

### Recommendation 4

Implement the use of performance indicators to manage success and efficiencies of the payroll process. Appropriate performance measures may include number of corrections, number of manual checks, number of reissued paychecks, and other measures that will indicate efficient and accurate processing of payroll.

### Agree

Yes ☒X

No ☐ (specify reasons for disagreement)

### What action will be taken (if any)?

Payroll will identify what performance measures are appropriate and what is the best means of tracking them.

### Who will take action?

Payroll will track and monitor identified performance measures.

### When will action be accomplished?

By calendar year end.

### Follow-up necessary to correct or prevent reoccurrence.

We will review performance measures monthly.

**Audit:** Human Resources/Payroll Internal Controls Can Be Improved

**Date:** August 2006

## AUDIT RESPONSE

### Recommendation 5

Remind department managers to fulfill their stated responsibility of comparing actual expenses to prior period and budgeted amounts to strengthen the accuracy and monitoring of payroll expenses. Implement monitoring procedures of this practice.

### Agree

Yes ☒

No ☐ (specify reasons for disagreement)

### What action will be taken (if any)?

The finance staff, who have primary responsibility for monitoring payroll expenses for each department, are part of a reorganization currently underway. With a line of responsibility to the CFO in the new structure, this recommendation will be included as an objective of their review role. Implementing monitoring procedures will be considered as part of this effort.

### Who will take action?

The CFO will assign this task to the finance staff that will have primary responsibility for its performance.

### When will action be accomplished?

The roles and responsibilities will be established sometime in fall 2006.

### Follow-up necessary to correct or prevent reoccurrence.



## Metro Auditor Report Evaluation Form

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**Name of Audit Report:** Human Resources/Payroll Internal Controls Can Be Improved, August 2006

Please rate the following elements of this report by checking the appropriate box.

	<b>Too Little</b>	<b>Just Right</b>	<b>Too Much</b>
Background Information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Details	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Length of Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity of Writing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Potential Impact	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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## MINUTES OF THE METRO COUNCIL MEETING

Thursday, September 28, 2006  
Metro Council Chamber

Councilors Present: David Bragdon (Council President), Susan McLain, Robert Liberty, Rex Burkholder, Carl Hosticka, Rod Park

Councilors Absent: Brian Newman (excused)

Council President Bragdon convened the Regular Council Meeting at 2:00 p.m.

### 1. INTRODUCTIONS

There were none.

### 2. CITIZEN COMMUNICATIONS

There were none.

### 3. CONSENT AGENDA

3.1 Consideration of minutes of the September 21, 2006 Regular Council Meeting.

3.2 **Resolution No. 06-3730**, For the Purpose of Confirming the Appointments of Karen Wolfgang and Zachery Ferguson to Metro Committee for Citizen Involvement (MCCI).

3.3 **Resolution No. 06-3731**, For the Purpose of Confirming the Appointment of Audrey O'Brien and Loretta Pickerell to the Regional Solid Waste Advisory Committee (SWAC)

Motion:	Councilor Hosticka moved to adopt the meeting minutes of the September 21, 2006 Regular Metro Council and Resolution Nos. 06-3730, 06-3731.
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Vote:	Councilors McLain, Liberty, Park, Hosticka and Council President Bragdon voted in support of the motion. The vote was 5 aye, the motion passed, with Councilor Burkholder absent from the vote.
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### 4. ORDINANCES – FIRST READING

4.1 Removed from the agenda.

### 5. RESOLUTIONS

5.1 **Resolution No. 06-3729**, Recognizing a Public/Private System of Waste Transfer Station in the Metro Area, to continue public ownership of Metro's Transfer Stations, and Directing the Chief Operating Officer to Explore Opportunities to Improve the Regional Solid Waste Disposal System.

Motion:	Councilor Park moved to adopt Resolution No. 06-3729.
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Seconded:	Councilor Hosticka seconded the motion
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Councilor Park asked Mike Hoglund, Solid Waste and Recycling Director, to introduce the resolution. Mr. Hoglund thanked Councilor Park for his lead on this project. He noted Paul Ehinger, SWR Department, and the consultants who had worked on this issue. Mr. Hoglund explained what was involved in the region's disposal system planning system. He provided a history of the disposal system. He shared a map of the region and where facilities were located.

He said the Disposal System Planning, a portion of the preparation of the Regional Solid Waste Management Plan (RSWMP), was initiated at the request of the Metro Council to provide more detailed information on the impact of facility ownership on the delivery of transfer services. The Metro Council approved hiring a consultant by Resolution in July of 2005. A team of CH2M Hill and Ecodata was selected to perform the DSP study.

He said the study had five major elements:

1. A program to obtain and document stakeholder input.
2. An economic analysis of the solid waste system.
3. Definition of alternative ownership scenarios and system objectives.
4. Evaluation of the scenarios to characterize their performance at meeting system objectives, cost and risk.
5. An analysis of legal issues.

He noted that stakeholder contact was structured to ensure contact with individuals representing the full range of interests in the solid waste system. Thirty-five individuals were contacted directly and 315 transfer station customers were surveyed.

Barbara Stevens, a nationally recognized expert in solid waste economics presented an analysis of system economics. She reviewed the three system alternatives developed.

1. A fully publicly owned system.
2. A fully privately owned system.
3. And a hybrid of public and private ownership, similar to the current system.

