

MSD BOARD OF DIRECTORS

TERMINAL SALES BUILDING  
1220 SW MORRISON  
Room 508

MAY 6, 1977  
12:00 Noon

SPECIAL MEETING

SOLID WASTE PROGRAM

77-806

SPECIFIC ACCOUNTING PROCEDURES  
FOR COLLECTION OF USER FEE

77-806 SPECIFIC ACCOUNTING PROCEDURES FOR COLLECTION OF  
USER FEE

AT THE APRIL 8, 1977, MEETING, THE BOARD APPROVED A CONTRACT WITH COOPERS & LYBRAND TO DESIGN A REGULATORY CONTROL SYSTEM WHICH MINIMIZES OPPORTUNITIES TO AVOID COMPLIANCE OR OTHERWISE DEFRAUD THE COLLECTION OF MSD USER FEES IN THE MOST COST EFFECTIVE AND LEAST USER IMPACTING MANNER.

THE PURPOSE OF THE SPECIAL BOARD MEETING IS TO SELECT FROM THE AVAILABLE ALTERNATIVES THE MECHANISMS BEST SUITED TO MEETING THE OBJECTIVE ABOVE. IT IS FORECAST THAT APPROXIMATELY \$750,000 - \$800,000 WILL BE RAISED ANNUALLY FROM THE IMPOSITION OF THE FEE. THE COLLECTION OF FEES IS ESSENTIAL TO THE SUCCESS OF THE PROGRAM, AND TIMELY ACTION BY THE BOARD ON THIS ISSUE IS CRITICAL.

ATTACHED IS A PRELIMINARY DRAFT OF THE REPORT TO BE PRESENTED TO THE BOARD BY COOPERS & LYBRAND ON FRIDAY.

THE STAFF RECOMMENDS THE BOARD APPROVE A SELECTED ALTERNATIVE FOR FURTHER DEVELOPMENT.

MAY 6, 1977

TO: MSD BOARD OF DIRECTORS

FROM: CHARLES C. KEMPER, DIRECTOR  
SOLID WASTE DIVISION

SUBJECT: SPECIAL BOARD MEETING - LANDFILL OPERATOR CONCERNS

COOPERS & LYBRAND HAS COMPLETED THEIR ANALYSIS OF ALTERNATIVE METHODS OF LANDFILLS REPORTING MSD USER FEES. THIS MEETING WILL DISCUSS THE VARIOUS ALTERNATIVES AND ADVANTAGES AND DISADVANTAGES. AS A RESULT OF PREVIOUS MEETINGS WITH THE STAFF, COOPERS & LYBRAND AND LANDFILL OPERATORS, THE FOLLOWING AREAS OF CONCERN ARE IDENTIFIED ALONG WITH SOME POSSIBLE COMPROMISES.

1. THE REQUIREMENT THAT THE OPERATOR SUBMIT BY THE 20TH OF THE MONTH THEIR USER FEE FROM THE YARDAGE RECEIVED IN THE PREVIOUS MONTH EVEN THOUGH THE USER FEE HAS NOT BEEN RECEIVED FROM THEIR ACCOUNTS PAYABLES. THE FOLLOWING ARE POSSIBLE COMPROMISES:
  - A) SET UP A "PHASING-IN" PERIOD (NOT BY ORDINANCE BUT BY SPECIAL INSTRUCTIONS) SO THAT ON JULY 20TH, THE OPERATOR PAYS 50% OF USER FEE DUE AS PRESENTLY IN ORDINANCE; BY AUGUST 20TH - 75% DUE PLUS 50% FROM JULY 20TH; AND BY SEPTEMBER 20TH 100% DUE PLUS REMAINDER OF 25% DUE FROM AUGUST 20TH; AND 100% THEREAFTER.

B) INSTEAD OF THE 20TH, DUE THE 30TH.

WE THINK MIKE ANTHONY (COOPERS & LYBRAND) PREFERS (A), BUT AT ANY RATE, WE PREFER (B). MSD SHOULD AVOID PAYING THE USER FEE ON MONIES RECEIVED INSTEAD OF YARDAGE RECEIVED OR THINGS COULD GET COMPLICATED.

