

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

Audit Report

INTEGRATED WASTE MANAGEMENT PROGRAM

Chapter 1116, Statutes of 1992;
and Chapter 764, Statutes of 1999

*July 1, 1999, through June 30, 2001;
and July 1, 2003, through June 30, 2010*



JOHN CHIANG
California State Controller

January 2014



JOHN CHIANG
California State Controller

January 7, 2014

Jose Solorio, President
Board of Trustees
Rancho Santiago Community College District
2323 N. Broadway
Santa Ana, CA 92706-1640

Dear Mr. Solorio:

The State Controller's Office audited the costs claimed by the Rancho Santiago Community College District for the legislatively mandated Integrated Waste Management Program (Chapter 1116, Statutes of 1992; and Chapter 764, Statutes of 1999) for the period of July 1, 1999, through June 30, 2001; and July 1, 2003, through June 30, 2010. We did not audit the costs claimed for the period of July 1, 2001, through June 30, 2003, because the statute of limitations to initiate the audit had expired by the time the audit was started.

The district claimed \$896,645 for the mandated program. Our audit found that \$191,544 is allowable and \$705,101 is unallowable. The costs are unallowable because the district claimed unsupported and ineligible costs, misstated indirect costs, and understated offsetting revenues and offsetting savings. The State paid the district \$355,050. The amount paid exceeds allowable costs claimed by \$163,506.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's website at www.csm.ca.gov/docs/IRCForm.pdf.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, by phone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: Raúl Rodríguez, Ph.D., Chancellor
Rancho Santiago Community College District
Peter Hardash, Vice Chancellor of Business Operations/Fiscal Services
Rancho Santiago Community College District
Adam O'Connor, Assistant Vice Chancellor of Fiscal Services
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Rancho Santiago Community College District for the legislatively mandated Integrated Waste Management Program (Chapter 1116, Statutes of 1992; and Chapter 764, Statutes of 1999) for the period of July 1, 1999, through June 30, 2001; and July 1, 2003, through June 30, 2010. We did not audit the costs claimed for the period of July 1, 2001, through June 30, 2003, because the statute of limitations to initiate the audit had expired by the time the audit was started.

The district claimed \$896,645 for the mandated program. Our audit found that \$191,544 is allowable and \$705,101 is unallowable. The costs are unallowable because the district claimed unsupported and ineligible costs, misstated indirect costs, and understated offsetting revenues and offsetting savings. The State paid the district \$355,050. The amount paid exceeds allowable costs claimed by \$163,506.

Background

On March 25, 2004, the Commission on State Mandates (CSM) adopted its statement of decision, finding that Public Resources Code sections 40148, 40196.3, 42920-42928; Public Contract Code sections 12167 and 12167.1; and the State Agency Model Integrated Waste Management (IWM) Plan (February 2000) require new activities that constitute new programs or higher levels of service for the community college districts within the meaning of article XIII B, section 6, of the California Constitution, and impose costs mandated by the State pursuant to Government Code section 17514.

Specifically, the CSM approved the test claim for the increased costs of performing the following specific activities:

- Complying with the model plan (Public Resources Code section 42920(b)(3) and the State Agency Model IWM Plan, February 2000)
- Designating a solid waste reduction and recycling coordinator (Public Resources Code section 42920(c))
- Diverting solid waste (Public Resources Code sections 42921 and 42922(i))
- Reporting to the IWM Board (Public Resources Code sections 42926(a) and 42922(i))
- Submitting recycled material report (Public Contract Code section 12167.1)

The program's parameters and guidelines establish the state mandate and define the reimbursement criteria. The CSM adopted the parameters and guidelines on March 30, 2005, and last amended them on September 26, 2008. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies, school districts, and college districts in claiming mandated-program reimbursable costs.

**Objective, Scope,
and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Integrated Waste Management Program for the period of July 1, 1999, through June 30, 2001; and July 1, 2003, through June 30, 2010.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the 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 objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit found instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1), Summary of Offsetting Savings Calculations (Schedule 2), and in the Findings and Recommendations section of this report.

For the audit period, the Rancho Santiago Community College District claimed \$896,645 for costs of the Integrated Waste Management Program. Our audit found that \$191,544 is allowable and \$705,101 is unallowable.

For the fiscal year (FY) 1999-2000 through FY 2000-01, and FY 2003-04 through FY 2004-05 claims, the State paid the district \$355,050 from funds appropriated under Chapter 724, Statutes of 2010. Our audit found that \$25,668 is allowable. The State will apply \$329,382 against any balances of unpaid mandated-program claims due the district as of October 19, 2010.

For the FY 2005-06 through FY 2009-10 claims, the State made no payment to the district. Our audit found that \$165,876 is allowable. The State will pay this amount, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on December 13, 2013. Adam O'Connor, Assistant Vice Chancellor of Fiscal Services, responded by letter dated December 18, 2013 (Attachment), disagreeing with the audit results, except for Finding 3 and Finding 5, for which he did not provide a response. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of the Rancho Santiago Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