Mr. Hoglund also said Dan Pitzler of CH2M worked with the Council to clarify system objectives and to determine the relative importance of each objective. The analysis of the three alternative systems concluded that a Publicly owned system was the best system based on the Council's system objectives. The difference in cost between the alternatives was small. The only significant risk identified with any of the options was the difficulty in implementing the Public option in the absence of facility owners willing to sell their facilities. The Hybrid System performed best if sufficient importance was placed on the risk associated with implementing the Public System.

During the DSP process a number of opportunities for were identified that could lead to improvements to the Solid Waste System. This resolution instructed staff to investigate these opportunities and report back to the Council.

Some of the opportunities include:

1. Developing methods to improve rate transparency and fairness at transfer facilities in the Region.
2. Reducing the impact of waste transport in the Columbia River Gorge through a new transport services contract.
3. An improved set of standards to permit the entry of new facilities into the System.

4. A more equitable method of allocating the 10% of tonnage not guaranteed under the waste disposal contract.
5. Identify methods to allocate waste to facilities located in the region that help further Council values.
6. Obtain more competition among facilities where market forces can improve system performance.

Councilors commented on and asked questions about the opportunities.

Mr. Hoglund explained next steps, which were to take the recommendations on disposal system planning.

Council President Bragdon added his comments. Councilor Liberty acknowledged the staff report and the work of the consultants. He was very comfortable with the recommendations. Councilor Burkholder said the issue he had was what was the definition of hybrid. Council President Bragdon echoed Councilor Liberty's comments on a job well done.

Council President Bragdon opened a public hearing on Resolution No. 06-3729.

Mike Dewey, Waste Management, 1249 Commercial St SE Salem, OR 97302 thanked staff for the good work they had done. They appreciated the solicitation of their views as part of the process for system review. He said from what they saw today, they were supportive of the findings. They thought that Metro would need to think about Oregon City and whether it was a good site for a transfer station. They saw this as a market. He said they needed to add a conversation about dry waste and the cost to the customer. He noted Waste Management had provided a recommendation on transport of waste. This was a work in progress.

Councilor Liberty asked which policy questions were of greatest interest to Mr. Dewey? Mr. Dewey responded that the last two policy questions were of interest to Waste Management. He suggested extending the disposal contract.

Terrell Garrett, Green Way Recycling, PO Box 4483, Portland, OR 97208, talked about his concerns. He spoke to fostering competition. Much of the cost of waste was in transport. Staff should look at more of the overall cost. Maybe the transfer facilities have a higher cost but the truck miles in getting to other facilities resulted in overall higher costs.

Council President Bragdon closed the public hearing and announced that this resolution would be held over for final consideration on October 12, 2006.

Councilor McLain said they had been very pragmatic about improving the system as far as service as well as best cost. Some of the goals may be conflicting in application. The next step was to figure out how to resolve those conflicts. She talked about the difficulty of siting a facility. This needed to be part of the work plan. As a public agency they needed to remember that the Request For Proposal (RFP) process was a good way to ensure good rates.

Councilor Liberty said he thought the testimony received was something to consider. He asked if these issues had been considered? Mr. Hoglund said they were going to be looking at these issues in the next steps. They learned that there was a need to consider these issues from the Columbia Environmental discussion. Councilor Park thanked solid waste staff for their hard work. He noted that we had a very complicated solid waste system. There was also a high desire from our citizens

to recycle. It took a lot of work to increase the recycle rates. He had gotten a lot out of this exercise. He shared some of what he had learned in going through the process. He noted challenges and opportunities with a hybrid system. He felt Metro staff deserved a lot of credit for the work that had been done. Councilor McLain said they were now working on incorporating transportation goals into the RSWMP. She was hopeful to have a completed RSWMP by 2007.

## **6. CONTRACT REVIEW BOARD**

6.1 **Resolution No. 06-3728**, Authorizing the execution of Change Order 32 to Contract No. 900848 for Solid Waste Transport Services to Provide for Replacement Security Provisions and to Make other amendments.

Motion:	Councilor McLain moved to adopt Resolution No. 06-3728.
Seconded:	Councilor Park seconded the motion

Councilor McLain provided an overview of the resolution by highlighting the staff report. They were trying to make sure that Council had all of their questions and that there was no break in service.

Mr. Hoglund said the carrier, CSU, had been with Metro for a number of years under a variety of carriers. He pointed out some of the facts and figures of the contract. He noted that it was an important contract to Metro. He thanked Paul Ehinger, Solid Waste and Recycling Department, Marv Fjordbeck and Dan Cooper, Office of Metro Attorney, for their work on the contract. He talked about what each entity got out of the deal and what each entity gave up. Council President Bragdon stressed the timeline for creating a positive contract. He noted that an overall transition would take some time. Councilor Park talked about the savings to the ratepayer because of the administrative actions that had been taken. Mr. Hoglund provided further details on savings to the consumer. Councilor Liberty complimented staff for their quick work.

Vote:

Councilors Park, Burkholder, McLain, Liberty, and Council President Bragdon voted in support of the motion. The vote was 5 aye, the motion passed with Councilor Hosticka absent from the vote.
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## **7. CHIEF OPERATING OFFICER (COO) COMMUNICATION**

Michael Jordan, COO, talked about a letter dated September 22<sup>nd</sup> from Commissioner Rojo de Steffey. He would be happy to brief the Council on Area 93 and there would be a discussion at next week's work session.

