METRO

Administration of Large Contracts:

Improvements still needed

July 2011

A Report by the Office of the Auditor

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Knighton Award
for Auditing

Metro Audit Winner of ALGA 2009 Gold Award

The Office of the Auditor was awarded the Gold Award for Small Shops, which was presented at the 2010 conference of the Association of Local Government Auditors (ALGA). The winning audit was the *Oregon Zoo Capital Construction* audit, completed in November 2009.

Metro Ethics Line

The Metro Ethics Line gives employees and citizens an avenue to report misconduct, waste or misuse of resources in any Metro or Metropolitan Exposition Recreation Commission (MERC) facility or department.

The ethics line is administered by the Metro Auditor's Office. All reports are taken seriously and responded to in a timely manner. The auditor contracts with a hotline vendor, EthicsPoint, to provide and maintain the reporting system. Your report will serve the public interest and assist Metro in meeting high standards of public accountability.

To make a report, choose either of the following methods:

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File an online report at www.metroethicsline.org

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MEMORANDUM

July 27, 2011

To: Tom Hughes, Council President
Shirley Craddick, Councilor, District 1
Carlotta Collette, Councilor, District 2
Carl Hosticka, Councilor, District 3
Kathryn Harrington, Councilor, District 4
Rex Burkholder, Councilor, District 5
Barbara Roberts, Councilor, District 6

From: Suzanne Flynn, Metro Auditor

Re: Audit of Large Contract Administration

The attached report covers our audit of the management of three of Metro's large contracts. This audit was included in our FY2010-2011 Audit Schedule.

The Metro Auditor's Office has issued a total of 18 audits related to contract management practices. This audit was placed on the schedule to determine if practices had improved and if the risks inherent in high dollar, multi-year contracts were being addressed. The audit focused on three contracts, two in Solid Waste Operations and one in Visitor Venues. While we recognize the complexity in providing contractor oversight, our audit determined that more work is needed to ensure that Metro receives the full value of these contracts.

We have discussed our findings and recommendations with Dan Cooper, Interim COO; Scott Robinson, Deputy COO; Teri Dresler, General Manager, Visitor Venues; Margo Norton, Director, Finance and Regulatory Services; Paul Slyman, Director, Parks and Environmental Services and their staff. My office will schedule a formal follow-up to this audit within 1-2 years. We would like to acknowledge and thank the management and staff in the Departments who assisted us in completing this audit.

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Summary

Past audits of various Metro programs found Metro was not well prepared to manage contracts. The Office of the Metro Auditor has conducted 18 audits with 82 recommendations related to Metro's contract management practices. The purpose of this audit was to determine if contract administration practices had improved and if the quality of services received were affected by the current management practices.

Contracts play an important role in Metro's ability to provide a wide array of services that include regional planning, solid waste disposal, and visitor facilities. Over the last five fiscal years, Metro issued more than 3,300 contracts worth a total of $485 million, seven of which were worth $234 million. Most contracts valued at more than $5 million were for Metro's solid waste, performance and entertainment and consumer and trade show services. This audit focused on three large contracts worth $130 million: two in solid waste operations and one to provide food and beverage services at the visitor facilities.

Contract administration works best when responsibility and authority are clearly assigned, procedures are clear, documentation occurs and action is taken. Metro had weaknesses in each of these areas. Once Metro awarded contracts, it did not clearly define who had responsibility and authority for enforcing them. In some cases, contract managers did not have the data they needed to effectively monitor requirements and, for the most part, Metro had no specific procedures directing how contracts should be managed. When poor performance occurred, it was not always clear what action contract managers should take.

We selected key contract requirements for the three contracts we studied to determine the effect of these weaknesses. For the two contracts for solid waste operations, we examined site staffing, preventative maintenance and material recovery. After tracking a sample of recyclable materials to disposal sites, we did not identify problems and determined that recyclables seemed to be disposed of as required. We found staffing at the facilities did not meet contract standards, and that preventative maintenance could be improved. We estimated that Metro potentially lost $122,800 in payroll costs as a result of lower staffing. Additionally, Metro missed some opportunities to reduce costs in the area of maintenance and repairs.

For the contract to provide food and beverage services, we examined the quality of food and beverage operations and reserve account spending for maintenance and improvements. We studied the quality of food and beverages and customer service provided by catering services and at concessions. Quality for services at concessions was determined to be lower than expected. Ratings by event planners of

concessions found 13% at Expo and 24% at the Oregon Convention Center rated the quality as fair or poor. Ratings by "secret shoppers" posing as attendees at concession stands were also lower than the quality expected. Results for reserve account spending were mixed. While not tracked effectively, we found that equipment purchased could be located. We did not find important differences in reserve account spending between visitor facilities.

Contracts such as the ones studied in this audit are considered high risk because of their high dollar value and length of commitment. We made several recommendations that will help Metro reduce costs and improve the quality of the services provided.

Background

Contracts play an important role in Metro's ability to provide a wide array of services that include regional planning, solid waste disposal and visitor facilities. Over the last five fiscal years, Metro issued more than 3,300 contracts worth a total of $485 million, seven of which were worth $234 million. Most contracts valued at more than $5 million were for Metro's solid waste, performance and entertainment and consumer and trade show services. This audit focused on three large contracts worth $130 million; two in solid waste operations and one to provide food and beverage services at the visitor facilities (Exhibit 1).