January 7, 2014

**Schedule 1—
Summary of Program Costs
July 1, 1999, through June 30, 2001;
and July 1, 2003, through June 30, 2010**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 1999, through June 30, 2000</u>				
Direct costs:				
Salaries and benefits	\$ 39,462	\$ 9,945	\$ (29,517)	Finding 1
Indirect costs	5,434	1,190	(4,244)	Finding 4
Total program costs	<u>\$ 44,896</u>	11,135	<u>\$ (33,761)</u>	
Less amount paid by the State ²		<u>(44,896)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (33,761)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Direct costs:				
Salaries and benefits	\$ 55,319	\$ 842	\$ (54,477)	Finding 1
Indirect costs	7,209	110	(7,099)	Finding 4
Total direct and indirect costs	62,528	952	(61,576)	
Less offsetting savings	—	(179)	(179)	Finding 6
Total program costs	<u>\$ 62,528</u>	773	<u>\$ (61,755)</u>	
Less amount paid by the State ²		<u>(62,528)</u>		
Allowable costs claimed in excess of amount paid		<u>\$ (61,755)</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits	\$ 87,881	\$ 4,638	\$ (83,243)	Finding 1
Fixed assets	44,279	9,033	(35,246)	Finding 3
Total direct costs	132,160	13,671	(118,489)	
Indirect costs	12,593	1,959	(10,634)	Finding 4
Total direct and indirect costs	144,753	15,630	(129,123)	
Less offsetting revenues and reimbursements	—	(634)	(634)	Finding 5
Less offsetting savings	—	(10,222)	(10,222)	Finding 6
Total program costs	<u>\$ 144,753</u>	4,774	<u>\$ (139,979)</u>	
Less amount paid by the State ²		<u>(144,753)</u>		
Allowable costs claimed in excess of amount paid		<u>\$ (139,979)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries and benefits	\$ 38,306	\$ 3,022	\$ (35,284)	Finding 1
Contracts and services	1,155	—	(1,155)	Finding 2
Fixed assets	52,791	16,048	(36,743)	Finding 3
Total direct costs	92,252	19,070	(73,182)	
Indirect costs	10,621	6,230	(4,391)	Finding 4
Total direct and indirect costs	102,873	25,300	(77,573)	
Less offsetting revenues and reimbursements	—	(1,872)	(1,872)	Finding 5
Less offsetting savings	—	(14,442)	(14,442)	Finding 6
Total program costs	<u>\$ 102,873</u>	8,986	<u>\$ (93,887)</u>	
Less amount paid by the State ²		(102,873)		
Allowable costs claimed in excess of amount paid		<u>\$ (93,887)</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries and benefits	\$ 131,508	\$ 37,097	\$ (94,411)	Finding 1
Contract services	5,370	—	(5,370)	Finding 2
Total direct costs	136,878	37,097	(99,781)	
Indirect costs	39,452	11,129	(28,323)	Finding 4
Total direct and indirect costs	176,330	48,226	(128,104)	
Less offsetting revenues and reimbursements	—	(1,695)	(1,695)	Finding 5
Less offsetting savings	—	(13,551)	(13,551)	Finding 6
Total program costs	<u>\$ 176,330</u>	32,980	<u>\$ (143,350)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of amount paid		<u>\$ 32,980</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Salaries and benefits	\$ 76,277	\$ 27,362	\$ (48,915)	Finding 1
Indirect costs	22,883	8,209	(14,674)	Finding 4
Total direct and indirect costs	99,160	35,571	(63,589)	
Less offsetting revenues and reimbursements	—	(777)	(777)	Finding 5
Less offsetting savings	—	(10,554)	(10,554)	Finding 6
Total program costs	<u>\$ 99,160</u>	24,240	<u>\$ (74,920)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of amount paid		<u>\$ 24,240</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Salaries and benefits	\$ 73,382	\$ 33,984	\$ (39,398)	Finding 1
Indirect costs	22,015	10,195	(11,820)	Finding 4
Total direct and indirect costs	95,397	44,179	(51,218)	
Less offsetting revenues and reimbursements	—	(640)	(640)	Finding 5
Less offsetting savings	—	(10,104)	(10,104)	Finding 6
Total program costs	<u>\$ 95,397</u>	33,435	<u>\$ (61,962)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of amount paid		<u>\$ 33,435</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Salaries and benefits	\$ 77,934	\$ 41,336	\$ (36,598)	Finding 1
Indirect costs	23,380	12,401	(10,979)	Finding 4
Total direct and indirect costs	101,314	53,737	(47,577)	
Less offsetting revenues and reimbursements	—	(640)	(640)	Finding 5
Less offsetting savings	—	(10,104)	(10,104)	Finding 6
Total program costs	<u>\$ 101,314</u>	42,993	<u>\$ (58,321)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of amount paid		<u>\$ 42,993</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Salaries and benefits	\$ 48,538	\$ 30,574	\$ (17,964)	Finding 1
Indirect costs	20,885	12,398	(8,487)	Finding 4
Total direct and indirect costs	69,423	42,972	(26,451)	
Less offsetting revenues and reimbursements	(29)	(640)	(611)	Finding 5
Less offsetting savings	—	(10,104)	(10,104)	Finding 6
Total program costs	<u>\$ 69,394</u>	32,228	<u>\$ (37,166)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of amount paid		<u>\$ 32,228</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 1999, through June 30, 2001; and July 1, 2003, through June 30, 2010</u>				
Direct costs:				
Salaries and benefits	\$ 628,607	\$ 188,800	\$ (439,807)	
Contracts and services	6,525	—	(6,525)	
Fixed assets	97,070	25,081	(71,989)	
Total direct costs	732,202	213,881	(518,321)	
Indirect costs	164,472	63,821	(100,651)	
Total direct and indirect costs	896,674	277,702	(618,972)	
Less offsetting revenues and reimbursements	(29)	(6,898)	(6,869)	
Less offsetting savings	—	(79,260)	(79,260)	
Total program costs	<u>\$ 896,645</u>	191,544	<u>\$ (705,101)</u>	
Less amount paid by the State		(355,050)		
Allowable costs claimed in excess of amount paid		<u>\$ (163,506)</u>		

¹ See the Findings and Recommendations section.

