

COAST COMMUNITY COLLEGE DISTRICT

Final Audit Report

INTEGRATED WASTE MANAGEMENT PROGRAM

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

July 1, 1999, through June 30, 2009



JOHN CHIANG
California State Controller

March 2012



JOHN CHIANG
California State Controller

March 30, 2012

Jim Moreno
President of the Board
Coast Community College District
1370 Adams Avenue
Costa Mesa, Ca 92626

Dear Mr. Moreno:

The State Controller's Office audited the costs claimed by Coast 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, 2009.

The district claimed \$1,074,726 for the mandated program. Our audit disclosed that \$54,738 is allowable and \$1,019,988 is unallowable. The costs are unallowable primarily because the district claimed estimated costs that were not supported by corroborating documentation. The State paid the district \$135,569. The amount paid exceeds allowable costs claimed by \$80,831.

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, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/bf

cc: Andrew C. Jones, Ph.D., Chancellor
Coast Community College District
Kim McCord, Administrative Director, Fiscal Affairs
Coast Community College District
Christine Atalig, Auditor
Fiscal Services Unit,
California Community Colleges Chancellor's Office
Ed Hanson, Principal Program Budget Analyst
Education Systems Unit, Department of Finance
Jay Lal, Manager, Division of Accounting
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Coast 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, 2009.

The district claimed \$1,074,726 for the mandated program. Our audit disclosed that \$54,738 is allowable and \$1,019,988 is unallowable. The costs are unallowable primarily because the district claimed estimated costs that were not supported by corroborating documentation. The State paid the district \$135,569. The amount paid exceeds allowable costs claimed by \$80,831.

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, and 42920-42928; Public Contract Code sections 12167 and 12167.1; and the State Agency Model Integrated Waste Management Plan (February 2000) require new activities which constitute new programs or higher levels of service for 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 this test claim for the increased costs of performing the following specific activities:

- Comply with the model plan (Public Resources Code section 42920(b)(3) and State Agency Model Integrated Waste Management Plan, February 2000);
- Designate a solid waste reduction and recycling coordinator (Public Resources Code section 42920(c));
- Divert solid waste (Public Resources Code sections 42921 and 42922(i));
- Report to the Board (Public Resources Code sections 42926(a) and 42922(i)); and
- Submit recycled material reports (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 it on September 26, 2008. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school 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, 2009.

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.

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures, as recommended by generally accepted government auditing standards. However, the district declined our request.

Conclusion

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

For the audit period, Coast Community College District claimed \$1,074,726 for costs of the Integrated Waste Management Program. Our audit disclosed that \$54,738 is allowable and \$1,019,988 is unallowable.

For the fiscal year (FY) 1999-2000 claim, the State made no payment to the district. Our audit disclosed that \$14,690 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$14,690, contingent upon available appropriations.

For the FY 2000-01 claim, the State made no payment to the district. Our audit disclosed that \$2,194 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$2,194, contingent upon available appropriations.

For the FY 2001-2002 claim, the State paid the district \$39,573. Our audit disclosed that \$5,155 is allowable. The State will offset \$34,418 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2002-2003 claim, the State paid the district \$95,996. Our audit disclosed that \$7,472 is allowable. The State will offset \$88,524 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2003-04 claim, the State made no payment to the district. Our audit disclosed that \$5,281 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$5,281, contingent upon available appropriations.

For the FY 2004-05 claim, the State made no payment to the district. Our audit disclosed that \$4,115 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$4,115, contingent upon available appropriations.

For the FY 2005-06 claim, the State made no payment to the district. Our audit disclosed that \$3,877 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$3,877, contingent upon available appropriations.

For the FY 2006-07 claim, the State made no payment to the district. Our audit disclosed that \$4,674 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$4,674, contingent upon available appropriations.

For the FY 2007-08 claim, the State made no payment to the district. Our audit disclosed that \$4,267 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$4,267, contingent upon available appropriations.