Exhibit 1
Contracts reviewed

	CONTRACTOR		
	Allied Waste	**Recology**	**Aramark**
Term	7 years	7 years	5 years
Value	$33 million	$38 million	$59 million*
Metro Contract Manager	Parks & Environmental Services	Parks & Environmental Services	Oregon Convention Center, Portland Center for the Performing Arts and Expo Center
Service	Transfer station operations, solid waste processing and material recovery at Metro South transfer station	Transfer station operations, solid waste processing and material recovery at Metro Central transfer station	Food and beverage services at all three facilities

* *Estimated using actual revenue generated in FY2009-10 and FY2010-11 and budget estimates for FY 2011-12, FY2012-13 and FY2013-14.*

Source: Metro Auditor's Office review of contracts

Transfer Station Contracts

Metro owns two transfer stations that process more than 40% of the region's waste. Except for three holidays, these facilities operated year round, seven days a week. Metro South is located in Oregon City and Metro Central is located in Northwest Portland. Waste enters the facilities from businesses and the general public. Waste is then sorted and repacked for efficient transport. Waste leaves the facility to be recycled or sent to a landfill (Exhibit 2).

Exhibit 2
Transfer station operations

Source: Metro Auditor's Office

The transfer station contractors own and maintain some of the equipment used to recycle and move waste around the facilities. Metro owns the land, buildings, truck scales and compactors used by the contractors. The transfer stations' contractors are responsible for maintenance of Metro's buildings and equipment. Metro shares the cost of maintenance and repairs with the contractor.

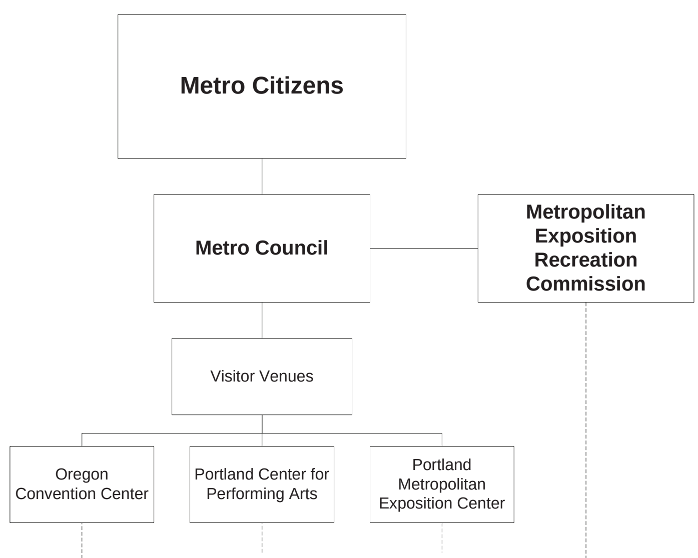
Metro has used contractors to process and dispose of waste at its transfer stations for more than 20 years. In early 2010, Metro signed new contracts for its transfer stations (Exhibit 1). Prior to that, from 1997 to 2010, both transfer stations were operated by Allied Waste.

Food and Beverage Contract

Metro operates three facilities that together drew 2 million visitors annually. These facilities include the Oregon Convention Center (OCC), the Portland Center for Performing Arts (PCPA) and the Portland Metropolitan Exposition Center (EXPO). Within Metro, these visitor facilities fall under the management of the Visitor Venues. The Metropolitan Exposition Recreation Commission (MERC) provides policy guidance (Exhibit 3). The three facilities fulfill different functions:

- OCC provides a place where out-of-state visitors can gather for regional and national consumer and business trade shows and conventions.
- PCPA is a collection of theaters and concert halls to host artistic performances.
- EXPO provides exhibition space for trade shows and public shows and events.

Exhibit 3
Organization of Metro's Visitor Venues



Source: Metro Auditor's Office

Food and beverage options at OCC, PCPA and EXPO have been provided by contractors for more than 10 years. Food and beverage services cover everything from breakfast buffets and coffee breaks for a small group, to three-course catered dinner events for large groups, to concessions that sell fast food for large public events.

In late 2009, Metro signed a new contract with Aramark to provide food and beverage services. Metro first contracted with Aramark for food and beverage services in 1999. The current contract gives the contractor the exclusive right to sell catered meals and provide concession services. Aramark maintains the staff needed to cook and serve meals using Metro equipment.

Scope and methodology

The purpose of this audit was to assess if there were weaknesses in Metro's contract management practices that could reduce the effectiveness of its operations. We looked at three of Metro's largest contracts in depth. For each contract, our work was designed to accomplish the following:

- Determine the extent of contract monitoring.
- Assess the potential for contract violations.
- Determine whether key contract requirements and objectives were met.
- Determine if employees who administer contracts have accepted travel or gifts from contractors.

We used a risk assessment process to select the three contracts. We first identified Metro's largest contracts by total value and duration. Through interviews with Metro management, we narrowed the list to seven contracts of interest. We chose three contracts where we found the greatest risk of negative consequences if they were insufficiently administered. Two were for operations of waste transfer stations with differing goals and targets. One was for food and beverage services at Metro's visitor facilities. This contract was managed under a separate set of policies and procedures than the waste contracts, offering points of comparison between the two processes.

We selected key requirements from each contract for further testing. Non-compliance with these key requirements would impact Metro's effectiveness. Exhibit 4 on the following page lists the requirements we tested.