## **8. COUNCILOR COMMUNICATION**

Councilor McLain reported on the county fairs this summer. They had reached over 2000 contacts at the fair. They talked to people on a variety of Metro issues.

Councilor Burkholder said they would be talking about the Columbia River Crossing at next week's work session. He noted two decision points. He said one of the key issues was the ability for the bridge to survive a seismic impact. He talked about alternatives that the committee would be looking at. He would be asking Council assistance on which bridge alternatives to put forward.

Councilor Liberty talked about the purpose of need statement. He wondered if Councilor Burkholder had any comments. The need statement was on the website. He provided an overview of what was discussed at Metro Policy Advisory Committee (MPAC).

Council President Bragdon said one of the objectives at the Joint MPAC/JPACT meeting was to focus on the legislative agenda.

Councilor Park said the Freight Movement Task Force met yesterday. He needed a better understanding of funding mechanisms. They needed to quantify some of the causes and effects.

Council President Bragdon noted Councilor Park had received the Oregon Nursery Association award, which highlighted his nursery advocacy and service to the community.

## **9. ADJOURN**

There being no further business to come before the Metro Council, Council President Bragdon adjourned the meeting at 3:13 p.m.

Prepared by

Chris Billington  
Clerk of the Council

**ATTACHMENTS TO THE PUBLIC RECORD FOR THE MEETING OF  
SEPTEMBER 28, 2006**

Item	Topic	Doc Date	Document Description	Doc. Number
6.1	Exhibit A	9/28/06	Amended Exhibit A to Resolution No. 06-3728.	092806c-01
4.1	Letter	9/25/06	To: Dick Benner, Metro Senior Attorney, From: Steven Santos, Economic Development Planning Specialist and Meg Fernekes, Portland Metro Area Regional Rep, Department of Land Conservation and Development Re: Comments on Proposed changes to Title 4	092806c-02

BEFORE THE METRO COUNCIL

RECOGNIZING THE CONTINUATION OF A	)	RESOLUTION NO. 06-3729
PUBLIC/PRIVATE SYSTEM OF WASTE	)	
TRANSFER STATIONS IN THE REGION, AND	)	Introduced by: Michael Jordan,
DIRECTING THE CHIEF OPERATING OFFICER	)	Chief Operating Officer, with the
TO EXPLORE OPPORTUNITIES TO IMPROVE	)	concurrence of David Bragdon,
THE REGIONAL SOLID WASTE DISPOSAL	)	Council President
SYSTEM	)	

WHEREAS, Metro is a regional government providing a variety of services for the urbanized portions of Clackamas, Multnomah and Washington counties of Oregon; and

WHEREAS, solid waste planning and disposal are two of the principal responsibilities of Metro; and

WHEREAS, solid waste planning is guided primarily through the Regional Solid Waste Management Plan (RSWMP) currently under revision; and

WHEREAS, one of the key RSWMP issues identified to date is ensuring adequate public services are provided through the regional solid waste system in the decade ahead; and

WHEREAS, on July 21, 2005 the Metro Council adopted Resolution No. 05-3601A entitled: Authorizing Issuance of Request for Proposals 06-1154-SWR for Competitive Sealed Proposals to Provide Consulting Services regarding Disposal System Planning for Alternative Service Delivery and thereby authorized an analysis of alternative transfer station system options and a determination of the valuation of the publicly owned transfer facilities; and

WHEREAS, a Disposal System Planning Consultant was retained to conduct the analysis utilizing the Metro Council's values for the solid waste system as the basis for evaluating different transfer system ownership options; and

WHEREAS, the year long analysis concluded that a publicly owned transfer system best met Council values; and

WHEREAS, when the analysis was expanded to include risk and cost factors associated with each ownership option it was concluded that a mixed system of continued Metro ownership of two transfer stations together with additional privately owned stations was the highest ranked option (see Exhibit A attached hereto); and

WHEREAS, the analysis also identified opportunities where the current system could be improved such as in the areas of the transparency of rates associated with private transfer stations, the allocation of waste amongst facilities, potential public ownership of additional facilities and additional long term planning issues as summarized in Exhibit B, attached hereto; now therefore

BE IT RESOLVED:

1. The Metro Council acknowledges that continued ownership of the Metro South and Metro Central transfer stations is in the region's best interests.

2. The Chief Operating Officer is directed to explore disposal system planning opportunities to improve the solid waste recycling and disposal system as illustrated in Exhibit B.
3. The Chief Operating Officer is instructed to develop and define disposal system-related policies, goals and objectives and incorporate them into the integrated RSWMP for Council consideration.
4. The Chief Operating Officer will provide periodic updates and present policy, program and project choices associated with activities identified in Exhibit B.

ADOPTED by the Metro Council this \_\_\_\_ day of \_\_\_\_\_, 2006.