² Payment from funds appropriated under Chapter 724, Statutes of 2010 (Assembly Bill No. 1610).

**Schedule 2—
Summary of Offsetting Savings Calculations
July 1, 1999, through June 30, 2001;
and July 1, 2003, through June 30, 2010**

Cost Elements	Offsetting Savings Reported	Offsetting Savings Realized			Audit Adjustment ¹
		July - December	January - June	Total	
<u>July 1, 1999, through June 30, 2000</u>					
Maximum allowable diversion percentage		—	25.00%		
Actual diversion percentage	÷	—	÷	0.00%	
Allocated diversion percentage		—	—		
Tonnage diverted	×	—	×	0.00	
Avoided landfill disposal fee (per ton)	×	—	×	\$22.00	
Total offsetting savings, FY 1999-2000	\$	—	\$	—	\$ —
<u>July 1, 2000, through June 30, 2001</u>					
Maximum allowable diversion percentage		25.00%	25.00%		
Actual diversion percentage	÷	0.00%	÷	50.00%	
Allocated diversion percentage		—	50.00%		
Tonnage diverted	×	—	×	(16.25)	
Avoided landfill disposal fee (per ton)	×	\$22.00	×	\$22.00	
Total offsetting savings, FY 2000-01	\$	—	\$	(179)	\$ (179)
<u>July 1, 2003, through June 30, 2004</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage	÷	42.60%	÷	50.19%	
Allocated diversion percentage ²		100.00%	99.62%		
Tonnage diverted	×	(174.05)	×	(291.70)	
Avoided landfill disposal fee (per ton)	×	\$22.00	×	\$22.00	
Total offsetting savings, FY 2003-04	\$	—	\$	(3,829)	\$ (6,393)
<u>July 1, 2004, through June 30, 2005</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage	÷	50.19%	÷	50.29%	
Allocated diversion percentage		99.62%	99.42%		
Tonnage diverted	×	(291.70)	×	(368.00)	
Avoided landfill disposal fee (per ton)	×	\$22.00	×	\$22.00	
Total offsetting savings, FY 2004-05	\$	—	\$	(6,393)	\$ (8,049)
<u>July 1, 2005, through June 30, 2006</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage	÷	50.29%	÷	62.13%	
Allocated diversion percentage		99.42%	80.48%		
Tonnage diverted	×	(368.00)	×	(310.75)	
Avoided landfill disposal fee (per ton)	×	\$22.00	×	\$22.00	
Total offsetting savings, FY 2005-06	\$	—	\$	(8,049)	\$ (5,502)

Schedule 2 (continued)

Cost Elements	Offsetting Savings Reported	Offsetting Savings Realized		Total	Audit Adjustment ¹
		July - December	January - June		
<u>July 1, 2006, through June 30, 2007</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 62.13%	÷ 69.06%		
Allocated diversion percentage		80.48%	72.40%		
Tonnage diverted	×	(310.75)	×	(317.17)	
Avoided landfill disposal fee (per ton)	×	\$22.00	×	\$22.00	
Total offsetting savings, FY 2006-07	\$ —	\$ (5,502)	\$ (5,052)	\$ (10,554)	\$ (10,554)
<u>July 1, 2007, through June 30, 2008</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 69.06%	÷ 69.06%		
Allocated diversion percentage		72.40%	72.40%		
Tonnage diverted	×	(317.17)	×	(317.17)	
Avoided landfill disposal fee (per ton)	×	\$22.00	×	\$22.00	
Total offsetting savings, FY 2007-08	\$ —	\$ (5,052)	\$ (5,052)	\$ (10,104)	\$ (10,104)
<u>July 1, 2008, through June 30, 2009</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 69.06%	÷ 69.06%		
Allocated diversion percentage		72.40%	72.40%		
Tonnage diverted	×	(317.17)	×	(317.17)	
Avoided landfill disposal fee (per ton)	×	\$22.00	×	\$22.00	
Total offsetting savings, FY 2008-09	\$ —	\$ (5,052)	\$ (5,052)	\$ (10,104)	\$ (10,104)
<u>July 1, 2009, through June 30, 2010</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 69.06%	÷ 69.06%		
Allocated diversion percentage		72.40%	72.40%		
Tonnage diverted	×	(317.17)	×	(317.17)	
Avoided landfill disposal fee (per ton)	×	\$22.00	×	\$22.00	
Total offsetting savings, FY 2009-10	\$ —	\$ (5,052)	\$ (5,052)	\$ (10,104)	\$ (10,104)
Total offsetting savings, July 1, 1999, through June 30, 2001; and July 1, 2003, through June 30, 2010	\$ —	\$ (38,929)	\$ (40,331)	\$ (79,260)	\$ (79,260)

¹ See Finding 6, Understated Offsetting Savings.

² Santa Ana College did not achieve the maximum allowable diversion percentage in calendar year 2003. Therefore, 100% of the tonnage diverted is offsetting savings realized by the district.

Findings and Recommendations

**FINDING 1—
Unsupported salaries
and benefits**

The district claimed \$628,607 in salaries and benefits during the audit period. We determined that \$188,800 is allowable and \$439,807 is unallowable. The district did not provide any documentation to support the unallowable costs claimed.

