King County

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MANAGEMENT LETTER

DATE: June 25, 2012

TO: Metropolitan King County Councilmembers

FROM: Cheryle A. Broom, County Auditor

SUBJECT: Follow-up of the Performance Audit of Solid Waste Transfer Station Capital Projects

This management letter reviews the status of Solid Waste Division's (SWD) progress in implementing the recommendations from the 2011 Performance Audit of Solid Waste Transfer Station Capital Projects. In summary, we determined that SWD has made substantial progress in implementing the recommendations, and that there may be opportunities, in addition to the substantial efforts already made, to reduce the costs of the remaining planned transfer stations.

Background

In September 2011, the King County Auditor's Office released a Performance Audit of Solid Waste Transfer Station Capital Projects. This performance audit focused on the cost effectiveness of SWD's planned transfer station projects and the relationship of the County Executive's rate proposal to the development of a sustainable financial plan.

On the whole, we found that the SWD's financial plan was comprehensive, sound, and based on reasonable financial assumptions. Where we identified opportunities to improve the plan, SWD had taken or was beginning to take appropriate actions.

With regard to transfer station costs, we determined that the transfer system planning process and a series of decisions made collaboratively with regional partners in some cases increased costs of proposed stations. However, we further found that the County Executive, County Council, and regional partners still had time for further review of the decisions that have increased costs. This was possible because the expected useful life of Cedar Hills Landfill had been extended, and the Factoria, northeast King County, and south King County stations were still in the planning stage. The estimated remaining (post 2011) capital expenditures related to these three stations is approximately $220 million.

We made four recommendations in the audit report. The most important of these was that SWD should update transfer system and individual facility plans, and in the process, provide county policy-makers and regional partners with systematic analysis of the incremental cost impacts of the number and capacities of the transfer stations, the functionalities of the stations, and an assessment of which project financing and delivery method is most likely to result in lower capital costs.

We also made three other recommendations related to using appropriate economic assumptions, life cycle cost analysis, and long-term investment strategies for fund reserves.

The County Executive concurred with these recommendations.

Findings from Our Follow-up Review

We are pleased to report that SWD has implemented our recommendations related to adopting economic assumptions consistent with those issued by King County's Forecast Council, and incorporating life cycle cost analysis into the decision-making process for determining when to replace major capital assets. SWD will also now be conducting life cycle cost analysis for asset refurbishment decisions, and will conduct sensitivity analysis of major cost and economic variables.

Although our audit report did not have a recommendation regarding project contingencies, it did mention that inconsistencies in establishing contingencies needed to be addressed and that SWD was in the process of providing clarification to project managers. During the course of this follow-up review, SWD shared with us its draft policy guidelines on program and project contingencies. These guidelines address the issues identified during the performance audit.

Two recommendations are still in progress. Of these two, one was that SWD, in cooperation with the Executive Finance Committee, should review the feasibility of a new investment strategy for the Landfill Reserve Fund. The matter of setting policy regarding time horizon for fund investments has implications for other county agencies in addition to SWD, and is currently being reviewed by the Executive Finance Committee. The importance of having this review is that SWD and other agencies have portions of reserve fund balances that could be used for longer-term investments. Making longer-term investments could boost returns for these funds.

The remaining recommendation involves the review of facility plans and project financing and delivery methods. Since the time of the audit, SWD has reported that through a value engineering review process, together with a project design reassessment, it has lowered its project cost estimate for Factoria from $48.9 million to $39.2–$41 million (in 2015 dollars), a reduction in the range of 16% to 20%. In addition to this development, we believe that consideration of a 63-20 public-private partnership may offer a further opportunity for savings, given King County's favorable experiences using this approach to project delivery. In our office's 2008 study of Alternative Capital Project Delivery Methods, we encouraged county agencies, including SWD, to avail themselves of the expertise with alternative project delivery methods that already exists in the county's Facilities Management Division (FMD). In May of this year SWD initiated a discussion with FMD, and further discussions have since taken place.

Bob Thomas, Senior Principal Management Auditor, conducted this follow-up review under the supervision of Brian Estes, Senior Principal Management Auditor. Please contact Bob at 206-296-0375, or Brian at 206-296-1313 if you have any questions about this management letter. We appreciate the assistance provided by the Solid Waste Division in our follow-up review.

CB:BT:lo

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