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David Bragdon, Council President

Approved as to Form:

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Daniel B. Cooper, Metro Attorney

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## Summary of Results

## Metro Transfer System Ownership Study

## Major Objectives – Council Values

1. Maximize ongoing business value and/or public use value of Metro Stations.
2. Ensure all participants pay fees and taxes (polluter pay principle)
3. Ensure the system is making progress toward compliance with RSWMP sustainability goals.
4. Preserve current and future access to disposal services for self-haul customers (location and hours)
5. Ensure equitable distribution of wet and dry waste delivery options for all communities (current and future)
6. Ensure funding is available for Metro general government
7. System endorsed and supported by all system participants

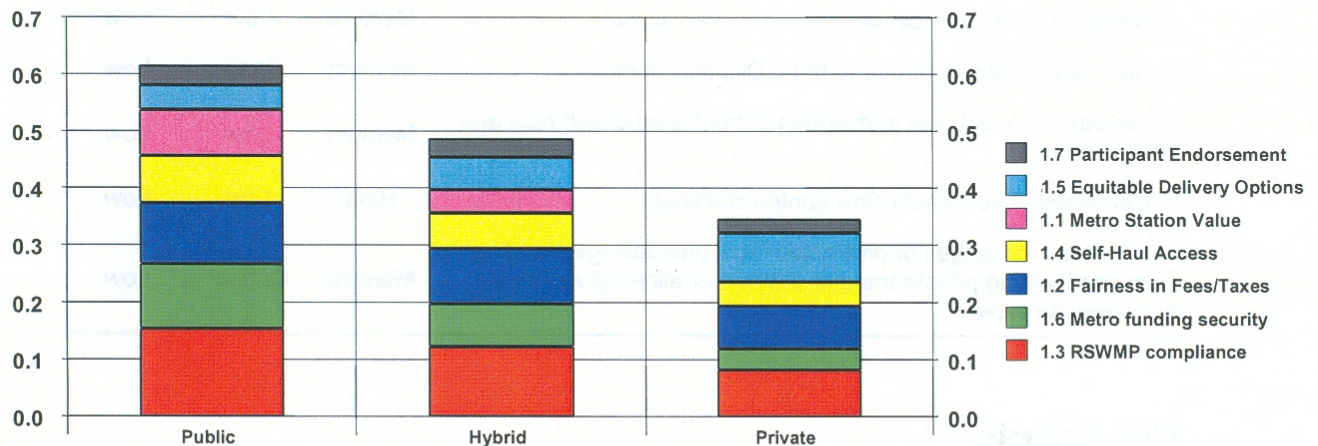


EXHIBIT 4-9  
Objectives Contributions to Value Score

## Other Policy Drivers

- Competition
- Metro as regulator and competitor
- Rate transparency and fairness
  - Uniform rates for all haulers at a facility
  - Ensure rates reflect cost of providing service
- Maximize cost saving potential in Metro's disposal contract
- Land use compatibility
  - Local comp plans
  - 2040 plan
- Flexibility to use alternative transport modes



## Risk Analysis

### EXHIBIT E-1 Risk Assessment

Risk	Risk Signature		
	Private	Public	Hybrid
1. More difficult politically to collect regional system fee and excise taxes	High	Low	Low
2. Metro's credit rating could worsen if it is perceived to be less able to collect taxes	High	Low	Low
3. It could be more costly and more difficult administratively for Metro to respond to future changes in state-mandated Waste Reduction requirements	High	Low	Low
4. It could be more costly and more difficult administratively for Metro to deliver new WR/R initiatives	High	Low	Low
5. Potential increase in vertical integration and potential resulting increases in transfer station tip fees	High	Low	Low
6. Reduced ability to meet dry waste recovery targets	Medium	Low	Low
7. Additional cost to Metro of fulfilling Disposal contract	Medium	Low	Low
8. Inability or added cost to maintain current level of self-haul and HHW service	Medium	Low	Low
9. Likelihood of successful flow control challenge	High	Low	Low
10. Political challenges or protracted legal proceedings resulting from condemning private transfer stations or allowing wet waste franchises to expire	Medium	Critical	Low

## Cost Analysis

### Summary of Results

	Private	Public	Hybrid
Cost – Estimated long-run percent change in system cost.	Low: 1.4% High: 2.2%	Low: 0.1% High: 0.7%	Low: -0.5% High: 0.1%

## Opportunities for Improving the Solid Waste System

Below are brief explanations of each of the projects shown on the accompanying chart *Opportunities for Improving the Solid Waste System*. Descriptions are organized by taking projects from the chart beginning in the upper left corner, then left-to-right and top-to-bottom, as if reading a book.

### Transfer Station Ownership

Response to Questions & Comments – Metro staff continue to obtain comments from stakeholders regarding the findings of the Disposal System Planning study, and staff will continue to relay stakeholder feedback to the Metro Council.

Council Resolution – Metro staff prepared the attached resolution for the Metro Council's consideration in providing direction to the COO to improve the region's disposal system.

### RSWMP

Disposal System Goals & Objectives – Goals and objectives for the disposal portion of the solid waste system will be integrated into the broader Regional Solid Waste Management Plan, which also provides guidance to the region on waste reduction and recycling, household hazardous waste management, and system financing.

### Waste Transportation Rebid

Transportation Options Study – Portland is in the enviable geographic position of having multiple transportation modes available for moving cargo long distances: truck, barge, and train. With today's higher-priced fuel and an increasing focus on the environmental impacts of burning fuel, as well as the 2009 expiration of Metro's long-haul contract, a more general study of the viability of different modes for transporting solid waste will provide information that will allow development of a transportation services procurement that addresses the objectives of the Metro Council.