The following tables summarize the claimed, allowable, and unallowable salaries and benefits for the audit period by both fiscal year and reimbursable component:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
1999-2000	\$ 39,462	\$ 9,945	\$ (29,517)
2000-01	55,319	842	(54,477)
2003-04	87,881	4,638	(83,243)
2004-05	38,306	3,022	(35,284)
2005-06	131,508	37,097	(94,411)
2006-07	76,277	27,362	(48,915)
2007-08	73,382	33,984	(39,398)
2008-09	77,934	41,336	(36,598)
2009-10	48,538	30,574	(17,964)
Total	\$ 628,607	\$ 188,800	\$ (439,807)

<u>Recap by reimbursable component</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Diversion and Maintenance of Approved Level of Reduction	\$ 610,648	\$ 170,841	\$ (439,807)
Development of Policies and Procedures	5,412	5,412	—
Staff Training	2,801	2,801	—
Completion and Submission of Plan to Board	3,183	3,183	—
Designation of a Recycling Coordinator	271	271	—
Responding to Board During the Approval Process	459	459	—
Consultation with the Board	518	518	—
Annual Report	4,037	4,037	—
Annual Recycled Materials Report	1,278	1,278	—
Total	\$ 628,607	\$ 188,800	\$ (439,807)

Division and Maintenance of Approved Level of Reduction

The district claimed \$610,648 in salaries and benefits for the Diversion and Maintenance of Approved Level of Reduction cost component. We determined that \$170,841 is allowable and \$439,807 is unallowable. The district did not provide any documentation to support the unallowable costs claimed.

The parameters and guidelines (section IV. Reimbursable Activities) state:

. . . to be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that shows the validity of such costs, when they were incurred, and their relationship to the

reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, receipts, and the community college plan approved by the Board.

Santiago Canyon College

The district claimed \$264,322 in salaries and benefits for diversion activities performed at the Santiago Canyon College during the audit period. We determined that the entire amount claimed is unallowable because the district provided no documentation to support the claimed costs. Furthermore, the district indicated that it would not perform a time study to support allowable diversion activities because the college performs minimal diversion. The Orange County Conservation Corps (OCCC) volunteers performed most of the recycling during the audit period. The OCCC would come to the campus to collect the aluminum cans, glass, and plastic containers to recycle elsewhere. In addition, the college does not recycle cardboard or scrap metal, and only occasionally recycles paper.

Santa Ana College

The district claimed \$257,393 for diversion activities performed at the Santa Ana College during the audit period. Initially, we determined that all of the costs claimed were unallowable because the district provided no documentation to support the claimed costs. However, the district requested, and we agreed, that it be allowed to perform a time study to support allowable diversion activities. Based on the time study, we determined that \$170,841 is allowable and \$86,552 is unallowable.

- *Time Study*

The district claimed reimbursement for diversion activities performed by custodians, bookstore employees, and senior level management. The district agreed that it would only study the diversion activities performed by the custodians. The bookstore employees were excluded from the time study because of the seasonality of cardboard bailing. In addition, senior level management was excluded from the time study because they do not perform activities that are repetitive in nature.

In June 2012, the district performed a two-week time study. The time study consisted of time spent by thirteen employees for eight working days. The custodians recorded the amount of time they spent recycling paper from the classroom and offices, and picking up the cardboard.

The time study supported 51.55 cumulative hours over the eight working days, which is an average of 0.4957 hours per day per employee (51.55 hours ÷ 8 working days ÷ 13 custodians studied).

- *Allocated Diversion Percentage*

We allocated the time study results based on the requirements of the mandated program. Public Resources Code section 42921 requires that 25% of all solid waste be diverted by January 1, 2002, and that 50% of all solid waste be diverted by January 1, 2004. The parameters and guidelines allow districts to be reimbursed for all mandated costs incurred to achieve these levels, without reduction for when they fall short of state goals, but not for amounts used to exceed these state-mandated levels.

In 2008, CalRecycle began focusing on a “per capita” disposal instead of a “diversion percentage.” As a result, CalRecycle stopped requiring the community college districts to report the actual amount of tonnage diverted. Consequently, the diversion percentage is not available for the period during which the time study was performed (i.e., 2012). In addition, the district did not provide documentation to support the diversion percentage for 2012. Therefore, we used the 2007 diversion percentage to calculate allowable salaries and benefits.

- *Allowable Salaries and Benefits*

To compute the allowable salaries and benefits, we multiplied the allocated diversion percentage by the allowable time study hours, and then multiplied the total by the average productive hourly rate (PHR) per classification, as follows:

$$\begin{array}{rcccl}
 & & \text{Allocated Diversion \%} & & \\
 & & \text{Maximum} & & \\
 \text{Allowable} & & \text{Allowable} & & \text{Allowable} & & \text{Average} \\
 \text{Salaries and} & = & \text{Diversion \%} & \times & \text{Time Study} & \times & \text{PHR per} \\
 \text{Benefits} & & \text{2007} & & \text{Hours} & & \text{Classification} \\
 & & \text{Diversion \%} & & & &
 \end{array}$$

This calculation determines the salaries and benefits the district incurred to achieve the required level of diversion. Based on the time study results, we determined that \$170,841 in salaries and benefits is allowable for the audit period.