2. THE COST OF THE MULTI-KEY CASH REGISTER IS ABOUT \$1,200. COMPROMISE - MSD COULD SHARE THE COST OR PAY THE FULL COSTS. THIS SHOULD BE  $\$1,200 \times 6 = \$7,200$  (GRABHORN AND OBRIST DO NOT HAVE CASH TRANSACTIONS).
3. PROPRIETY OF REPORTED INFORMATION FROM LANDFILL OPERATORS TO BE PUBLIC. WE ARE CHECKING THIS WITH COUNSEL.
4. NUMBERED DISPOSAL TICKETS. A COMPROMISE MAY BE MSD PAYING FOR THE FIRST BATCH OF PRENUMBERED TICKETS.

Copy #2

DRAFT AS OF ..... APR 29 1977  
TO BE USED ONLY FOR MANAGEMENT DISCUSSION PURPOSES;  
ENGAGEMENT IS INCOMPLETE; THIS DRAFT IS SUBJECT TO  
FINAL REVIEW AND POSSIBLE REVISION.

April 29, 1977

Board of Directors  
Metropolitan Service District  
Portland, Oregon

We are pleased to report that we have completed Phase I of our contract for the design of a control system for the collection of MSD user fees on solid waste disposals. Our report and an outline of system alternatives is hereby presented.

Our work to date has included a review of present disposal fee collection procedures; garbage collection, accounting and franchise requirements; visits to various landfills and review of their operations; specification of system requirements; and development of a schedule of alternatives for MSD Board consideration. The following report is presented for Board consideration.

#### Current Procedures of Operators

Landfill operators (hereinafter referred to as "operators") are responsible for the maintenance and operation of the eight landfills within the District. Each operator currently collects fees for waste disposal at the landfills. These fees are relatively standard and are generally regulated by the franchise. Only six of the landfills are open to the public. Commercial collectors ("collectors") account for the majority of waste disposal and fees collected by the operators.

The collection of disposal charges is basically in cash from the public and on a monthly billing (charge) system from commercial collectors. Cash registers are used for cash receipts and a system of tickets is used for charge deliveries. The quality of internal control over receipts and charges varies among landfills.

### Objectives of the System Design

The best system for the collection of MSD user fees is one which balances all of the following objectives:

1. Maximum assurance of collection of user fees.
2. Minimum cost to MSD and operators and collectors.
3. Minimum impact on operators and collectors.

### Systems Considered

Several system types were considered, including the use of tickets or script for user fees or the use of credit cards. However, we believe that only a system designed in general accord with existing operator collections procedures would meet all of the objectives outlined in the preceding section. Other types of systems, such as those using tickets or script, would require establishment of new systems in addition to existing ones and would have significant additional work impact on MSD as well as operators. Therefore, our scope was narrowed to the following basic system with the implementation variables as described.

## Basic System and Alternatives

The basic system proposed consists substantially of collection of user fees by landfill operators, either in cash at the landfill from the public or by monthly collection of receivables from collectors, and remittance of those fees to MSD on a regular basis.

Within the basic system there are several implementation alternatives. These alternatives are based on the grouping of several variables. The variables are listed and explained below and then grouped into four alternatives on a following page.

### VARIABLES

#### 1. Internal Control Over Cash:

Although the operators use cash registers for the recording of cash, there are variances in the degree of internal accounting control over the cash received. One alternative is not to change the existing internal control procedures, which vary widely among operators ("no change" alternative). The other alternative is to develop standard internal control procedures for all operators. These standard procedures would involve the totaling of each day's sales on the cash register, reconciliation of actual cash in the register drawer to the total day's sales, regular (i.e., daily) deposits of cash, and monthly reconciliation of bank accounts. These procedures should be performed by a person independent of the person operating the cash register and, in addition, the person reconciling the bank account should be independent of the person making the bank deposit. This standard control would give reasonable assurance as to the complete recording of cash user fees collected. Cash receipts of payment on receivables should

be listed as mail is opened and reconciled to the daily deposit. Separation of duties between these two functions should be maintained.