Establish RFP Parameters/Procurement of Contractor/Select Contractor – If Metro chooses to procure a long-haul garbage hauler through competitive bidding after the CSU contract expires, a number of tasks will be required: establishing the parameters of the RFP, evaluation of proposals, and, finally, negotiations with the successful proposer.

Initiate New Contract – A new (or renewed) long-haul contract must be in effect by January 1, 2010.

## **Transfer Station System Optimization**

10% Bid – The Disposal System Planning consultants’ report identified opportunities for introducing more competition into the waste transfer system. One opportunity is to bid out the right to dispose of the 10% of waste not guaranteed contractually for delivery to Waste Management. There is no deadline for putting the 10% out for bid, though it is anticipated that Metro will need to develop a method for allocating the rights to this waste if additional firms request portions of the 10%.

Waste Allocation – Metro limits the wet waste tonnage that local transfer stations in the region can accept. A review of this system of tonnage caps could form the basis for the development of a new, better-functioning disposal system.

Rate Transparency – Transfer prices are not regulated in the Metro region, yet certain pricing practices among private companies seem non-competitive. Additional controls on transfer rates could improve rate transparency.

Renew NSLs – Metro issues limited duration non-system licenses to haulers authorizing the delivery of waste to *non-designated* facilities. Many so-called NSLs will come up for renewal at the end of 2007. Particularly if the 10% of non-Waste Management waste goes to bid, the Metro Council may wish to reevaluate its policies with respect to NSLs.

Forest Grove Transfer Station – The regional transfer station franchise that Metro granted Waste Management to operate Forest Grove Transfer Station will expire December 31, 2007. The Metro Council may wish to incorporate new policies into its decision about renewing the Forest Grove franchise agreement.

Other Private Transfer Station Franchises – Local Transfer Station franchises (Pride, WRI, Troutdale) will expire on December 31, 2008. This timing provides the opportunity to implement disposal system policies established by the Metro Council.

## **Greening the System**

Facility Standards – With stakeholders, SW&R staff plan to develop operating standards for regulated solid waste facilities to provide “greener” services, e.g., through renewable energy use, procurement of products made from renewable or recycled material, and better storm water management.

**Long-term Transfer Station System Planning**

New Facility Entry Standards –Metro has placed moratoriums on the development of new wet and dry waste facilities in the region. Reviewing the current criteria for allowing construction of new facilities could provide a clearer set of entry standards and provide a basis for eliminating the two moratoriums.

Disposition of Metro South – For now, a transfer station appears to be the highest and best use of the Metro Central and Metro South properties. With discussions of future high-end retail development near Metro South, it would be prudent to scope plans to reposition the Metro South property in the event that the neighborhood changes its current industrial focus.

**Dry Waste System**

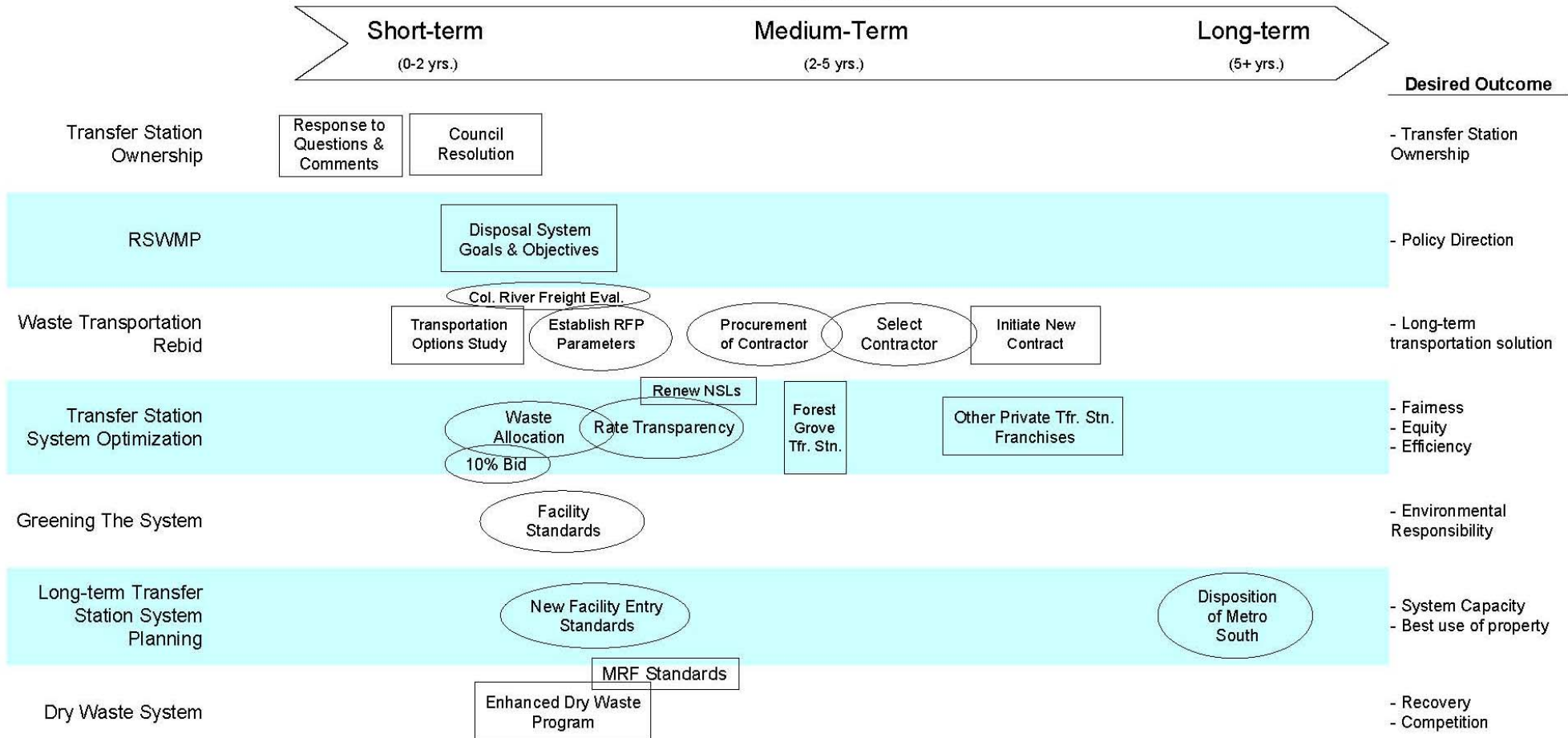
Enhanced Dry Waste Program – Metro staff are currently working with stakeholders to develop the program details for enhancing recovery from dry waste by ensuring that all dry waste be processed for recyclables first prior to landfilling.