For the FY 2008-09 claim, the State made no payment to the district. Our audit disclosed that \$3,013 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$3,013, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on January 20, 2012. Kim McCord, Administrative Director, Fiscal Affairs responded by letter dated January 30, 2012 (Attachment), stating that the district accepts the audit results. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of Coast 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
Chief, Division of Audits

March 30, 2012

Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2009

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹
<u>July 1, 1999, through June 30, 2000</u>				
All other activities:				
Direct costs:				
Salaries and benefits	\$ 10,345	\$ 10,345	\$ -	
Indirect costs	4,345	4,345	-	
Total program cost	<u>\$ 14,690</u>	14,690	<u>\$ -</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 14,690</u>		
<u>July 1, 2000 through June 30, 2001</u>				
Diversion and maintenance of approved level of reduction:				
Direct costs:				
Salaries and benefits	\$ 7,106	\$ -	\$ (7,106)	Finding 1
Indirect costs	2,985	-	(2,985)	Finding 1
Subtotal - Diversion and maintenance of approved level of reduction	<u>10,091</u>	-	<u>(10,091)</u>	
All other activities:				
Direct costs:				
Salaries and benefits	1,545	1,545	-	
Indirect costs	649	649	-	
Subtotal - All other activities	<u>2,194</u>	2,194	-	
Total program costs	<u>\$ 12,285</u>	2,194	<u>\$ (10,091)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 2,194</u>		
<u>July 1, 2001 through June 30, 2002</u>				
Diversion and maintenance of approved level of reduction:				
Direct costs:				
Salaries and benefits	\$ 14,324	\$ -	\$ (14,324)	Finding 1
Contract services	14,078	-	(14,078)	Finding 2
Subtotal direct costs	28,402	-	(28,402)	
Indirect costs	6,016	-	(6,016)	Finding 1
Total direct and indirect costs	34,418	-	(34,418)	
Less offsetting revenues	-	(879)	(879)	Finding 3
Subtotal	34,418	(879)	(35,297)	
Adjustment to eliminate negative balance	-	879	879	
Subtotal - Diversion and maintenance of approved level of reduction	<u>34,418</u>	-	<u>(34,418)</u>	
All other activities:				
Direct costs:				
Salaries and benefits	3,630	3,630	-	
Indirect costs	1,525	1,525	-	
Subtotal - All other activities	<u>5,155</u>	5,155	-	
Total program costs	<u>\$ 39,573</u>	5,155	<u>\$ (34,418)</u>	
Less amount paid by the State		(39,573)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (34,418)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
Diversion and maintenance of approved level of reduction:				
Direct costs:				
Salaries and benefits	\$ 62,341	\$ -	\$ (62,341)	Finding 1
Indirect costs	26,183	-	(26,183)	Finding 1
Total direct and indirect costs	88,524	-	(88,524)	
Less offsetting revenues	-	(680)	(680)	Finding 3
Subtotal	88,524	(680)	(89,204)	
Adjustment to eliminate negative balance	-	680	680	
Subtotal - Diversion and maintenance of approved level of reduction	88,524	-	(88,524)	
All other activities:				
Direct costs:				
Salaries and benefits	5,262	5,262	-	
Indirect costs	2,210	2,210	-	
Subtotal - All other activities	7,472	7,472	-	
Total program costs	\$ 95,996	7,472	\$ (88,524)	
Less amount paid by the State		(95,996)		
Allowable costs claimed in excess of (less than) amount paid		\$ (88,524)		
<u>July 1, 2003, through June 30, 2004</u>				
Diversion and maintenance of approved level of reduction:				
Direct costs:				
Salaries and benefits	\$ 73,257	\$ -	\$ (73,257)	Finding 1
Indirect costs	30,768	-	(30,768)	Finding 1
Total direct and indirect costs	104,025	-	(104,025)	
Less offsetting revenues	-	(553)	(553)	Finding 3
Subtotal	104,025	(553)	(104,578)	
Adjustment to eliminate negative balance	-	553	553	
Subtotal - Diversion and maintenance of approved level of reduction	104,025	-	(104,025)	
All other activities:				
Direct costs:				
Salaries and benefits	3,719	3,719	-	
Indirect costs	1,562	1,562	-	
Subtotal - All other activities	5,281	5,281	-	
Total program costs	\$ 109,306	5,281	\$ (104,025)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 5,281		
<u>July 1, 2004, through June 30, 2005</u>				
Diversion and maintenance of approved level of reduction:				
Direct costs:				
Salaries and benefits	\$ 100,566	\$ -	\$ (100,566)	Finding 1
Indirect costs	42,238	-	(42,238)	Finding 1
Total direct and indirect costs	142,804	-	(142,804)	
Less offsetting revenues	-	(447)	(447)	Finding 3
Subtotal	142,804	(447)	(143,251)	
Adjustment to eliminate negative balance	-	447	447	
Subtotal - Diversion and maintenance of approved level of reduction	142,804	-	(142,804)	
All other activities:				
Direct costs:				
Salaries and benefits	2,898	2,898	-	Finding 1
Indirect costs	1,217	1,217	-	Finding 1
Subtotal - All other activities	4,115	4,115	-	