Exhibit 4
Contract requirements tested

Contract	**Allied Waste** (Metro South transfer station)	**Recology** (Metro Central transfer station)	**Aramark** (food and beverage services)
Requirement tested	• Staffing • Maintenance of facilities and equipment • Material recovery / recycling	• Staffing • Maintenance of facilities and equipment • Material recovery / recycling	• Quality of operations • Maintenance and improvements of facilities and equipment

Source: Metro Auditor's Office analysis

To determine how the contractor delivered the services required under the contract, we spent 179 hours onsite observing contracted operations. The contractors allowed open access to their records and operations, as required by the contracts.

We determined compliance with the key contract requirements through independent testing, observation and analysis of data. For the Aramark contract, we conducted "secret shopper" visits to evaluate the quality of operations. We analyzed how much was spent to improve facilities and equipment and verified the status of a sample of equipment.

For the transfer station contracts, we analyzed contractor payroll data to determine compliance with staffing requirements. To determine whether contractors met maintenance requirements, we reviewed repair records for key equipment. We tracked a sample of loads of recyclable material to verify these recyclables were being disposed of as reported.

To understand how contracts should be managed, we reviewed agency policies and procedures, best practice literature and past audits. We conducted a content analysis of 18 prior audits with 82 recommendations related to Metro's contract management practices. We also looked at contract management practices within the federal government and other organizations.

As part of our audit work, we conducted tests to determine if employees who administered contracts had accepted travel or gifts from contractors. We did not find any indications of inappropriate gifts or travel.

This audit was included in the FY2009-10 audit schedule. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit findings. We have communicated additional information outside the scope of this audit in a separate letter to management.

Results

Contract administration is the set of activities performed after a contract is awarded to ensure requirements are met. It includes monitoring cost, schedule and quality to make sure work assigned to a contractor is fulfilled. Over the past 10 years, this office has issued several recommendations that Metro improve the administration of contracts. During this audit, we found Metro continued to have areas where it can improve.

Contract administration works best when responsibility and authority are clearly assigned, procedures are clear, documentation occurs, and action is taken. Metro could strengthen each of these areas. Once Metro awarded contracts, it lacked clear definition of who had responsibility and authority for enforcing them. Contract managers did not have the data they needed to effectively monitor some requirements and Metro lacked procedures directing how contracts should be managed. When poor performance occurred, it was not always clear what action contract managers should take.

The current situation requires action because it can result in contract requirements not being met. Of the three contracts we examined, we found they operated as intended in some areas, but improvements were needed in others. At the visitor facilities, the quality of catering was high, but operations at concession stands may not have met the quality expected by Metro. At the transfer stations, we found material recovery operations appeared to be sound. However, our analysis found contractors did not meet contract requirements for staffing the facilities. Further, after reviewing maintenance at the transfer and visitor facilities, we found Metro could improve its processes to ensure assets were properly accounted for and controlled.

Metro could improve management of large contracts

Past audits of various Metro programs found Metro was not well prepared to manage contracts. While the audits looked at different programs at Metro, they reached similar conclusions. For example, a 2010 audit found problems with monitoring and enforcement of a contract in Metro's human resources department. A 2008 audit found no clear plan to monitor and enforce a hazardous waste disposal contract. A 2006 audit of the Planning Department identified concerns with administering consulting contracts.

Metro had a decentralized approach that resulted in inconsistent contract management. While there were instructions about issuing a contract, once a contract was awarded there was little guidance about managing it. As a result, some contracts had little oversight, while others had stronger management in place. For example, the audit of the hazardous waste disposal contract found staff had no guidelines about how to detect poor performance. The audit of the human resources department found the contractor had not been held accountable for the quality of services provided to Metro.

In an effort to strengthen contract management, Metro had identified some contracts as high risk contracts; however, this designation did not ensure risks were managed. A contract was designated high-risk if it was of large value, complex, or critical to operations, and a high risk contract required a written contract administration plan. While two of the contracts we examined were designated as high risk, we found the contract administration plans developed for these contracts did not address four essential elements.

Standard practices indicated that once a contract was awarded, contract management worked best when:

- Procedures were clear,
- Responsibility and authority were clearly assigned,
- Documentation occurred, and
- Action was taken.

We found Metro could improve in each of these areas. The Aramark contract was managed by a different department than the Recology and Allied Waste contracts. Although processes differed, we did not find that one system was better than the other. Exhibit 5 provides a comparison of the management of these contracts against standard practices.

Exhibit 5
Comparison of contract management processes

Standard Practice	Recology and Allied Waste contracts	Aramark contract
Procedures are clear: Policies and procedures for administering contracts are clear and accessible to staff.	Metro required administration plans for some high risk contracts. More specific guidance for plans would be helpful.	MERC/Visitor Venues did not have policies and procedures for managing contracts.
Responsibility and authority assigned: Roles and responsibilities of staff who manage contracts are well-defined.	Responsibility assigned in administration plans, but some staff not performing roles.	Roles and responsibilities of staff who manage contracts were not well-defined.
Documentation occurs: Staff perform and document monitoring. Reports have sufficient detail to support monitoring.	Program documented monitoring; however, in some cases, program lacked data/analytics for adequate monitoring.	Monitoring could be performed and documented more consistently. In some cases, venues lacked data/analytics for adequate monitoring.
Action is taken: Staff follow process to address problems.	Program did not consistently document violations of staffing requirement, lessening the ability to take action.	Venues should take action to enforce requirements, such as inventory.