MRF Standards – Metro SW&R staff are currently developing operating standards for dry waste processing facilities to protect health and safety, and to promote good operating practices in the urban region.

## Opportunities for Improving the Solid Waste Disposal System

Rectangles enclose projects that are already underway or that *must* be completed by a time certain      Ovals indicate *optional* projects, or those around which timing or necessity is less certain

Time Frame for Bringing About Change



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## **STAFF REPORT**

IN CONSIDERATION OF RESOLUTION NO. 06-3729, FOR THE PURPOSE OF RECOGNIZING THE CONTINUATION OF A PUBLIC/PRIVATE SYSTEM OF WASTE TRANSFER STATIONS IN THE REGION, AND DIRECTING THE CHIEF OPERATING OFFICER TO EXPLORE OPPORTUNITIES TO IMPROVE THE REGIONAL SOLID WASTE DISPOSAL SYSTEM

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Date: September 28, 2006

Prepared by: Mike Hoglund and Paul Ehinger

### **BACKGROUND**

Solid waste planning and disposal are two of the principal responsibilities of Metro. The solid waste planning function is guided primarily through the Regional Solid Waste Management Plan (RSWMP). RSWMP is intended to provide a 10-year framework for waste disposal and recycling as specified in ORS 268.390. Metro is in the process of updating the RSWMP document.

A key RSWMP issue is to ensure that adequate public services are provided through the regional transfer station system in the next decade. Disposal System Planning (DSP) rose out of this issue. During the summer of 2005, the Metro Council indicated interest in obtaining information on how the Region's solid waste management system could be improved. They were particularly interested in determining whether the system could be improved by changing the current system of public and private ownership of the region's transfer facilities. The primary purpose of DSP was to answer the question: What is the best way to deliver safe, environmentally sound and cost-effective waste transfer and disposal services to the public and private users in this region?

Solid Waste and Recycling department (SW&R) staff developed a work plan that was approved by the Metro Council. The work plan envisioned the use of two consultant teams and significant in-house resources to complete the work plan. A system consultant was to be hired to evaluate system alternatives and another was to be hired to estimate the value of the two publicly owned solid waste facilities.

A request for proposals was issued for the system consultant who would conduct an analysis of ownership alternatives. The alternatives were to range from a completely publicly owned system to a fully private system. A consulting team of two firms, CH2M Hill and Ecodata, was selected to be the "system consultant" to conduct the alternative analysis. Mr. Dan Pitzler of CH2M was the project manager for the consulting team. Dr. Barbara Stevens, a nationally recognized expert in the economics of solid waste systems provided significant support in the area of economic analysis.

The Office of Metro Attorney (OMA) provided support to the project by reviewing legal issues. Based on advice from OMA, a real estate appraiser was hired by OMA to provide an opinion on the value of the two Metro transfer stations. This data was not used in analyzing alternatives so that the values could remain confidential in the event that a sale of one or more of the facilities was to take place.

### **METRO TRANSFER SYSTEM OWNERSHIP STUDY**

Metro's system consultant conducted a detailed analysis of the region's solid waste disposal system and how changing the ownership structure of the facilities providing solid waste transfer and disposal

services would impact the system. The purpose of the study was to provide information for the Metro Council to decide what Metro's role should be in the disposal system.

The approach to the study consisted of five major elements. These elements were:

1. Documentation and consideration of stakeholder input.
2. Analysis of the economics of the Metro solid waste system.
3. Definition of system alternatives and identification of system objectives.
4. Evaluation of the system alternatives to characterize their performance at meeting system objectives, cost, and the risks associated with each alternative.
5. Legal analysis of system issues.