Total program costs	\$ 146,919	4,115	\$ (142,804)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 4,115		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2005, through June 30, 2006</u>				
Diversion and maintenance of approved level of reduction:				
Direct costs:				
Salaries and benefits	\$ 116,956	\$ -	\$ (116,956)	Finding 1
Indirect costs	49,122	-	(49,122)	Finding 1
Total direct and indirect costs	166,078	-	(166,078)	
Less offsetting revenues	-	(574)	(574)	Finding 3
Less offsetting savings	(2,000)	-	2,000	Finding 4
Subtotal	164,078	(574)	(164,652)	
Adjustment to eliminate negative balance	-	574	574	
Subtotal - Diversion and maintenance of approved level of reduction	164,078	-	(164,078)	
All other activities:				
Direct costs:				
Salaries and benefits	2,730	2,730	-	Finding 1
Indirect costs	1,147	1,147	-	Finding 1
Subtotal - All other activities	3,877	3,877	-	
Total program costs	\$ 167,955	3,877	\$ (164,078)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 3,877		
<u>July 1, 2006, through June 30, 2007</u>				
Diversion and maintenance of approved level of reduction:				
Direct costs:				
Salaries and benefits	\$ 111,085	\$ -	\$ (111,085)	Finding 1
Indirect costs	46,655	-	(46,655)	Finding 1
Total direct and indirect costs	157,740	-	(157,740)	
Less offsetting revenues	-	(1,742)	(1,742)	Finding 3
Less offsetting savings	(3,000)	-	3,000	Finding 4
Subtotal	154,740	(1,742)	(156,482)	
Adjustment to eliminate negative balance	-	1,742	1,742	
Subtotal - Diversion and maintenance of approved level of reduction	154,740	-	(154,740)	
All other activities:				
Direct costs:				
Salaries and benefits	3,292	3,292	-	Finding 1
Indirect costs	1,382	1,382	-	Finding 1
Subtotal - All other activities	4,674	4,674	-	
Total program costs	\$ 159,414	4,674	\$ (154,740)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 4,674		
<u>July 1, 2007, through June 30, 2008</u>				
Diversion and maintenance of approved level of reduction:				
Direct costs:				
Salaries and benefits	\$ 123,595	\$ -	\$ (123,595)	Finding 1
Indirect costs	51,910	-	(51,910)	Finding 1
Total direct and indirect costs	175,505	-	(175,505)	
Less offsetting revenues	-	(1,843)	(1,843)	Finding 3
Less offsetting savings	(20,000)	-	20,000	Finding 4
Subtotal	155,505	(1,843)	(157,348)	
Adjustment to eliminate negative balance	-	1,843	1,843	
Subtotal - Diversion and maintenance of approved level of reduction	-	-	155,505	
All other activities:				
Direct costs:				
Salaries and benefits	3,005	3,005	-	Finding 1
Indirect costs	1,262	1,262	-	Finding 1
Subtotal - All other activities	4,267	4,267	-	
Total program costs	\$ 159,772	4,267	\$ 155,505	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		\$ 4,267		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2008, through June 30, 2009</u>				
Diversion and maintenance of approved level of reduction:				
Direct costs:				
Salaries and benefits	\$ 124,185	\$ -	\$ (124,185)	Finding 1
Materials and supplies	352	352	-	
Subtotal direct costs	124,537	352	(124,185)	
Indirect costs	41,266	-	(41,266)	Finding 1
Total direct and indirect costs	165,803	352	(165,451)	
Less offsetting revenues	-	(652)	(652)	Finding 3
Subtotal	165,803	(300)	(166,103)	
Adjustment to eliminate negative balance	-	300	300	
Subtotal - Diversion and maintenance of approved level of reduction	165,803	-	(165,803)	
All other activities:				
Direct costs:				
Salaries and benefits	2,262	2,262	-	Finding 1
Indirect costs	751	751	-	Finding 1
Subtotal - All other activities	3,013	3,013	-	
Total program costs	<u>\$ 168,816</u>	3,013	<u>\$ (165,803)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 3,013</u>		
<u>Summary: July 1, 1999, through June 30, 2009</u>				
Diversion and maintenance of approved level of reduction:				
Direct costs:				
Salaries and benefits	\$ 733,415	\$ -	\$ (733,415)	
Materials and supplies	352	352	-	
Contract services	14,078	-	(14,078)	
Subtotal direct costs	747,845	352	(747,493)	
Indirect costs	297,143	-	(297,143)	
Total direct and indirect costs	1,044,988	352	(1,044,636)	
Less offsetting revenues	-	(7,370)	(7,370)	
Less offsetting savings	(25,000)	-	25,000	
Subtotal	1,019,988	(7,018)	(1,027,006)	
Adjustment to eliminate negative balance	-	7,018	7,018	
Subtotal - Diversion and maintenance of approved level of reduction	1,019,988	-	(1,019,988)	
All other activities:				
Direct costs:				
Salaries and benefits	38,688	38,688	-	
Indirect costs	16,050	16,050	-	
Subtotal - All other activities	54,738	54,738	-	
Total program costs	<u>\$ 1,074,726</u>	54,738	<u>\$ (1,019,988)</u>	
Less amount paid by the State		(135,569)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (80,831)</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unsupported salaries, benefits, and related indirect costs