District Office

The district claimed \$68,987 for diversion activities performed at the district office during the audit period. We determined that the entire amount claimed is unallowable because the district provided no documentation to support the claimed costs. Furthermore, the district indicated it would not perform a time study because district staff do not perform diversion activities at the district office. For most of the audit period, the OCCC volunteers recycled the paper, aluminum cans, plastic bottles, and glass. After the OCCC left in July 2009, the custodians did not continue the diversion activities.

Orange Education Center

The district claimed \$19,946 for diversion activities performed at the Orange Education Center for FY 2006-07 through FY 2009-10. We determined that the entire amount claimed is unallowable because the district provided no documentation to support the claimed costs.

Recommendation

We recommend that the district ensure that claimed costs include only eligible costs, are based on actual costs, and are supported by source documentation.

District's Response

The district does not agree with the methodology used in reducing allowable costs for diversion activities when diverting more than the minimum required percentage. This is specifically related to Finding 1 and the related indirect costs in Finding 4. Staff would spend the same amount of time emptying a recycle bin whether it is 25% full or 80% full. This adjustment significantly reduces our claim and we do not agree with the calculation.

SCO's Comments

The finding and recommendation remain unchanged.

The district states in its response that "staff would spend the same amount of time emptying a recycle bin whether it is 25% full or 80% full." We concur with that statement. It is consistent with the fact that allowable salary and benefit costs for the audit were based solely on time spent by district custodians recycling paper from classrooms and offices. However, there is little relation between the amount of time spent emptying recycle bins and the percentage of solid waste diverted from the district's trash.

There were a number of other activities involved in the district's recycling program beyond recycling paper. However, the district did not provide actual cost documentation to support costs incurred for its other solid waste diversion activities. The district's recycling program included, but was not limited to, source reduction activities, composting activities, collecting and separating various types of recyclable materials, and recycling "special waste" (wood, scrap metals, tires, etc.). The district realized reduced expenditures for landfill disposal fees through these solid waste diversion activities. The district also realized reduced expenditures for landfill disposal through its contracts with the district's Material Recovery Facility (MRF) during the audit period. We determined that these contracts allowed the district to incur approximately 50% of the statewide average disposal fee, because the MRF realized revenues from recyclables co-mingled with the district's solid waste.

The district used information resulting from its various solid waste diversion activities in the recycled material reports it submitted to Cal Recycle. These reports were used to document the district’s compliance with the statutory requirements to divert solid waste from landfill disposal or transformation facilities. Based on these reports, the district diverted solid waste beyond what was required by law during the audit period.

While we recognize the extra effort spent by the district to divert solid waste, the mandated program is limited to reimbursement for increased costs to perform the reimbursable activities. The parameters and guidelines state that “Increased cost is limited to the cost of an activity that the claimant is *required to incur* [emphasis added] as a result of the mandate.” To the extent that districts incur increased costs beyond what is required by the mandated program, there is no legal basis for reimbursement from the State. Reimbursement for this program is associated with diverting *at least* [emphasis added] 25% of all solid waste by January 1, 2002, and 50% of all solid waste by January 1, 2004. Our analysis and allocation of allowable costs for the audit period recognized these limitations. In addition, providing reimbursement beyond what is mandated by the State could be considered a gift of public funds, which would be in violation of Article XVI, section 6, of the California State Constitution.

**FINDING 2—
Unsupported contract
services**

The district claimed \$6,525 in contract services costs for the audit period. We determined that the entire amount is unallowable because the district provided no documentation to support the costs claimed.

The following table summarizes the claimed, allowable, and unallowable contract service costs for the audit period by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
2004-05	\$ 1,155	\$ —	\$ (1,155)
2005-06	5,370	—	(5,370)
	<u>\$ 6,525</u>	<u>\$ —</u>	<u>\$ (6,525)</u>

The district claimed \$6,525 for an Environmental Safety Consultant to perform the following activities:

- \$5,030 to divert solid waste and maintain the required level,
- \$920 to submit the annual report,
- \$460 to submit the annual recycled material report, and
- \$115 to respond to the Board during the approval process.

The district did not provide any documentation, such as an invoice, to support the claimed costs. In addition, the district did not identify the date the services were provided.

The parameters and guidelines (section IV. Reimbursable Activities) state:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, receipts, and the community college plan approved by the Board.

The parameters and guidelines (section V. Claim Preparation and Submission, subsection (A)(3)) require claimants to:

Report the name of the contractor and services performed to implement the reimbursable activities. Attach a copy of the contract to the claim. If the contract bills for time and materials, report the number of hours, spent on the activities and all costs charged. If the contract is a fixed price, report the dates when services were performed and itemize all costs for those services.

Recommendation

We recommend that the district ensure that claimed costs include only eligible costs, are based on actual costs, and are supported by source documentation.

District's Response

The district has difficulty disputing other findings as it is not always possible to locate all backup documentation or rationale for purchases many years after the fact.

SCO's Comments

The finding and recommendation remain unchanged.

The parameters and guidelines (section VI. Record Retention) state:

...All documents used to support the reimbursable activities, as described in Section IV, must be retained during the period subject to audit. If an audit has been initiated by the Controller during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings.

**FINDING 3—
Unallowable fixed
assets**

The district claimed \$97,070 in fixed assets for the audit period. We determined that \$25,081 is allowable and \$71,989 is unallowable. The costs are unallowable because the district claimed reimbursement for ineligible equipment and did not pro-rate the equipment costs.