### **Disposal System Economics**

Dr. Barbara Stevens of Ecodata reviewed the economics of the Metro disposal system and provided some key observations to help guide the study. The economic analysis considered the entire solid waste system, including the collection system since it is one integrated system economically. The analysis resulted in the following conclusions:

- It is estimated that collection accounts for 81 percent of the total cost of residential disposal, and a very high percentage of the total cost of commercial disposal. As the largest component of system cost, changes in the collection system are likely to have a greater impact on increasing or decreasing system cost than any other system component.
- Tipping fees at the two Metro transfer stations are used in setting collection rates, which is good, particularly since Metro competitively procures transfer station operation services. This injects an important element of competition in a market that otherwise would not have many characteristics of a competitive market. Metro may want to take steps to improve the pricing information that they send to the local governments who regulate collection rates.
- In recent years, national solid waste firms have increased market share in the local solid waste industry. These large national firms are frequently vertically integrated, thus earning profits on transfer, transport and/or disposal services in addition to collection. This provides them a competitive advantage over collection companies that do not provide those services.
- Economies of scale are significant in transfer; thus, adding transfer stations to the system, and thereby reducing throughput at existing stations, increases per-ton costs at those stations. Also, handling small loads (i.e., self-haul) increases per-ton costs compared to handling large loads. The Metro region currently has unused transfer capacity, and increases in unused capacity could lead to higher costs.
- Transfer is the smallest cost component of the collection, transfer, transport and disposal system costs that comprise total system costs.
- The private sector typically earns its highest profit margins on disposal. This fact provides significant incentive for vertically integrated firms to maximize the amount of waste going to their own landfills.

### **System Values**

The Metro Council outlined the following values associated with the disposal system:

1. Protect public investment in solid waste system
2. "Pay to Play" - ensure participants pay fees/taxes
3. Environmental Sustainability - ensures system performs in a sustainable manner
4. Preserve public access to disposal options (location/hours)

5. Ensure regional equity- equitable distribution of disposal options
6. Maintain funding source for Metro general government
7. Ensure reasonable/affordable rates

These values were revised to better facilitate the analysis of transfer station ownership alternatives. One value (ensure reasonable/affordable rates) was eliminated, as it was captured in the economic analysis, and one value was added: *System endorsed and supported by all system participants*.

These values were discussed with the Metro Council and the Council assigned importance weights to each value statement. An analysis of ownership alternatives was then conducted to assess the extent to which each alternative met the Council values.

### **Alternative Analysis**

The initial phase of the development of alternative ownership structures involved meeting with a variety of stakeholders. Their input was used to help identify the critical components of the system that might be impacted by an ownership change. They were also consulted to help determine key risk factors that should be evaluated. The stakeholder groups and a summary of their comments are included at the end of this section of the staff report.

The system consultant developed three alternative scenarios of facility ownership in the Metro region. The three scenarios were developed to demonstrate the impact that various ownership options would have on the solid waste disposal system. One option included a hybrid of public and private ownership of facilities, similar in most respects to the existing system. Changes were proposed to improve the way the hybrid system would operate when compared to the current system. The other two alternatives were a private alternative with no public ownership of facilities and a public alternative where Metro would own all of the wet waste transfer capacity in the region.

The advantages and disadvantages of private, public, or a hybrid transfer system were analyzed from a variety of perspectives, including:

- An analysis of how well each option met the Metro Council's stated values
- The estimated cost of each alternative
- The risk associated with the implementation of each alternative

The results of the value modeling analysis indicated that a fully public system best met the Metro Council's stated values. The results of a sensitivity analysis indicated that this result is not sensitive to the relative importance assigned to each Council value.

One additional sensitivity analysis was performed that incorporated challenges associated with implementation. That analysis showed that as more importance is placed on the difficulties associated with acquiring existing private transfer stations, the hybrid system eventually outranks the public system.

For each of the alternatives analyzed, costs in the disposal system are not expected to increase or decrease by more than about two percent.

The results of the assessment indicate that there is more risk associated with implementing the private system than the public or hybrid system. However, the only risk scored as critical are the challenges associated with implementation in the public system. These include either not renewing franchises and licenses, or possibly having to condemn private facilities in order to place them in public ownership. The hybrid system has relatively low risk.



## Legal Analysis

Additionally, the Metro Solid Waste & Recycling Department sought the comments of the Office of Metro Attorney in three areas: (1) limitations on the use of the proceeds from any sale of the solid waste transfer facilities that Metro owns; (2) issues related to Metro's contract with Waste Management for the disposal of solid waste if Metro chose to divest its solid waste transfer facility assets; and (3) issues related to changes in transfer station operations that might occur following the defeasance of the transfer station revenue bonds in 2009.

OMA provided its advice in a May 10, 2006 memorandum. Concerning limitations on the use of transfer station sale proceeds, OMA advised that under state law the proceeds of any sale of the transfer station facilities would also be limited to solid waste purposes. OMA further advised that the Metro Charter would likely be construed to require that any sale proceeds from the sale of an asset purchased with funds derived from rates subject to the Charter limitation must be applied either to reduce the costs of the services provided or be returned to the users of the service.

Concerning issues related to Metro's contract with Waste Management, OMA stated that with or without ownership of the transfer stations, Metro remains obligated under its contract with Waste Management to fulfill the terms of the agreement. Accordingly, if Metro chose to divest itself of its transfer stations, OMA advised that such an action by itself would not automatically divest Metro of its contractual obligations to Waste Management.