The district claimed \$772,103 in salaries and benefits during the audit period. We determined that \$38,688 is allowable and \$733,415 is unallowable. The costs are unallowable because the district claimed costs based on estimates that were not supported with source documentation. The related unallowable indirect costs totaled \$297,143.

The following table summarizes the claimed costs, allowable costs, and audit adjustment amounts for the audit period by fiscal year:

<u>Fiscal Year</u>	<u>Claimed Costs</u>	<u>Allowable Costs</u>	<u>Audit Adjustment</u>
1999-2000	\$ 10,345	\$ 10,345	\$ -
2000-01	8,651	1,545	(7,106)
2001-02	17,954	3,630	(14,324)
2002-03	67,603	5,262	(62,341)
2003-04	76,976	3,719	(73,257)
2004-05	103,464	2,898	(100,566)
2005-06	119,686	2,730	(116,956)
2006-07	114,377	3,292	(111,085)
2007-08	126,600	3,005	(123,595)
2008-09	126,447	2,262	(124,185)
Subtotal	772,103	38,688	(733,415)
Related indirect costs	313,193	16,050	(297,143)
Total	<u>\$ 1,085,296</u>	<u>\$ 54,738</u>	<u>\$ (1,030,558)</u>

Complete and Submit Plan to the Board

The district claimed salaries and benefits totaling \$13,757 for this activity during the period of fiscal year (FY) 1999-2000 through FY 2002-03. We determined that the entire amount is allowable.