Source: Metro Auditor's Office analysis

Aramark contract managed informally

Metro's contract with Aramark was essential to operations of the three visitor facilities Aramark served. Food service revenue accounted for about 40% of sales at the facilities. We found the Aramark contract was managed informally and, as a result, this created a risk that certain requirements were not monitored.

We observed operations over three months to understand how the food and beverage contract was managed. Aramark and Metro staff appeared to work closely together to deliver quality services at the visitor facilities, with Aramark functioning more like a department than a contractor. Aramark management participated in department head meetings and senior management meetings. At these meetings, Aramark management, like other department heads, actively contributed to planning for upcoming events and conducting post-event analyses. Aramark and Metro staff attributed part of their success to the collaborative relationship developed between the two entities.

While we found this relationship in many ways met the facilities' needs, some aspects of the contract management system could be improved. Management effectiveness is increased with a clear understanding of responsibilities and procedures. Currently, each of the directors is satisfied with the contractor's performance. However, it is when performance is not satisfactory that clearly defined roles and procedures become important. We found that roles of the three directors who supervised the contractor were not well-defined and documented policies or procedures for administering contracts were not available. The absence of clear expectations about how the contract would be managed created the opportunity that certain requirements would not be monitored. For example, the contract stated Aramark was to conduct a complete inventory of equipment at least annually. This was not done at any of the three facilities. Purchases were entered into a shared information system, the Events Business Management System (EBMS), but the system was not used to generate inventory reports or conduct an inventory.

We found the directors needed certain data and analytics to monitor the contractor. Aramark provided two broad categories of services: catering and concession stand service. While we found the quality of catering was high, we observed there may be an opportunity to improve the quality of concession stand service. However, the data available on concession operations did not provide sufficient information to identify problem areas.

Management of transfer station contracts more systemized

Management of the transfer station contracts was more systemized, but more could be done to ensure the key elements were in place for effective contract administration. Metro required departments to develop a contract administration plan for high risk contracts before award. We found the process was not functioning as intended. The plans were too general to be an effective tool for contract administration.

The contract administration plans were brief and most of the language was generic enough that it could apply to any contract. The plans assigned responsibility to an operations manager, but did not provide clear guidance on how the contracts should be monitored. The plans stated simply:

> *"primary operational oversight is provided by an operations manager who provides day-to-day monitoring for compliance with contract requirements."*

The plans did not detail what day-to-day monitoring should occur, how it should be documented, and how and when action should be taken.

Regarding reporting requirements, the plans stated:

> *"contractor has extensive reporting requirements regarding all aspects of the work as detailed in the contract."*

If the plans had a list of the reports, their frequency, purpose and who should review them, this would be helpful for managing the contracts. Neither the contracts nor the plans had a single list of reporting requirements. Each contract contained more than fifty reporting requirements located throughout more than one hundred pages of contract documents.

Much effort had gone into developing systems to monitor contract requirements during the first year of operation, but some of these systems were not yet operational. Staff had made progress on the development of procedures. Contract requirements had been identified, checklists developed to track compliance, and documentation of contract oversight improved. Effort had focused on one contract deemed to be the higher risk, and staff had made headway on verifying documents required at inception had been received. Having a more detailed plan in place at the beginning of the contract period would have better prepared contract managers for their role.

Some contract requirements not met

Some key contract requirements in the Allied Waste, Recology, and Aramark contracts were not met as a result of the lack of a strong contract management system. These large contracts are critical for Metro to provide services to the public. When large contract management systems have weaknesses, Metro may not receive the services it contracted for.

We examined key contract requirements in all three large contracts. In the Allied Waste and Recology contracts, we examined site staffing, preventative maintenance and material recovery. We found that the sites were not staffed according to contract requirements and that preventative maintenance procedures could be improved.

We found that material recovery operations were generally sound. With the new transfer station contracts signed in 2010, Metro set goals to increase recycling and reuse of waste at both facilities. According to Metro's data, these goals have been met. As part of our audit, we tracked a sample of recyclable materials from the transfer stations to disposal sites. We did not identify problems and determined that recyclables seemed to be disposed of as required.

In the Aramark contract, we examined the quality of food and beverage operations and reserve account spending on the maintenance and improvement of facilities. We found that concessions quality was lower than expected, but that catering quality was high and there were no important differences between the facilities in spending on maintenance and improvements.

Transfer stations do not meet staffing requirements

Maintaining transfer station staffing levels ensures that Metro's facilities are operated safely, that Metro's material recovery goals are met and that Metro receives the full value for its contracts. Metro needed to closely monitor contractor staffing, because the contractors save money when the facilities are not fully staffed. We found Metro did not effectively monitor site staffing levels and Allied Waste and Recology did not produce staffing compliance reports for contract managers.

Transfer station staffing was an important part of the two contracts. In awarding the contracts, the proposed number of staff was a factor in Metro's decision to choose Allied Waste and Recology to operate its transfer stations and in price negotiations. This importance was also reflected in Metro's transfer station contract documents. Each contract contained many staffing requirements that were important to operations, customer service, material recovery and site safety. For example, each contract contained employee training standards, dedicated staffing minimums based on job duties and minimum staffing levels that changed based on the time of day and where waste was accepted.