2. Basis of Fee Payment:

Two alternatives present themselves here also. The first is simply a segregation of cash receipts and charges to collectors between user fees and all other cash and charges. Payment to MSD would be on the basis of user fees collected in cash or charged during the month. The second alternative is for user fees to be charged on the basis of yardage or weight of waste received, with a reconciliation of user fees as calculated to actual fees collected or charged.

3. Basis of Measuring Fee:

The alternatives are not as clear cut in this area. For private vehicles (cars and pick-up trucks primarily) the only practical way to assess the fee appears to be that which is based on an estimate of the yardage of waste received. This method has some obvious inherent weaknesses but, due to the volume of vehicles, the alternative of weighing seems impractical.

For collectors, however, weighing the waste is a viable alternative. This can be done for each vehicle either by a mechanical scale where the operator reads and records the weight (net of truck weight) or by an automatic scale which records the weight electronically. *Weighing, however, is limited to the two landfills that have scales. The other landfills will need to continue estimating procedures.*



4. Mechanics of Fee Collection:

a. Cash transactions: In all cases a cash register should be used. The following three types of registers are possibilities:

- 1) Mechanical register, one total only;
- 2) ~~Mechanical~~ <sup>Electronic</sup> register, multi-totals; and,
- 3) Electronic display (cf. Portland International Airport parking lots).

b. Charge transactions: The present system is a collage of varying ticket usages. Some are not numbered, some are prenumbered but the numbers are not used, and some use the prenumbered tickets as designed. The most effective system is prenumbered tickets used properly. "Used properly" means the numbers of the tickets are accounted for daily (to insure recording of all charges) and any voided or cancelled tickets are kept for numerical sequence checking.

5. Audits:

Three types of audits can be performed:

- a. Desk audits - These can be performed by MSD personnel at the MSD office. Procedures used would include comparison of user fees remitted to total cash receipts and total yardage or weight, checking mathematical accuracy of reports, and other similar tests.

- b. Surprise <sup>reviews</sup> audits - These would be unannounced visits to landfills to observe collection procedures and the effectiveness of internal control over the day's receipts and charges as described in paragraphs 1 and 4, above.
- c. Financial audits - These are audits requested through the franchisor (city or county) under the franchise terms for a complete financial review of an operator.

6. Bad Debts:

At times operators extend credit and charges under that credit are determined to be uncollectible. The user fee credit for bad debts is related to credits taken for tax purposes, under MSD ordinance 32. The credits can be taken either as they arise, or annually, both being based on the operator's tax return with a copy of the tax return schedule to be used as support for the credit.

7. Quarterly Reports from Collectors:

As additional independent confirmation of yardage or weight reported by operators (and hence user fees), quarterly reports of yardage or weight (compacted and loose) could be requested or required of collectors. These reports would indicate the landfill to which the material was delivered.

The following chart groups the foregoing variables into four alternatives and gives advantages and disadvantages of each alternative. The final column on the charge ~~is~~ indicates the recommended alternative.

METROPOLITAN SERVICE DISTRICT  
SOLID WASTE DISPOSAL  
BASIC CONTROL SYSTEM WITH IMPLEMENTATION ALTERNATIVES

<u>Variable</u>	<u>Alternative #1</u>	<u>Alternative #2</u>	<u>Alternative #3</u>	<u>Alternative #4</u>	<u>Recommended</u>
1. Internal control over cash	No Change	Standard	Standard	Standard	#4
2. Basis of fee payment	Fee collected or charged	Yardage/Weight	Yardage/Weight	Yardage/Weight	#4
3. Basis of measuring fee	Estimated Yardage	Estimated Yardage	Weight <sup>where possible</sup> - mechanical scale and estimated yardage for private vehicles all others	Weight <sup>where possible</sup> - automatic scale and estimated yardage for private vehicles all others	#3
4. Mechanics of fee collection:					
a. Cash transactions	Mechanical, 1 total cash register	<del>Mechanical,</del> Electronic multi-total cash register	<del>Mechanical,</del> Electronic multi-total cash register	Electronic display cash register	#3
b. Charge transactions	No Change	No Change	Prenumbered tickets used properly	Prenumbered tickets used properly	#4
5. Audits	None	Desk audits	Desk audits Surprise audits reviews	Desk audits Surprise audits reviews Financial audits	#4
6. Bad debts	Deduct as they arise	Deduct as they arise	Deduct annually	Deduct annually	#2
7. Quarterly reports from collectors	None	None	Requested	Required	#4
Advantages	.Minor impact on operators	.Relatively minor impact on operators	.Good control over fee collection	.Best control over fee collection	
	.Immediate implementation	.Immediate implementation	.Independent checks (via audits and collectors)	.Independent checks (via audits and collectors)	
	.Lowest cost	.Low cost			
Disadvantages	.Least assurance of full fee collection	.Inadequate assurance of full fee collection	.Increased cost to operators and MSD	.Greatest cost to operators and MSD	
			.Possible enforcement problems	.Greatest enforcement problems	