Annual Report to the Board

The district claimed salaries and benefits totaling \$24,931 for this activity during the audit period of FY 1999-2000 through FY 2008-09. We determined that the entire amount is allowable.

Divert Solid Waste/Maintain Required Level

For FY 2001-02 through FY 2008-09, the district claimed salaries and benefits totaling \$733,415 under the component of "Divert Solid Waste/Maintain Required Level." We determined that the entire amount is unallowable. The costs are unallowable because costs claimed were based on estimates of time that were not supported by any source documentation. The related unallowable indirect costs totaled \$297,143.

During the course of the audit, we spoke with various district representatives who oversee recycling activities at the district's three campus sites and the district's main office. Based on those discussions, except for the Orange Coast College campus, district personnel had minimal involvement with solid waste diversion and recycling activities. We noted that the district's trash service provider, CR&R Waste and Recycling Services, Inc., picks up virtually all of the district's solid waste, including recyclable materials, and then diverts the recyclable materials at its facility. Therefore, the number of hours being claimed each year for district personnel to perform reimbursable activities is not reasonable.

While the district's Orange Coast campus operates a recycling center of its own, the center is operated primarily for the benefit of the surrounding community. We spoke with the manager of the facility, who stated that the recycling center is unable to distinguish between recyclable materials that originated from the Orange Coast campus versus those that came from the general public within the community.

We spoke with the district's Administrative Director of Fiscal Affairs and discussed the option of the district performing a time study to determine the amount of time spent diverting solid waste and associated recycling activities. The Administrative Director stated that a time study would probably not be cost effective and that district staff would likely not want to participate in such a time study. As of the issuance of this report, the district had not performed a time study.

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.

Evidence corroborating the source documents may include, but is not limited to, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, training packets, and declarations. Declarations must include a certification or declaration stating, "I certify (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct," and must further comply with the requirements of Code of Civil Procedure section 2015.5. Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, corroborating documents cannot be substituted for source documents.

The parameters and guidelines (section V.A.1–Claim Preparation and Submission–Direct Cost Reporting–Salaries and Benefits) require claimants to:

Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rates (total wages divided by productive hours). Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.

The parameters and guidelines (section IV.E–Reimbursable Activities, Annual Report) state that districts should “Annually prepare and submit, by April 1, 2002, and by April 1 each subsequent fiscal year, a report to the Board summarizing its progress in reducing solid waste.” The parameters and guidelines also explain the information that should be reported by districts, at a minimum.

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.
- Identify the mandated functions performed and support the actual number of hours devoted to each function.

District’s Response

The district accepts the finding.

FINDING 2— Unsupported contract services costs

The district claimed \$14,078 in contract services costs for FY 2001-02. We determined that the entire amount is unallowable. The costs are unallowable because the district did not provide any documentation to support costs claimed.

The district did not provide any invoices for the contract services costs it claimed for FY 2001-02. A district representative stated that a new accounting system was implemented in 2005 and there is no detailed documentation available for review prior to that year.

The parameters and guidelines (section V.A.3–Claim Preparation and Submission–Direct Cost Reporting–Contract Services) 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 contractor 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.
- Identify the mandated functions performed and support the actual costs devoted to each function.

District’s Response

The district accepts the finding.

**FINDING 3—
Understated offsetting
revenues**

The district did not identify offsetting revenues in its claims for the audit period. We determined that offsetting revenues were understated by \$352.