The following table summarizes the claimed, allowable, and unallowable fixed asset costs for the audit period by fiscal year:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
2003-04	\$ 44,279	\$ 9,033	\$ (35,246)
2004-05	52,791	16,048	(36,743)
	<u>\$ 97,070</u>	<u>\$ 25,081</u>	<u>\$ (71,989)</u>

Ineligible Equipment

The district claimed reimbursement for a power sweeper and a gas utility vehicle. We determined that the entire amount is unallowable.

For FY 2003-04, the district claimed \$35,246 for the purchase of a power sweeper. In general, a power sweeper is used to clear the parking lots and sidewalks of accumulate debris, which is not a mandated activity. We determined that the entire amount is unallowable because the district did not identify how the power sweeper was used to perform mandated activities.

For FY 2004-05, the district claimed \$20,693 for a Club Car Carryall. The entire amount is unallowable because the district did not identify how the vehicle was used to perform mandated activities. In addition, during audit fieldwork, the district informed us that they are unsure of its intended use at the time of purchase and do not currently use the vehicle for recycling.

Non-Prorated Equipment Costs

For FY 2004-05, the district claimed \$20,157 for the purchase of a Toro Reelmaster Mower and Mulcher and \$11,942 for the purchase of an Exmark Laser Lawn Mower and Mulcher.

The lawn mowers both cut and mulch the grass. Grass that is cut using a regular lawn mower is not sufficiently mulched to seep into the lawn. However, grass that is cut by a mulching mower serves as compost for the lawn because the mulching blades curve and throw the cut piece of grass back into the blade to be cut several more times. Since composting (mulching) is reimbursable and cutting the grass is not reimbursable, we determined that 50% of the equipment purchase price paid is allowable.

The parameters and guidelines (section V. Claim Preparation and Submission, section (A)(4)) state:

. . . If the fixed asset or equipment is also used for purposes other than the reimbursable activities, only the pro-rata portion of the purchase price used to implement the reimbursable activities can be claimed.

Recommendation

We recommend that the district ensure that claimed costs include only eligible costs.

SCO's Comments

The district did not provide a response to this finding.

**FINDING 4—
Misstated indirect
costs**

The district claimed \$164,472 in indirect costs for the audit period. We determined that \$63,821 is allowable and \$100,651 is unallowable. The costs are unallowable because the district applied the indirect cost rate to unallowable salaries and benefits (see Finding 1), incorrectly calculated the FAM-29C indirect cost rates, and did not apply the FAM-29C indirect cost rate to the proper direct cost base.

For FY 1999-2000 through FY 2004-05 and FY 2009-10, the district claimed indirect costs using the FAM-29C methodology outlined in the SCO's claiming instructions. For FY 2005-06 through FY 2008-09, the district claimed a federally approved rate of 30%.

The FAM-29C is calculated using information contained in the California Community College Annual Financial and Budget Report by activity (CCFS-311). With the exception of FY 2003-04, we adjusted the FAM-29C rates for the following reasons:

- FY 1999-2000 – The district incorrectly categorized expenditures for Community Relations (# 6710), Staff Development (# 6740), and Staff Diversity (# 6750) as an indirect cost instead of a direct cost.
- FY 2000-01 – The district made two calculation errors: the district did not exclude the Capital Outlay expenditures when reporting direct costs for Academic Administration (# 6010) and mis-keyed Capital Outlay expenditures for Matriculation and Student Assessment (# 6320).
- FY 2004-05 – The district classified only 7% of the expenditures for Operation and Maintenance of Plant (# 6500) as an indirect cost when 100% should have been classified as an indirect cost. In addition, the district incorrectly categorized expenditures for Non-instructional Staff Retiree's Benefits and Retirement Incentives (# 6740), Staff Development (# 6740), and Staff Diversity (# 6750) as a direct cost instead of an indirect cost.
- FY 2009-10 – The district calculated the FAM-29C rate based on costs reported in its CCFS-311 for FY 2008-09.

The following table summarizes the unsupported indirect cost rates by fiscal year:

Fiscal Year	Claimed FAM-29C Rate	Allowable FAM-29C Rate	Difference
1999-2000	13.77%	11.97%	-1.80%
2000-01	13.03%	13.06%	0.03%
2004-05	16.42%	32.67%	16.25%
2009-10	43.03%	40.55%	-2.48%

In addition, the FAM-29C rate for both FY 2003-04 and FY 2004-05 is applied to a direct cost base; however, the district only applied the indirect cost rate to claimed salaries and benefits.

The following table summarizes the unallowable indirect costs for each fiscal year in the audit period:

Fiscal Year	Allowable Salaries and Benefits ¹	Allowable Direct Costs ²	Allowable Indirect Cost Rate	Allowable Indirect Costs	Claimed Indirect Costs	Audit Adjustment
1999-2000	\$ -	\$ 9,945	11.97%	\$ 1,190	\$ 5,434	\$ (4,244)
2000-01	-	842	13.06%	110	7,209	(7,099)
2003-04	-	13,671	14.33%	1,959	12,593	(10,634)
2004-05	-	19,070	32.67%	6,230	10,621	(4,391)
2005-06	-	37,097	30.00%	11,129	39,452	(28,323)
2006-07	-	27,362	30.00%	8,209	22,883	(14,674)
2007-08	-	33,984	30.00%	10,195	22,015	(11,820)
2008-09	-	41,336	30.00%	12,401	23,380	(10,979)
2009-10	30,574	-	40.55%	12,398	20,885	(8,487)
	<u>\$ 30,574</u>	<u>\$ 183,307</u>		<u>\$ 63,821</u>	<u>\$ 164,472</u>	<u>\$ (100,651)</u>

¹ The FAM-29C rate for FY 2009-10 is applied to allowable salaries and benefits.