Contract staffing requirements were not designed to be static and gave room for flexibility. Allied Waste and Recology each had the option to alter their staffing plans to meet changing work load. To ensure proper staffing, the contractors were required to submit an updated staffing plan on a quarterly basis. Management noted that the amount of waste received at the facilities had declined in the past two years and this might explain a reduction in staffing levels. We found that updated staffing plans were not regularly submitted on a quarterly basis, as required.

We compared contract staffing requirements to actual staffing at the two facilities from May 2010 through November 2010. The contract documents described the staffing hours that were to be provided at each facility for each of the seasons, winter and summer. When we examined actual staffing hours, we found that staffing at both facilities did not meet the hours required in the summer schedule. Both Allied and Recology supplied staffing hours close to what was required in their winter schedules (Exhibit 6).

At Metro Central, we found that Allied provided 81% of the hours contracted for in the summer. Recology provided 89% of the hours in its summer schedule. Using very conservative methods, we calculated the value of the staffing hours that were not provided. For Allied, Metro's potential loss was $85,000, and for Recology it was $37,800.

Exhibit 6
Staffing hour comparison, plan to actual
May through November, 2010

	Allied Waste	Recology
Summer		
Expected hours according to contract*	41,104	35,531
Actual hours provided	33,397	31,694
Hours over/(under)	(7,707)	(3,837)
Winter		
Expected hours according to contract*	13,650	15,200
Actual hours provided	13,767	15,059
Hours over/(under)	117	(141)

** For 206 days included in analysis*
Source: Metro Auditor's Office analysis

Metro staff had concerns about contractor compliance with staffing requirements, but did not have the data to substantiate these concerns. Metro did not require the contractors to provide regular reports on staffing levels and instead, relied on surprise visits to monitor compliance. Contractors were able to shift staff between buildings during visits, making verification difficult. When Metro staff noted staffing deficiencies, they were not consistently documented and procedures to hold the contractor accountable were not begun.

Concession service quality lower than contract required

Food and beverage service was important to OCC, PCPA and EXPO. It was a significant source of revenue, figured prominently in marketing materials for the three facilities and was the most important component of customer surveys administered by the three facilities. Food and beverages were delivered at catered events and at concessions as fast food. Our analysis indicated that the quality of food and beverages and customer service at the concessions may not meet contract standards. The management at OCC, PCPA and EXPO may be able to increase revenue by improving concessions quality above current levels.

Aramark had exclusive rights to provide concession services and sell catered meals at the three facilities. Food and beverage operations generated more than $12.5 million in FY 2009-10, with concessions responsible for nearly 30% of revenue. Concession operations were the primary source of food and beverage revenue at EXPO and PCPA, while catering was at OCC.

The contract required that Aramark prepare and deliver high quality food and beverage service, but it did not define how “high quality” was measured. In order to assess the quality of service, we compared Aramark’s performance to the facilities’ targets for customer satisfaction. All three facilities tracked and reported on customer service scores where the goal was to reach or exceed a 95% satisfaction rate. These scores were reported in Metro’s FY 2009-10 Balanced Scorecard report, and included food and beverage operations at the three facilities.

We were not able to use the data in the Balanced Scorecard report because we did not find it accurately represented data on satisfaction and may have inflated satisfaction rates. For example, at EXPO, customers who gave service the lowest rating possible were considered to be 85% satisfied. In the absence of a definition of high quality and given the limitations of the data reported in the Balanced Scorecard report, we created our own measures of customer service using data provided by the venue directors of OCC, PCPA, and EXPO as well as data collected by this office.

The venue directors tracked customer service from two sources. The first source was from the event organizer, a paid professional who sets up events and works directly with the staff of the visitor facilities. All three facilities tracked event organizer customer service. The survey asked the event organizer to rate a variety of services using four categories: excellent, good, fair and poor. EXPO and OCC surveys contained specific questions about food and beverage quality.

The second source of customer service information was from a secret shopper, a professional who was paid to secretly attend events and judge quality from the perspective of an attendee. Only OCC and PCPA used secret shoppers. The secret shopper service gave the visitor facilities an objective method to determine how their facility was operating. Points were awarded and a score was totaled. Similar to EXPO’s event organizer survey, the design of the survey awarded the largest share of points to food and beverage quality. This illustrated its importance to the facilities.

According to event planners, the quality of concession services at OCC and EXPO may not have met the high quality standard of the Aramark contract. One out of eight event planners (13%) rated concessions food quality and customer service as fair or poor at EXPO in FY 2009-10. At OCC, nearly one quarter (24%) of event planners who rated concessions quality gave it a fair or poor rating in calendar year 2010.

The secret shopper ratings also revealed weaknesses in concession quality and described reasons for low scores (Exhibit 7). OCC received 85% of available points, PCPA 84% and EXPO 77% in 2010. Poor employee training was a leading cause of lost points. Employees were missing name tags, did not warmly greet customers with a smile, count back change or maintain product signage. The condition of concession stands were also a problem. Stands were not clean, condiment counters were dirty and concession cart repairs were made with duct tape.