Note: See discussion of variables for additional explanation.

## The Recommended System

The following is an outline of the recommended system elements and reasons for each choice:

1. Internal Control Over Cash:

We recommend a standard system of internal control since it provides the fullest assurance of proper recording of fees received and is the easiest to audit.

2. Basis of Fee Payment:

We recommend the yardage or weight basis because it provides for a control feature not inherent in the fee collected or charged basis.

3. Basis of Measuring Fee:

We recommend the mechanical scale weighing for collectors <sup>(where possible)</sup> and the estimated yardage for <sup>all others</sup> ~~private vehicles~~. The automatic scale provides better control but is not cost effective in our opinion. Weighing of private vehicles would be superior but would be too burdensome on operators and the public due to the additional time involvement.

4. Mechanics of Fee Collection:

We recommend the <sup>electronic</sup> ~~mechanical~~, multi-total cash register since it would provide for separate recording of user fees and other revenues. The <sup>display</sup> ~~electronic~~ register would be superior but not cost effective in our view. It should be noted that existing mechanical, one total registers can be used if standard fees, including the user fee, are developed and posted for the public.

We also recommend proper use of prenumbered tickets to provide the best assurance of complete recording of transactions.

5. Audits:

We recommend that all three types of audits be performed to provide as much independent verification of user fee recording and reporting as practicable.

6. Bad Debts:

We recommend deduction of bad debts as they arise because it would provide the least impact on the operators and yet be relatively simple to control and verify. It is estimated that such credits are not a significant consideration.

7. Quarterly Reports from Collectors:

We recommend that such reports be required, at least from major collectors, to provide independent partial confirmation of operator reports.

Cost of the foregoing recommendations will vary by operator. It may require additional clerical time by some operators, but that requirement is not estimated to be more than a part-time person and may be handled by existing personnel. Most operators would need new cash registers if multi-total registers are needed. This should not be a large outlay of funds. Also, some operators will need to order prenumbered tickets, again not a large dollar item.

MSD can probably accommodate its additional responsibilities without hiring more personnel.

Overall, the cost of the recommended system, in terms of dollars, is relatively minor.

We appreciate the assistance and cooperation of MSD staff members and of the operators whose sites we visited.

Please contact us concerning any questions about this report.

We look forward to the selection of system alternatives by the MSD Board and stand ready to begin the implementation phase of the project at that time.

Very truly yours,

JLS:cv  
MHA

METROPOLITAN SERVICE DISTRICT

BOARD OF DIRECTORS

GUEST ATTENDANCE LIST

DATE: May 6, 1977

NAME	REPRESENTATION
David D. Phyllis	Clackamas County PWD
Jim Savage	Coopers & Lybrand
Michael H. Anthony	— same —
Larry Custer	Coopers & Lybrand
+ Jack & Parker	Rossman's Landfill Inc
Joan D. Huce	Rossman's Landfill Inc
John C. Hanker	Multnomah County
Ronald A. Perkins	City of Portland
Eleanor Rogers	Land Reclamation
Carlene Plow	Land Reclamation
Gerry Plow	Land Reclamation
Bob Brown	DEQ
Way J. Plow	Land Reclamation
Des Z. Middleton	Cert. Public Accountant
Ronald Watson	Land Reclamation
Gene Platt	Land Reclamation
Larry Plow	Land Rec. Inc