

## **Review of the Green Lane Landfill Operations - Management of Contracts Needs Improvement**

**Date:** June 28, 2018

**To:** Audit Committee

**From:** Auditor General

**Wards:** All

### **SUMMARY**

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This report provides the results of the Auditor General's review of the effectiveness of the management of Green Lane Landfill Site (Green Lane) operations to ensure the City's interests are adequately protected. This audit was identified in the Auditor General's 2017 Audit Work Plan. The audit focused on the effectiveness of procurement and contract management processes and controls of landfill operations. The City has contracted out landfilling, construction, haulage and engineering consulting services related to the handling of its solid waste material. The total value of these multi-year contracts is approximately \$373 million.

This audit report contains 18 recommendations to reduce costs, enhance efficiency of site operations, maintenance and monitoring, and strengthen compliance with regulations, policy and procedure requirements. It appears that Green Lane operations are relatively well managed by City staff. Overall, there are a number of strategic and operational factors facing Solid Waste Management Services Division (SWMS) management. We recommend that SWMS assess the current costs and benefits of its landfilling options and, where appropriate, propose refinements to its strategic and business plans.

### **RECOMMENDATIONS**

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The Auditor General recommends that:

1. City Council request the General Manager, Solid Waste Management Services to:
  - a. include in the next waste haulage contract the flexibility to allow the City to periodically review and adjust the fuel surcharge calculation on a fair basis to reflect market conditions
  - b. engage Fleet Services Division for their specific subject-matter expertise to assist in haulage call document development.

2. City Council request the General Manager, Fleet Services to consult with City Divisions with major fleet intensive contracts, to determine if there is any opportunity to realize savings by taking advantage of bulk fuel purchase agreements.
3. City Council request the General Manager, Solid Waste Management Services to establish a defined process to conduct and document the basis for developing contract contingency amounts or percentages.
4. City Council request the General Manager, Solid Waste Management Services to:
  - a. use a competitive procurement process for the acquisition of goods and services in compliance with the City's approved procurement process
  - b. ensure, when non-competitive procurement is necessary, that the need to do so, and the basis for agreed upon pricing, is fully documented.
5. City Council request the General Manager, Solid Waste Management Services to:
  - a. recover any overpaid landfill fees from the past
  - b. apply the fuel surcharge adjustment to the landfill operation unit rates for the remainder of the contract.
6. City Council request the General Manager, Solid Waste Management Services to review, and report back to Council, on opportunities to reduce costs through optimizing the tonnage of waste landfilled at Green Lane. The review should concurrently assess the immediate and long term financial and other impacts of modifying the volume of waste being redirected to contingency landfill sites.
7. City Council request the General Manager, Solid Waste Management Services to consider including annual, rather than monthly, reconciliation of the guaranteed tonnage in the next contract for landfill operations.
8. City Council request the General Manager, Solid Waste Management Services to load the waste haulage contractor's and subcontractors' transport equipment in accordance with regulation and contract requirements.
9. City Council request the General Manager, Solid Waste Management Services to further develop the plan for back-up waste haulage services.
10. City Council request the General Manager, Solid Waste Management Services to:
  - a. maintain proper documentation of approval for using subcontractors
  - b. define the conditions for subcontractor usage in the next waste haulage contract.

11. City Council request the General Manager, Solid Waste Management Services to:
  - a. require contractors to include sufficient documents in the invoice package for staff to conduct adequate review and validation of monthly invoices
  - b. use the City's external engineering consultant for work oversight and verification if needed.
12. City Council request the General Manager, Solid Waste Management Services to:
  - a. ensure staff responsible for review of the Operations and Maintenance and Engineering Consulting monthly invoices are properly trained and supervised
  - b. ensure expense and payment errors are corrected timely and appropriately such that the accounting records accurately reflect actual transactions.
13. City Council request the General Manager, Solid Waste Management Services to:
  - a. reallocate the costs grouped together and incorrectly booked under Miscellaneous Contingency to their correct contract line items
  - b. enter the correct contract number for the monthly guaranteed minimum landfill fee payments in the Interface system to link them to the SAP contract
  - c. correct the line item coding for the transferred transactions impacted by the change to the Engineering Consulting contract
  - d. once the coding corrections have been made, review the contract spending to date to ensure contract line items are not over-spent
  - e. improve and monitor the accuracy of coding of contract line items.
14. City Council request the General Manager, Solid Waste Management Services to:
  - a. ensure all change order requests are supported by appropriate documentation and approved at the staff level and timeframe required by the Division's procedures
  - b. implement additional review and approval by Solid Waste Management Services senior management for change order requests submitted after the work is completed
  - c. enhance the change order log to include key information related to each change order. This log should be analyzed and used to inform the scope of work for future contracts.