Exhibit 7
Secret Shopper food and beverage scores by facility 2010

	Share of Points Received		
Secret Shopper Question Categories	**OCC**	**PCPA**	**EXPO**
Food & Beverage Wait Time: Questions focus on whether there was a line, how long the wait time was, and if the wait was more than 5 minutes long.	100%	-	100%
Food & Beverage Quality: Questions determined if staff acted friendly, anticipated needs, maintained a professional atmosphere, maintained a clean work station, and properly processed the payment.	82%	80%	75%
Food & Beverage Condition: Questions determined if food was properly priced, the condiment areas were clean and full, and if the food looked appealing and fresh.	81%	88%	78%
Food & Beverage Bartender: Questions determined if the staff acted friendly, prepared and served the drink properly, and if the payment was processed correctly.	-	88%	-
Total: Food & Beverage Questions Only	85%	84%	77%
All Other Categories: Questions measure overall experience, ease of parking, restroom cleanliness, factiliy safety and general repair, facility cleanliness, and how easy it was to purchase a ticket and enter the event.	91%	90%	-
Total: All Secret Shopper Questions	89%	88%	77%

Source: Meetro Auditor's Office analysis of surveys

Metro could save money by better managing facilities and equipment

Metro provided most of the property and equipment used by the three contractors. The value of these assets was substantial, in each case worth millions of dollars. The requirements for property management were outlined in each contract. Under the contracts, the contractors were responsible for ensuring appropriate use, maintenance and repair of the equipment. Metro and the contractors shared the cost of repair and replacement.

We found Metro could save money by improving how it managed facilities and equipment. Metro could:

- better enforce contract provisions requiring contractors to account for and maintain the property in their possession, and
- collect money Metro was owed due to damages caused by customers.

Improve management of transfer station maintenance and repairs

Oversight of the maintenance programs at the transfer stations illustrated how Metro could save money by more actively managing contract requirements. Metro could better define roles and responsibilities, improve data it received to verify compliance and take action to save money when costs could be transferred to the contractor.

Metro needed to manage the contractors' maintenance activities effectively because there was a financial incentive for the contractors not to perform all the activities required. Under the contract, the contractor was responsible for 100% of the costs of preventative maintenance and 50% of the cost of other repairs and replacement, up to a cap. The contractor was required to pay for repairs and replacement, even if the service was due to normal wear and tear. Preventative maintenance meant normal care of the equipment and facilities, following manufacturer recommendations. Repair and replacement services were a broad category that could include fixing a roof, repairing a compactor or replacing a conveyor belt. As a result of how costs were split, Metro paid for none of the cost of preventative maintenance, but at least half of the cost of repair and replacement. This could create an incentive not to perform all the preventative maintenance activities required and instead wait until the equipment needed to be repaired or replaced.

Among Metro staff, roles and responsibilities for oversight of maintenance could be more clearly defined. The contract administration plans described the engineering section of Metro as providing oversight and monitoring of maintenance. In practice, engineers did not perform this function. They were instead involved on a case-by-case basis on projects. They did not review the maintenance plans.

Reports submitted by the contractors could be improved to better verify maintenance was in compliance. Both contractors used computer-based maintenance tracking systems. Contractors submitted reports from these systems on a monthly basis. However, some equipment required daily or weekly maintenance. The reports submitted showed whether maintenance had occurred within the month, but not how often. We inspected the maintenance systems at both sites. We found maintenance records kept by Allied Waste were up-to-date. In contrast, Recology's maintenance records showed weekly maintenance was overdue on the conveyors and compactors. If Metro relied on the monthly reports, it would not be aware of a problem as long as the maintenance was performed in the week prior to issuing the report.

We found Metro could take action that would have saved it money. In April 2010, for the first time since it opened in 1990, operations at the Metro Central solid waste transfer station changed hands. Recology took over operations of the facility previously operated by Allied Waste. During the transition to the new contractor, repairs that could have been performed under the previous contractor were completed under the new contract. As a result, Metro lost the opportunity to shift part of the cost to the previous contractor.

At the beginning and closing of contracts, Metro and the contractor were to inspect Metro-furnished equipment and facilities and prepare a list of items requiring repair. Final payment was not to be made until all repairs were completed. As required, inspections of the facility were done by both the outgoing and incoming contractors with the participation of Metro staff. These inspections did not agree on the condition of the facility. The incoming contractor identified significant repairs needed to the conveyor systems that were not noted by the outgoing contractor. Although Metro staff participated in both inspections, the discrepancies in the two assessments were not reconciled.

When Recology assumed management, they immediately began repairs identified in their inspection. Although Metro concurred these repairs were necessary, they had not included them on the list of repairs required to close out the previous contract. If Metro had completed the repair under the previous contract, we estimated a savings of $20,000.

Tracking of equipment could be improved

Metro owned the food service equipment used by Aramark, but did not enforce a requirement that Aramark maintain an inventory of the property. Under the contract, Aramark was required to perform a complete inventory of equipment at least annually. While we did not find evidence that Metro was missing equipment, not enforcing this provision created risks. First, keeping an accurate inventory can help identify and prevent theft. For example, Aramark purchased items that could be at risk of theft, such as laptop computers and espresso machines. Second, without an inventory, Metro relied on Aramark employees to remember where equipment was located. Despite not having an inventory, key employees were able to locate equipment purchased from memory. This might present a challenge if these employees left because Metro might not be able to find its equipment.