The following table summarizes the understated offsetting revenues by fiscal year:

Fiscal Year	Allowable Direct and Related Indirect Costs	Offsetting Revenues Claimed	Actual Offsetting Revenues	Audit Adjustment
1999-2000	\$ 14,690	\$ -	\$ -	\$ -
2000-01	2,194	-	-	-
2001-02	-	-	879	-
2002-03	-	-	680	-
2003-04	-	-	553	-
2004-05	-	-	447	-
2005-06	-	-	574	-
2006-07	-	-	1,742	-
2007-08	-	-	1,843	-
2008-09	352	-	652	(352)
Totals	\$ 17,236	\$ -	\$ 7,370	\$ (352)

For the audit period, the district received revenues from recyclable materials (cardboards, pallets, and toner cartridges). The revenue was deposited into the district’s revenue account 11-2700-2390-00-00–Trust Account–Waste Management. We determined that all applicable revenue recorded in this account should be offset on the district’s mandated cost claims. If the district can document that certain revenues recorded within this account are not from the sale of recyclables as a result of implementing the district’s Integrated Waste Management Plan, we will revise the audit adjustment as appropriate.

We limited the application of offsetting revenues to allowable costs for the activities of diverting solid waste. As a result, allowable offsetting revenues totaled \$352 and offsetting revenues received exceeded allowable costs by \$7,018 (\$7,370 less \$352). Any excess offsetting revenues applicable for FY 2001-02 through FY 2008-09, as identified in the following table, will be applied to any additional allowable costs identified for that year.

The following table summarizes the portion of the unreported actual offsetting revenues that exceeded allowable direct and indirect costs for the activity of diverting solid waste by fiscal year for FY 2001-02 through FY 2008-09.

<u>Fiscal Year</u>	<u>Actual Offsetting Revenues</u>	<u>Allowable Costs</u>	<u>Unused Portion of Revenues</u>
2001-02	\$ (879)	\$ -	\$ (879)
2002-03	(680)	-	(680)
2003-04	(553)	-	(553)
2004-05	(447)	-	(447)
2005-06	(574)	-	(574)
2006-07	(1,742)	-	(1,742)
2007-08	(1,843)	-	(1,843)
2008-09	<u>(652)</u>	<u>352</u>	<u>(300)</u>
Total	<u>\$ (7,370)</u>	<u>\$ 352</u>	<u>\$ (7,018)</u>

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

Offsetting revenues shall include all revenues generated from implementing the Integrated Waste Management Plan.

Recommendation

We recommend that the district offset all revenue received on its mandated cost claims for this program from implementation of its Integrated Waste Management plan.

District’s Response

The district accepts the finding.

FINDING 4— Overstated offsetting savings

The district identified \$25,000 in offsetting savings for the audit period (\$2,000 in FY 2005-06, \$3,000 in FY 2006-07, and \$20,000 in FY 2007-08). However, the amounts were claimed as offsetting savings in error and were intended to be claimed as offsetting revenues. The amount of understated offsetting revenues is identified in Finding 3 above.

As noted in Finding 1, we determined that there were no allowable costs for the activity of diverting solid waste. As a result, the district did not have any offsetting savings to report from implementing the mandated program. However, as noted below in OTHER ISSUES–Offsetting savings not realized, we determined that the district could have realized offsetting savings totaling \$504,861 based on the information that it reported to CalRecycle.

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 accepts the finding.

OTHER ISSUES

Compliance with solid waste diversion requirements not met

During the course of the audit, we were unable to verify that the district met the 25% and 50% diversion requirements based on the information provided. As noted in Finding 1 above, the district's trash hauler, CR&R, Inc. collects virtually all of the district's solid waste and subsequently performs solid waste diversion activities at its facility.

The parameters and guidelines (section IV.B.5–Reimbursable Activities–Ongoing Activities) require claimants to:

Divert at least 25 percent of all solid waste from landfill disposal or transformation facilities by January 1, 2002, and at least 50 percent of all solid waste from landfill disposal or transformation facilities by January 1, 2004, through source reduction, recycling, and composting activities.