² The FAM-29C rates for FY 1999-2000 through FY 2004-05 and the federally approved rates for FY 2005-06 through FY 2008-09 are applied to allowable direct costs.

The parameters and guidelines (section V. Claim Preparation and Submission, section (B)) state:

Community colleges have the option of using: (1) a federally approved rate, utilizing the cost accounting principles from the Office of Management and Budget Circular A-21 “Cost Principles of Education Institutions”; (2) the rate calculated on the State Controller’s form FAM-29C; or (3) a 7% indirect cost rate.

Recommendation

We recommend that the district calculate indirect cost in the manner prescribed in the claiming instructions, and apply the indirect cost rates to allowable direct costs.

District’s Response

The district does not agree with SCO’s calculation of allowable salaries and benefits identified in Finding 1, and the related indirect cost adjustment identified in Finding 4.

SCO’s Comments

The finding and recommendation remain unchanged. See SCO’s Comments at the end of Finding 1.

**FINDING 5—
Understated offsetting
revenues**

The district understated offsetting revenues by \$6,869 for the audit period. The following table summarizes the understated offsetting revenues by fiscal year:

Fiscal Year	Offsetting Revenue Reported	Offsetting Revenue Received	Audit Adjustment
2003-04	\$ —	\$ (634)	\$ (634)
2004-05	—	(1,872)	(1,872)
2005-06	—	(1,695)	(1,695)
2006-07	—	(777)	(777)
2007-08	—	(640)	(640)
2008-09	—	(640)	(640)
2009-10	(29)	(640)	(611)
Total	<u>\$ (29)</u>	<u>\$ (6,898)</u>	<u>\$ (6,869)</u>

The parameters and guidelines (section VII. Offsetting Revenues and Reimbursements) state:

Reimbursement for this mandate from any source, including but not limited to, service fees collected, federal funds, and other state funds allocated to any service provided under this program, shall be identified and offset from this claim. Offsetting revenue shall include all revenues generated from implement the Integrated Waste Management Plan.

Santa Ana College receives revenue for recycling cardboard and scrap metal. The district did not provide revenue ledgers that identified the amount of revenue received. Therefore, to determine the amount of revenue received by the district, we multiplied the amount of tonnage diverted, as reported by the district to CalRecycle, by the average commodity price index for each fiscal year. As a result, we determined that the district received revenue of \$6,898 from performing diversion activities.

Recommendation

We recommend that the district offset all revenue received from implementation of its IWM plan.

SCO’s Comments

The district did not provide a response to this finding.

**FINDING 6—
Understated offsetting
savings**

The district understated offsetting savings by \$79,260 for the audit period. The following table summarizes the understated offsetting savings by fiscal year:

Fiscal Year	Offsetting Savings Reported	Offsetting Savings Realized	Audit Adjustment
2000-01	\$ —	\$ (179)	\$ (179)
2003-04	—	(10,222)	(10,222)
2004-05	—	(14,442)	(14,442)
2005-06	—	(13,551)	(13,551)
2006-07	—	(10,554)	(10,554)
2007-08	—	(10,104)	(10,104)
2008-09	—	(10,104)	(10,104)
2009-10	—	(10,104)	(10,104)
Total	\$ —	\$ (79,260)	\$ (79,260)

The parameters and guidelines (section VIII. Offsetting Cost Savings) state:

. . . reduced or avoided costs realized from implementation of the community college districts’ Integrated Waste Management plans shall be identified and offset from this claim as cost savings, consistent with the directions for revenue in Public Contract Code sections 12167 and 12167.1.

Public Contract Code sections 12167 and 12167.1 require agencies in state-owned and state-leased buildings to deposit all revenues from the sale of recyclables into the IWM Account in the IWM Fund. The revenues are to be continuously appropriated to the Board for the purposes of offsetting recycling program costs. For the audit period, the district did not deposit any revenue into the IWM Account in the IWM Fund. As the district had reduced or avoided costs realized from implementation of its IWM Plan that it did not remit back to the State, the district should have identified and offset from its claims this savings.

Offsetting Savings Calculation

The Commission on State Mandates’ (CSM) Final Staff Analysis of the proposed amendments to the parameters and guidelines (Item #8-CSM hearing on September 26, 2008) state:

. . . cost savings may be calculated from the annual solid waste disposal reduction or diversion rates that community colleges must annually report to the Board pursuant to Public Resources Code section 42926, subdivision (b)(1).

To compute the savings amount, we multiplied the allocated diversion percentage by the tonnage diverted, and then multiplied the total by the avoided landfill disposal fee, as follows:

$$\begin{array}{rcccl}
 & & \text{Allocated Diversion \%} & & \\
 & & \overbrace{\hspace{1.5cm}} & & \\
 & & \text{Maximum} & & \\
 \text{Offsetting} & & \text{Required} & & \text{Avoided} \\
 \text{Savings} & = & \frac{\text{Diversion \%}}{\text{Actual}} & \times & \text{Tonnage} \times \text{Landfill} \\
 \text{Realized} & & \text{Diversion \%} & & \text{Diverted} \text{ Disposal Fee} \\
 & & & & \text{(per ton)}
 \end{array}$$

This calculation determines the costs that the district did not incur for solid waste disposal as a result of implementing its IWM Plan.