Consistent follow up on liability claims needed

When Metro received accident reports from contractors, it did not always follow up on liability claims. Although Metro contracted out for the operation of its transfer stations, it still had responsibilities as the owner of the property. If a customer damaged the facility, Metro managed the liability claim and collected payment. We found two cases totaling $28,000 where Metro was owed money because of accidents that it did not promptly collect.

- In 2009, a garbage truck hit a door at Metro South. The repair cost $8,688. The company's insurer contacted Metro to pay for the damage. It later notified Metro that the case would be closed due to lack of response. During the course of the audit, we learned Metro had not responded. The Risk Management office has since contacted the company's insurer and collected the money.

- In 2009, a different garbage truck damaged a door at Metro South. Metro paid $19,400 to repair the door and contacted the company for reimbursement. After the company disputed the claim, Metro did not promptly pursue collections. Metro's Risk Management office has since received reimbursement.

Metro did not have an effective process for accidents like these. When an accident occurred, the contractor recorded the details on an accident log and submitted it to Metro. The contract manager notified Metro's risk manager, who handled the liability claim.

In both of the incidents above, the breakdown occurred, not with the contractor, but once Metro was notified. Metro's contract manager notified the risk manager of the accidents, but, beyond that, there was little communication about claims. This process should be improved to ensure Metro collects the money it is owed.

Recommendations

In order to put in place the basic components of a contract management system of clear procedures, assigned responsibility and authority, regular documentation, and appropriate action, Metro should:

1. Apply policy for identifying and managing high-risk contracts consistently.
2. Improve contract administration plans by:
   a. Developing procedures for how compliance with high-risk contract requirements will be documented.
   b. Developing procedures for how contract requirements will be monitored, and by whom.
   c. Determine contractor-generated reports that will be required for monitoring purposes.
   d. Develop procedures stating when action will be taken in response to poor performance, and by whom.
3. Clearly assign roles, responsibility and authority for contract monitoring and enforcement.

In order to improve management of assets used by contractors, Metro should:

4. Ensure inventory is properly accounted for.
5. Verify contractors have an adequate system to control for proper use, maintenance and reporting of property.
6. Ensure Metro collects money it is owed for liability claims.

Management Response

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Date: July 21, 2011

To: Suzanne Flynn, Metro Auditor

From: Scott Robinson, Deputy Chief Operating Officer
Teri Dresler, General Manager of Visitor Venues
Paul Slyman, Parks and Environmental Services Director
Margo Norton, Finance and Regulatory Services Director

CC: Dan Cooper, Acting Chief Operating Officer
Jeff Blosser, Oregon Convention Center Executive Director
Robyn Williams, Portland Center for the Performing Arts Executive Director
Chris Bailey, Expo Director
Darin Matthews, Chief Procurement Officer
William Jemison, Risk Manager

Re: Management Response to Administration of Large Contracts Audit

This memorandum represents Metro management's response to the Administration of Large Contracts Audit Report that we received on July 6, 2011.

First, we would like to thank you and your office for conducting this audit as part of your planned 2011 audit schedule. We appreciate the diligence shown by your staff in researching and preparing this report on three of the largest and most complex contracts in place at the agency.

We support your overall recommendations and agree with the underlying premise that contract administration is most successful when responsibility and authority are clearly assigned, procedures are clear, documentation occurs and action is taken.

We believe our work to include performance based measures in contracts you reviewed is consistent with best business practices. We are working hard to move away from mandated staffing levels and other typical government requirements to more nimble and market based approaches to contracting. We firmly believe that incentives and rigorous measures of performance are better ways to deliver efficient and effective public services. That is why we specifically structured our transfer station contracts to focus on pay for performance. We simply believe it makes more sense to allow our contractors the flexibility they need to shape staffing to respond to the amount of business coming through the door. We believe that this approach to managing our contractors is more in line with efficient business practices and that it will yield the highest end result in serving the public.

Despite this difference in how we view the transfer station contracts, we support the recommendations on contract administration and believe they are an important step in our work to improve consistency and accountability across the agency. Your recommendations will also help us continue our efforts to merge Metro and MERC venue business practices.

More detailed responses to each recommendation are provided below:

Recommendation 1

Apply policy for identifying and managing high-risk contracts consistently.

Response

Management recognizes the value of consistent practices across the agency. Work to integrate the practices of the three MERC venues with other Metro operations is underway. While these practices have differed in the past, we are working with the MERC Commission to bring them into alignment where specific business requirements of the MERC venues are not adversely impacted in executing their mission. Specifically, Procurement Services, a division of Finance and Regulatory Services, will provide instructions and training for departments about designating high risk contracts at the time of solicitation development, and will provide review and approval of contract management plans.

Contract administration plans will be approved by Procurement Services prior to the contract moving from "open" to "approved" status. Management will require these procedures be used on all high risk contracts. Appropriate personnel will receive the same training and instructions related to proper handling of these contracts.

Recommendation 2

Improve contract administration plans by:

a. Developing procedures for how compliance with high-risk contract requirements will be documented.

Response:

New procedures identify how contract requirements will be documented for the two transfer station contracts. Extensive checklists identify each requirement, frequency for review and links to related documents. Per the auditor recommendation, we will identify the purpose of each requirement and assign responsibility to a position for ensuring each requirement is met. These procedures will be listed in the contract administration plans as well. We anticipate using the work of the Parks and Environmental Services staff as a template for use in other contract administration plans. These recent plans better identify risk events, potential impacts, and planned responses.