Regarding matters following bond defeasance, OMA advised that Metro would no longer be required to follow the bond covenant that Metro set rates raising revenues that equal 110 percent or more of the annual debt service of the bonds. In addition, Metro would no longer be limited as to the length of contracts that it could have for operation of the transfer station. Finally, once the transfer station bonds are retired, certain federal rules would no longer be applicable, and Metro would no longer have to limit the means of payment of the transfer station operator so that the variable portion of any payment does not exceed the fixed-payment portion.

## Stakeholder Communications

Stakeholders representing a wide range of parties that could be affected by changes to the solid waste disposal system were contacted to obtain their input. The groups contacted can be categorized as:

- **Private sector transfer station owners** - separate interviews were held with representatives of Allied Waste Systems, Pride Disposal, Waste Connections, and Waste Management.
- **Independent haulers** - a workshop was conducted with representatives of the following companies: Cloudburst Recycling, Deines Brothers Disposal, Flannery's Drop Box Service, Oak Grove Disposal, Portland Disposal and Recycling, West Slope Garbage Service; and a representative from the Oregon Refuse and Recycling Association.
- **Independent dry waste facility owners** – separate interviews were held with representatives of East County Recycling and Greenway Recycling.
- **Local government staff members** - a workshop was conducted with representatives from the following jurisdictions: Portland, Clark County, Troutdale, Milwaukie, Beaverton, Oregon DEQ, Gresham, Clackamas County, Washington County and Clackamas County. Separate interviews were also held with senior executives from Gilliam County and Oregon City.

- **Metro staff members** - a workshop was conducted with representatives from a number of Metro departments.
- **Customers at Metro transfer stations** – Intercept interviews were conducted with commercial customers (182 interviews) and a mail-in survey was provided to self-haul homeowner and business customers (341 responses).

These stakeholders expressed a wide range of views on their preferred ownership structure for the solid waste disposal system. While support for the existing ownership structure was the most prevalent view, support was expressed for each of the alternatives. The solid waste industry had widely varying views depending in large part on whether or not they owned a transfer facility and a landfill. For example:

- Companies that owned a disposal site and did not own the disposal contract with Metro generally favored a private system, since they appeared to anticipate that additional waste would flow to their landfills under the private ownership alternative.
- Independent haulers were of the unanimous opinion that public ownership was preferred for a number of reasons related to concerns about delivering waste to vertically integrated transfer station owners that are also their competitors in the collection business.
- Independent facility operators generally favored the current system and felt that independent operators have more incentive to recycle than facility owners that also own disposal facilities.
- Local government generally preferred either the hybrid or public alternatives and wanted to ensure that transfer station rates are transparent, that environmental standards are consistent, convenient transfer station access is provided for all, and that there would be continued focus on increased recycling/recovery and minimizing toxics.
- Metro staff generally preferred either the hybrid or public alternative.
- Metro customers were generally pleased with the service provided by Metro at its transfer stations.

## Policy Issues

The primary focus of the initial phase of DSP was to identify how different ownership structures would impact the provision of disposal services in the region. During the course of the study the Council and stakeholders identified a number of other policy issues related to the disposal system. The proposed resolution calls for the COO to conduct additional investigations of these policy issues and report back to the Council. These issues include:

- How can Metro foster more competition in the disposal system?
- What is the best way to ensure rate transparency and fairness?
- How can Metro maximize cost savings in its disposal contract?
- What opportunities are available to minimize the environmental impacts of waste transport?

Attached as Exhibit B to the resolution is a schematic representation of the work program that the Solid Waste and Recycling Department Staff proposes to more fully investigate these other policy issues that were raised during DSP. The chart in the exhibit provides a graphical representation of the tasks to be addressed and the general timeframes for completing the tasks. Key events in the future, such as renewal dates of facility franchises or licenses are also identified since these may provide opportunities to implement policy changes that result from completion of tasks.

Each of the questions noted above is addressed in one or more tasks shown in Exhibit B. For example, costs and opportunities for reducing the environmental impacts of transporting solid waste from transfer stations to a disposal site will be examined during the Transportation Options Study task of the category labeled "Waste Transportation Rebid." After a review with the Metro Council, the information from this study will be used to procure transportation services that best meet the policy direction received from Council. Other policy drivers will be addressed in a similar fashion.

## **ANALYSIS/INFORMATION**

1. **Known Opposition** - Some representatives of the solid waste industry may object to the findings of the system consultant's report and oppose continued Metro ownership of facilities.
2. **Legal Antecedents** - Metro Council Resolution No. 05-3601A, entitled: Authorizing Issuance of Request for Proposals 06-1154-SWR for Competitive Sealed Proposals to Provide Consulting Services regarding Disposal System Planning for Alternative Service Delivery.
3. **Anticipated Effects** - Metro staff will initiate planning activities to address policy issues identified by the council and move forward with procuring contracts necessary for continued functioning of the disposal system.
4. **Budget Impacts** - Expenditures of approximately \$227,000 were anticipated during preparation of the SW&R budget for DSP related activities during the 2006-07 fiscal year. Staff estimates that the work identified can be completed for the budgeted amount.

## **RECOMMENDED ACTION**

The Chief Operating Officer recommends adoption of Resolution No. 06-3729.

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