15. City Council request the General Manager, Solid Waste Management Services to:
- a. comply with the approved procurement policy and obtain the necessary quotes for purchases over \$3,000
  - b. obtain vendor and subcontractor quotes with sufficient details to enable reasonable evaluation of quantities and pricing for labour, materials and equipment. Quotes should be dated.
16. City Council request the General Manager, Solid Waste Management Services to:
- a. conduct a thorough review with the contractors to properly understand and apply markups in change order work
  - b. use a risk-based approach to review invoices related to past change orders to determine if markups were properly applied and to recover any overpaid amounts immediately.
17. City Council request the General Manager, Solid Waste Management Services to obtain from contractors adequate supporting documents for verification of change order payment requests (including progress payment requests).
18. City Council request the General Manager, Solid Waste Management Services to:
- a. develop an operational manual that outlines key processes and controls, taking into consideration the various stakeholders involved in activities and contract requirements
  - b. establish a set of key performance metrics to track and monitor site performance.

## **FINANCIAL IMPACT**

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Several recommendations relating to the enhanced procurement and contract design approaches, as well as improved contract management practices, are expected to reduce operating costs. In addition, a comprehensive review of the City's landfilling options could result in financial impacts. The exact amount of any financial impacts is not determinable at this time.

## **DECISION HISTORY**

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This audit was identified in the Auditor General's 2017 Audit Work Plan.

## COMMENTS

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The City purchased Green Lane in 2007 to secure the long-term disposal of its solid, non-hazardous waste. The Green Lane site accepts solid waste from internal customers (i.e. the City's seven transfer stations and Toronto Water Division) as well as from a few external contract or cash customers. In 2017, 495,000 tonnes of solid waste was landfilled at Green Lane. Contracted services are used extensively for landfilling at Green Lane. In September 2011, the City entered into agreements with four landfill sites for contingency waste disposal of up to a total of 325,000 tonnes of waste per year.

In July 2016, City Council approved the Long Term Waste Management Strategy. A priority of this strategy is to maximize the life of Green Lane by minimizing the amount of solid waste sent to the site. It is estimated that the implementation of the strategy will help to extend the lifespan of Green Lane from 2029 to 2040. The City's waste profile has changed dramatically, (waste landfilled has declined from 740,000 tonnes in 2011 to 495,000 in 2017), since the Green Lane contracts were established and also since redirection to contingency sites was put in place. It would be prudent to review opportunities to reduce operational costs, while considering the impact on the City's long term waste disposal needs.

Owning and operating its own landfill site is an expensive undertaking for the City. The volume of waste needing to be landfilled for a City the size of Toronto means the City needed to secure significant landfilling capacity. Once the Green Lane site reaches capacity, the City will need to find an alternative for disposing of its waste. Acquiring such a site has been difficult in the past.

Our audit report identified the following areas for continuous improvement:

- Determination of the guaranteed tonnage and the monthly minimum landfill fee should consider the Long Term Waste Management Strategy's impact on waste volumes.
- The City can reduce current operating costs by optimizing tonnage to Green Lane although this will impact the site's lifespan.
- Non-competitive procurement practices should be used selectively and with well supported reasons.
- Fuel surcharge calculation for both waste haulage and landfill fee could be improved in a manner that is fair yet more beneficial to the City.
- Operational risks in waste haulage, such as load weight compliance and subcontractor usage, require better monitoring.
- Change order requests should include competitive quotes, sufficient information and timely approval.
- Review and processing of Operations and Engineering invoices and payment requests should be done diligently and effectively.

## **CONTACT**

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Ina Chan, Assistant Auditor General, Auditor General's Office

Tel: 416 392-8472, Fax 416 392-3754, E-mail: [Ina.Chan@toronto.ca](mailto:Ina.Chan@toronto.ca)

Anil Bux, Audit Manager, Auditor General's Office

Tel: 416 392-0886, Fax 416 392-3754, E-mail: [Anil.Bux@toronto.ca](mailto:Anil.Bux@toronto.ca)

## **SIGNATURE**

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Beverly Romeo-Beehler  
Auditor General

## **ATTACHMENTS**

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Attachment 1: Review of the Green Lane Landfill Operations – Management of Contracts Needs Improvement