While contract administration procedures and processes are in place at the MERC venues, we will improve the documentation and clarify accountability for each requirement. Procedures for managing high risk contracts will be formalized to align with the overall agency policy at Metro.

b. Developing procedures for how contract requirements will be monitored, and by whom.

Response:

In addition to the umbrella contract administration plan, each high risk contract has or will develop a reporting checklist that tracks the contract requirement, the metric used, the source of the data for the metric, the responsible party and the frequency of reporting. For the two transfer station contracts, all requirements are now on one checklist.

The MERC venues will be using a similar template that identifies each requirement, the source document to monitor the requirement, the person responsible for monitoring, the report, and the frequency of reporting for the Aramark contract.

c. Determine contractor-generated reports that will be required for monitoring purposes.

Response:

We believe we have the required data and reports to effectively manage high risk contracts, including the transfer station contracts. We continue to improve the various reports we produce and review. We have provided guidance to the contractors regarding their preventive maintenance tracking and reporting systems, which are nearly complete. The transfer station contracts do not require detailed staffing reports, but Metro the right to inspect the contractors' business records, including payroll records, should the need arise.

MERC venue directors have access to the reports and data necessary to appropriately manage their food and beverage operations. Staff are creating an inventory of the reports and mapping their use to provide improved administration of the Aramark contract.

d. Develop procedures stating when action will be taken in response to poor performance, and by whom.

Response:

In addition to monthly operational reviews, the Metro Parks and Environmental Services have dedicated staff who regularly conducts site inspections at both transfer stations. Any performance problems are immediately brought to the attention of the contractors for remediation. Our contractors are generally prompt to respond to concerns. When a formal response is required to address contract performance, the department staff work with Procurement and Office of Metro Attorney to provide remedy under the contract provisions.

MERC venue directors meet on a quarterly basis with their on-site food and beverage managers to discuss financial and operational performance. In addition, the directors and other management staff attend many events and observe service and taste products. In most cases, management and contractor are notified immediately when a problem is encountered. The venue directors are ultimately responsible for managing their venue and the food and beverage service.

Recommendation 3

Clearly assign roles, responsibility and authority for contract monitoring and enforcement.

Response:

See response for recommendation 2a above describing the contract administration matrix which identifies all contract requirements, their purpose, frequency for submittal or action, and responsibilities by position.

MERC is in the process of developing a matrix of contract monitoring responsibilities that spans the authority of the general manager, venue directors, accounting and finance staff.

Other Considerations Mentioned

To improve management of assets used by contractors, Metro should:

1. Ensure inventory is properly accounted for.

Response:

Metro currently maintains and updates an asset inventory on an annual basis. In addition, Metro contracts for an independent physical observation and inventory, including a condition assessment, every 3 to 5 years.

The MERC venues recently completed a physical inventory, including asset tags in conjunction with Aramark for both the Expo and PCPA facilities. The Oregon Convention Center update will be complete by September 2011.

2. Verify contractors have an adequate system to control for proper use, maintenance, and reporting of property.

   Response:

   Preventive maintenance procedures and reporting requirements for transfer station contractors were changed with the inception of the new contracts in April 2010 and have been communicated to the contractors. Contractors were required to develop computerized systems to track and report all maintenance activities. These systems are nearly complete and functional.

   In addition to the computerized system, staff developed a written procedure to guide the contractors on preventive maintenance and repairs.

3. Ensure Metro collects money it is owed for liability claims.

   Response:

   Risk Management, a division of Finance and Regulatory Services, will establish and maintain an aging report for all open liability claims tendered to an external party. The status of each tendered claim will be reviewed by the Risk Manager every thirty days. Claims remaining open after 60 days will be reviewed with the affected department to determine if there are any significant business reasons that would preclude more assertive claims handing.

In addition to the recommendation there is one additional item discussed in the report that management believes warrants a response:

1. Site staffing: We found Metro did not effectively monitor site staffing levels and Allied and Recology did not produce staffing compliance reports for contract managers. When we examined actual staffing hours, we found that staffing at both facilities did not meet the hours required in the summer schedule. We found that Allied provided 81% of the hours contracted for in the summer. Recology provided 89% of the hours in its summer schedule. We calculated the value of the hours that were not provided. For Allied, Metro's potential loss was $85,000, and for Recology it was $37,800. We found that updated staffing plans were not regularly submitted on a quarterly basis, as required.

   Response:

   As mentioned on page 1, Metro pays its transfer station contractors for performance as opposed to specific levels of staffing. Both contractors performed all services and met the requirements of the contracts. The contractors have the flexibility to adjust their staffing levels based on changes in the number of customers and the volume of incoming discards. If there is minimal activity due to inclement weather or some other reason, the contractors may close a receiving bay and reduce personnel. Conversely, during busy periods, if they need more personnel to properly operate the facilities, they are required to provide them at no additional cost to Metro. All quarterly staffing plans have been submitted by the contractors, as required. In addition, the plans comply with the standards set forth in the contracts under On-Site Personnel Requirements Staffing Minimums (Section 19.0 for Metro South; 20.0 for Metro Central) within the Operating Requirements.

We appreciate the efforts of you and your staff in conducting this audit and the insight that it provides for continuing our process improvement efforts.

METRO

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