Also, as noted in Findings 1 and 3, none of the salary and benefit or contract services costs were allowable because the district did not provide documentation to support costs claimed. Consequently, we did not allow any related offsetting revenues or savings other than for recyclable materials identified in Finding 3. Had the district been able to support that it met the diversion requirements and supported actual costs incurred, it would have been required to deduct offsetting revenues and offsetting savings. Based on information provided by the district, the offsetting revenues and offsetting savings on the solid waste diversion would have been \$7,370 and \$504,861, respectively.

We obtained a copy of the district's proposed contract with CR&R, Inc. (Proposal #1915, dated July 31, 2006) that was subsequently adopted by the district. We noted that, in Section 2–Scope of Contract, it states:

The Contractor shall provide quarterly weight reports of waste diversion and recycling information for each location in order for the District to meet diversion goals set forth in AB 75.

However, the district did not provide any of the quarterly reports described in the contract. In addition, none of the district representatives we spoke with were aware of this reporting requirement. The only information the district was able to provide consisted of Annual Weight Reports from the Manager of CR&R, Inc. Each of these reports for the audit period includes the following statement:

All of the materials collected from the college are taken to our Material Recovery Facility (M.R.F.) in Stanton for processing. The school districts produce large amounts of paper and other recyclable materials. We have done several characterization studies on this material and have determined that the volume of recoverable recyclables exceeds the AB939 State Diversion requirements (50%).

District representatives stated that they did not have any copies of the “characterization study” described in these reports, nor had they ever seen a copy of the study. The Annual Weight Reports provided by CR&R, Inc. also included tonnage amounts of solid waste generated from each district site during the year. We noted that these amounts materially matched the solid waste amounts of trash generated that was subsequently reported to CalRecycle for each year of the audit period. However, none of the reports from CR&R, Inc. included tonnage information of solid waste diverted or any other details regarding recyclable materials.

In order to claim mandated costs for diverting solid waste from landfill disposal or transformation facilities, the district is required under the mandated program and the Public Resources Code to provide adequate support that it met this requirement.

Offsetting Revenues Not Realized

The district reported to CalRecycle that it diverted recyclable materials to meet its diversion percentage. We analyzed the information that the district reported to CalRecycle. Based on the tonnage amounts the district reported and the average commodity prices provided by CalRecycle, we determined that the district could have realized \$180,795 in revenues from recycling beverage containers, cardboard, newspaper, recycled paper, and scrap metal for the audit period. We are providing this information to inform the district of the scope of potential revenues available should it subsequently perform solid waste diversion of recyclable materials. As noted in Finding 3, the district received only \$7,370 in services from the sale of cardboard, pellets, and toner cartridges for the audit period. For calendar years 2002 through 2007, we multiplied the tonnage recycled (as reported by Coast Community College District to the IWM Board pursuant to Public Resources Code section 42926(b)(1)) by the average price per commodity, as follows: $\text{Offsetting revenues} = \text{Reported tons} \times \text{Average commodity price/ton}$.

For example, the district reported to CalRecycle that it recycled 5.78 tons of beverage containers during calendar year 2002. However, the period of January 1, 2002, through June 30, 2002, belongs in FY 2001-02 and the period of July 1, 2002, through December 31, 2002, belongs in FY 2002-03. Accordingly, we divided the tonnage in half for each six-month period; this tonnage equals 2.89 tons. We then multiplied the 2.89 tons of recycled beverage containers by the average commodity rate of \$500 per ton to determine offsetting revenues of \$1,445 for January 1, 2002, through June 30, 2002, and “potential” revenues of \$58,762 for the entire audit period.

The following table summarizes the calculation of potential revenues for beverage containers by calendar year.

