

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Audit Report

INTEGRATED WASTE MANAGEMENT PROGRAM

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

July 1, 2001, through June 30, 2009



JOHN CHIANG
California State Controller

December 2013



JOHN CHIANG
California State Controller

December 10, 2013

Miguel Santiago, President
Board of Trustees
Los Angeles Community College District
770 Wilshire Boulevard
Los Angeles, CA 90017

Dear Mr. Santiago:

The State Controller's Office audited the costs claimed by the Los Angeles 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, 2001, through June 30, 2009.

The district claimed \$16,625,115 for the mandated program. Our audit found that \$781,735 is allowable (\$868,595 less an \$86,860 penalty for filing late claims) and \$15,843,380 is unallowable. The costs are unallowable because the district claimed unsupported and ineligible costs, misstated indirect costs, overstated offsetting revenues, understated offsetting savings, and made calculation errors. The State made no payment to the district. The State will pay \$781,735, contingent upon available appropriations.

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/kw

cc: Adriana D. Barrera, Ed.D., Interim Chancellor
Los Angeles Community College District
Jeanette L. Gordon, Chief Financial Officer/Treasurer
Los Angeles Community College District
Leila Menzies, Vice President of Administration & Health Benefits
Los Angeles Community College District
Hubert Lee, Accounting Manager
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Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Official	2
Restricted Use	2
Schedule 1—Summary of Program Costs	3
Findings and Recommendations	7
Attachment—District’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Los Angeles 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, 2001, through June 30, 2009.

The district claimed \$16,625,115 for the mandated program. Our audit found that \$781,735 is allowable (\$868,595 less an \$86,860 penalty for filing late claims) and \$15,843,380 is unallowable. The costs are unallowable because the district claimed unsupported and ineligible costs, misstated indirect costs, overstated offsetting revenues, understated offsetting savings, and made calculation errors. The State made no payment to the district. The State will pay \$781,735, contingent upon available appropriations.

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 section 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 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 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 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, 2001, 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 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) and in the Findings and Recommendations section of this report.

For the audit period, the Los Angeles Community College District claimed \$16,625,115 for costs of the Integrated Waste Management Program. Our audit found that \$781,735 is allowable (\$868,595 less an \$86,860 penalty for filing late claims) and \$15,843,380 is unallowable. The State made no payment to the district. The State will pay \$781,735, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on November 21, 2013. Jeanette Gordon, Chief Financial Officer/Treasurer, responded by letter dated December 3, 2013 (Attachment), accepting the audit findings and disagreeing with the basis for certain adjustments. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of the Los Angeles 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

December 10, 2013

**Schedule 1—
Summary of Program Costs
July 1, 2001, through June 30, 2009**

Cost Elements	Actual Cost Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Salaries and benefits	\$ 1,143,422	\$ 241,426	\$ (901,996)	Finding 1
Materials and supplies	3,900	—	(3,900)	Finding 2
Total direct costs	1,147,322	241,426	(905,896)	
Indirect costs	457,369	38,387	(418,982)	Finding 5
Total direct and indirect costs	1,604,691	279,813	(1,324,878)	
Less offsetting revenues and reimbursements	(1,719)	(5,695)	(3,976)	Finding 6
Less offsetting savings	—	(71,430)	(71,430)	Finding 7
Subtotal	1,602,972	202,688	(1,400,284)	
Less late filing penalty ²	—	(20,269)	(20,269)	
Total program costs	<u>\$ 1,602,972</u>	182,419	<u>\$ (1,420,553)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 182,419</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries and benefits	\$ 1,180,349	\$ 253,033	\$ (927,316)	Finding 1
Materials and supplies	2,400	—	(2,400)	Finding 2
Fixed assets	11,064	—	(11,064)	Finding 4
Total direct costs	1,193,813	253,033	(940,780)	
Indirect costs	472,140	77,580	(394,560)	Finding 5
Total direct and indirect costs	1,665,953	330,613	(1,335,340)	
Less offsetting revenues and reimbursements	(2,009)	(5,982)	(3,973)	Finding 6
Less offsetting savings	—	(110,327)	(110,327)	Finding 7
Subtotal	1,663,944	214,304	(1,449,640)	
Less late filing penalty ²	—	(21,430)	(21,430)	
Total program costs	<u>\$ 1,663,944</u>	192,874	<u>\$ (1,471,070)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 192,874</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits	\$ 1,180,349	\$ 253,964	\$ (926,385)	Finding 1
Materials and supplies	2,400	—	(2,400)	Finding 2
Fixed assets	45,081	—	(45,081)	Finding 4
Total direct costs	1,227,830	253,964	(973,866)	
Indirect costs	472,139	74,869	(397,270)	Finding 5
Total direct and indirect costs	1,699,969	328,833	(1,371,136)	

Schedule 1 (continued)