Allocated Diversion Percentage

Public Resource Code section 42921 requires that districts achieve a solid waste diversion percentage of 25% beginning on January 1, 2002, and a 50% diversion percentage by January 1, 2004. The parameters and guidelines allow districts to be reimbursed for all mandated costs incurred to achieve these levels, without reduction for when they fall short of stated goals, but not for amounts that exceed these state-mandated levels. Therefore, we allocated the offsetting savings to be consistent with the requirements of the mandated program.

For calendar years 2000 through 2007, we used the diversion percentage reported by the district to CalRecycle (formerly the IWM Board) pursuant to Public Resources Code section 42926, subdivision (b)(1).

In 2008, CalRecycle began focusing on “per-capita disposal” instead of a “diversion percentage.” As a result, CalRecycle stopped requiring community college districts to report the actual amount of tonnage diverted. Consequently, the annual reports no longer identify a diversion percentage. Therefore, we used the 2007 diversion percentage to calculate the offsetting savings for FY 2007-08, FY 2008-09, and FY 2009-10. The district did not provide documentation supporting a different diversion percentage.

Tonnage Diverted

The tonnage diverted is solid waste that the district recycled, composted, and kept out of a landfill.

For calendar years 2000 through 2007, we used the tonnage diverted, as reported by the district to CalRecycle pursuant to Public Resources Code section 42926, subdivision (b)(1).

As previously noted, in 2008, CalRecycle stopped requiring community college districts to report the actual amount of tonnage diverted. Therefore, we used the tonnage diverted in 2007 to calculate the offsetting savings for FY 2007-08, FY 2008-09, and FY 2009-10. The district did not provide documentation supporting a different tonnage amount.

Avoided Landfill Disposal Fee (per ton)

The avoided landfill disposal fee is used to calculate realized savings because the district no longer incurs a cost to dispose of the diverted tonnage at the landfill. We used the actual disposal fee provided by the district in their contract with the waste hauler.

Recommendation

We recommend that the district offset all savings realized from implementation of its IWM plan.

District's Response

...the district understands in Finding 6 that the defined cost savings should be reported, however the majority of these claims were before the September 26, 2008 retroactive amendment of the parameters and guidelines that established this requirement as a result of a court decision and therefore those wouldn't have been known before that date.

SCO's Comments

The finding and recommendation remain unchanged.

In March 2007, the Department of Finance and the Integrated Waste Management Board (now CalRecycle) filed a petition for writ of mandate requiring the Commission on State Mandates (CSM) to issue new parameters and guidelines that give full consideration to the community colleges' cost savings (i.e., avoided landfill disposal fees) and revenues (from recyclables) by complying with the test claim statutes. The Judgment and Writ of Mandate were issued on June 30, 2008, ordering the CSM to amend the parameters and guidelines to require community college districts to identify and offset from their claims, costs savings realized as a result of implementing their Integrated Waste Management Plans. The court stated that "cost savings may be calculated from the calculations of annual solid waste disposal reduction or diversion that community colleges must annually report to the Board pursuant to Public Resources Code section 42926, subdivision (b)(1)." The district had the necessary information to complete this calculation at the time of the court's decision.

On September 26, 2008, the CSM amended the parameters and guidelines applicable to the original period of reimbursement (on or after July 1, 1999) because the court's decision interpreted the test claim statutes as a question of law.

On December 1, 2008, in compliance with Government Code section 17558, the SCO issued claiming instructions allowing community college districts to refile their FY 1999-2000 through FY 2007-08 claims to report offsetting savings. These amended claims had to be filed with the SCO on or before March 31, 2009.

Therefore, the district had ample time to amend its claims and report the required offsetting savings, consistent with the parameters and guidelines.

**Attachment—
District's Response to
Draft Audit Report**



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Santa Ana College • Santiago Canyon College

December 18, 2013

Mr. Jim L. Spano
Chief, Mandated Cost Audits Bureau
State Controller's Office
Division of Audits
PO Box 942850
Sacramento, CA 94250-5874

Subject: Integrated Waste Management Program Mandated Cost Claims Audit for the period July 1, 1999 through June 30, 2001; and July 1, 2003 through June 30, 2010

Dear Mr. Spano:

We have received the above mentioned audit report and have a general understanding of the issues involved with the various adjustments. As stated in each of the meetings we have had with your team, the district does not agree with the methodology used in reducing allowable costs for diversion activities when diverting more than the minimum required percentage. This is specifically related to Finding 1 and the related indirect costs in Finding 4. Staff would spend the same amount of time emptying a recycle bin whether it is 25% full or 80% full. This adjustment significantly reduces our claim and we do not agree with the reduction. The district has difficulty disputing other findings as it is not always possible to locate all backup documentation or rationale for purchase many years after the fact. In addition, the district understands in Finding 6 that the defined cost savings should be reported, however the majority of these claims were before the September 26, 2008 retroactive amendment of the parameters and guidelines that established this requirement as a result of a court decision and therefore those wouldn't have been known before that date.

Although we had differences of opinion throughout this nearly two year process, we want to express our appreciation to your audit staff for their professionalism throughout.

Sincerely,

Adam M. O'Connor, CPA
Assistant Vice Chancellor, Fiscal Services
Rancho Santiago Community College District

Cc: Raúl Rodríguez, Chancellor
Peter Hardash, Vice Chancellor, Business Operations/Fiscal Services

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