	Fiscal Year	[A] Reported Tons	[B] [B] Price	Revenues (Cols. [A] x [B])
01/01/02-06/30/02	2001-02	2.89	\$ 500.00	\$ 1,445
07/01/02-12/31/02		2.89	500.00	1,445
01/01/03-06/30/03	2002-03	6.65	500.00	3,325
Subtotal		9.54		4,770
07/01/03-12/31/03		6.65	500.00	3,325
01/01/04-06/30/04	2003-04	7.91	500.00	3,955
Subtotal		14.56		7,280
07/01/04-12/31/04		7.91	500.00	3,955
01/01/05-06/30/05	2004-05	10.44	500.00	5,220
Subtotal		18.35		9,175
07/01/05-12/31/05		10.44	500.00	5,220
01/01/06-12/31/06	2005-06	10.66	702.42	7,488
Subtotal		21.1		12,708
07/01/06-12/31/06		10.66	702.42	7,488
01/01/07-06/30/07	2006-07	17.49	908.90	15,897
Subtotal		28.15		23,384
Totals		94.59		\$ 58,762

The following table summarizes the \$180,795 in potential revenues the district could have received from selling all recyclable materials that it reported to CalRecycle for each calendar year. We adjusted the results in order to also present potential revenues on a fiscal year basis.

Calendar Year	Total Revenues for Materials (per CalRecycle)	Fiscal Year	Total Revenues for Materials
2002	\$ 17,324	2001-02	\$ 8,662
2003	23,646	2002-03	20,485
2004	32,495	2003-04	28,071
2005	34,891	2004-05	33,693
2006	36,186	2005-06	35,539
2007	72,505	2006-07	54,345
Total	\$ 217,047		\$ 180,795

Offsetting Savings Not Realized

The district did not identify any offsetting savings in its mandated costs claims for the audit period from implementation of its Integrated Waste Management Plan. Based on information the district reported to CalRecycle, we determined that the district could have reported in offsetting savings \$504,861 for the audit period. However, the district does not have information available regarding the actual tonnage of diverted solid waste. In addition, as the district's material recovery facility (CR&R, Inc.) provides virtually all of the waste and recycling services for the district, it appears that there was no cost savings realized by the district.

The following table summarizes the potential amount of offsetting savings that we identified by fiscal year.

<u>Fiscal Year</u>	<u>Claimed Cost Savings</u>	<u>Calculated Cost Savings</u>
2001-02	\$ -	\$ 12,303
2002-03	-	28,641
2003-04	-	58,983
2004-05	-	80,405
2005-06	-	102,849
2006-07	-	96,285
2007-08	-	66,341
2008-09	-	59,054
Total	<u>\$ -</u>	<u>\$ 504,861</u>

The parameters and guidelines for the program (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 Integrated Waste Management Account in the Integrated Waste Management Fund, which are 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 Integrated Waste Management Account in the Integrated Waste Management Fund. We determined that the district may have had reduced or avoided costs realized from implementation of its Integrated Waste Management plan that it did not identify and offset from its claims as cost savings.

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

... 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).

**Understated indirect
cost rate for FY
2008-09**

The district understated its indirect cost rate for FY 2008-09. The district claimed an indirect cost rate of 33.23%, although we determined that the indirect costs rate should be 41.51%. We calculated the allowable indirect cost rates for FY 2008-09 based on the FAM-29C methodology that the parameters and guidelines and the SCO's claiming instructions allow, using information contained in the California Colleges Annual Financial and Budget Report, Expenditures by Activity (CCFS-311). Our calculations revealed that the district understated its indirect cost rate for that year because the district excluded depreciation realized for Buildings and Equipment in its calculations. However, as the audit results revealed that there were no allowable salaries and benefits costs for that year, the understated indirect cost rate had no impact on allowable costs.

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

January 30, 2012

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

Dear Mr. Spano,

We have received the draft copy of the mandated cost audit for the Integrated Waste Management Program. The staff conducted the audit thoroughly and professionally. All findings were discussed and reviewed during the audit process and at the exit conference. The district accepts all findings and adjustments for the claims years 2000 through 2009.

If you have any questions, please contact me at 714-438-4654.

Sincerely,



Kimberly McCord
Administrative Director, Fiscal Affairs

cc: Dr. Andrew Jones, Chancellor
Coast Community College District

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>