Cost Elements	Actual Cost Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2003, through June 30, 2004 (continued)</u>				
Less offsetting revenues and reimbursements	(4,080)	(5,250)	(1,170)	Finding 6
Less offsetting savings	—	(135,357)	(135,357)	Finding 7
Calculation error	467,117	—	(467,117)	Finding 8
Subtotal	2,163,006	188,226	(1,974,780)	
Less late filing penalty ²	—	(18,823)	(18,823)	
Total program costs	<u>\$ 2,163,006</u>	169,403	<u>\$ (1,993,603)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 169,403</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries and benefits	\$ 1,206,252	\$ 256,387	\$ (949,865)	Finding 1
Materials and supplies	2,400	—	(2,400)	Finding 2
Total direct costs	1,208,652	256,387	(952,265)	
Indirect costs	482,501	84,756	(397,745)	Finding 5
Total direct and indirect costs	1,691,153	341,143	(1,350,010)	
Less offsetting revenues and reimbursements	(8,807)	(5,234)	3,573	Finding 6
Less offsetting savings	—	(162,018)	(162,018)	Finding 7
Calculation error	477,844	—	(477,844)	Finding 8
Subtotal	2,160,190	173,891	(1,986,299)	
Less late filing penalty ²	—	(17,389)	(17,389)	
Total program costs	<u>\$ 2,160,190</u>	156,502	<u>\$ (2,003,688)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 156,502</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries and benefits	\$ 1,379,842	\$ 294,739	\$ (1,085,103)	Finding 1
Materials and supplies	2,400	—	(2,400)	Finding 2
Fixed assets	12,620	—	(12,620)	Finding 4
Total direct costs	1,394,862	294,739	(1,100,123)	
Indirect costs	551,937	97,434	(454,503)	Finding 5
Total direct and indirect costs	1,946,799	392,173	(1,554,626)	
Less offsetting revenues and reimbursements	(3,753)	(5,480)	(1,727)	Finding 6
Less offsetting savings	—	(297,207)	(297,207)	Finding 7
Subtotal	1,943,046	89,486	(1,853,560)	
Less late filing penalty ²	—	(8,949)	(8,949)	
Total program costs	<u>\$ 1,943,046</u>	80,537	<u>\$ (1,862,509)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 80,537</u>		

Schedule 1 (continued)

Cost Elements	Actual Cost Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Salaries and benefits	\$ 1,434,715	\$ 307,160	\$ (1,127,555)	Finding 1
Materials and supplies	2,400	—	(2,400)	Finding 2
Fixed assets	104,940	—	(104,940)	Finding 4
Total direct costs	1,542,055	307,160	(1,234,895)	
Indirect costs	87,958	101,540	13,582	Finding 5
Total direct and indirect costs	1,630,013	408,700	(1,221,313)	
Less offsetting revenues and reimbursements	(17,497)	(6,753)	10,744	Finding 6
Less offsetting savings	—	(806,164)	(806,164)	Finding 7
Subtotal	1,612,516	(404,217)	(2,016,733)	
Adjustment to eliminate negative balance	—	404,217	404,217	
Total program costs	<u>\$ 1,612,516</u>	—	<u>\$ (1,612,516)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Salaries and benefits	\$ 1,505,019	\$ 322,425	\$ (1,182,594)	Finding 1
Materials and supplies	2,850	—	(2,850)	Finding 2
Contract services	111,585	—	(111,585)	Finding 3
Fixed assets	146,370	—	(146,370)	Finding 4
Total direct costs	1,765,824	322,425	(1,443,399)	
Indirect costs	602,007	106,587	(495,420)	Finding 5
Total direct and indirect costs	2,367,831	429,012	(1,938,819)	
Less offsetting revenues and reimbursements	(9,060)	(7,742)	1,318	Finding 6
Less offsetting savings	—	(1,224,165)	(1,224,165)	Finding 7
Subtotal	2,358,771	(802,895)	(3,161,666)	
Adjustment to eliminate negative balance	—	802,895	802,895	
Total program costs	<u>\$ 2,358,771</u>	—	<u>\$ (2,358,771)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Salaries and benefits	\$ 1,515,196	\$ 324,612	\$ (1,190,584)	Finding 1
Materials and supplies	105,403	—	(105,403)	Finding 2
Contract services	376,974	—	(376,974)	Finding 3
Fixed assets	547,888	—	(547,888)	Finding 4
Total direct costs	2,545,461	324,612	(2,220,849)	
Indirect costs	606,079	107,310	(498,769)	Finding 5
Total direct and indirect costs	3,151,540	431,922	(2,719,618)	

Schedule 1 (continued)

Cost Elements	Actual Cost Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2008, through June 30, 2009 (continued)</u>				
Less offsetting revenues and reimbursements	(30,870)	(7,742)	23,128	Finding 6
Less offsetting savings	—	(1,308,518)	(1,308,518)	Finding 7
Subtotal	3,120,670	(884,338)	(4,005,008)	
Adjustment to eliminate negative balance	—	884,338	884,338	
Total program costs	<u>\$ 3,120,670</u>	—	<u>\$ (3,120,670)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>Summary: July 1, 2001 through June 30, 2009</u>				
Direct costs:				
Salaries and benefits	\$ 10,545,144	\$ 2,253,746	\$ (8,291,398)	
Materials and supplies	124,153	—	(124,153)	
Contract services	488,559	—	(488,559)	
Fixed assets	867,963	—	(867,963)	
Total direct costs	12,025,819	2,253,746	(9,772,073)	
Indirect costs	3,732,130	688,463	(3,043,667)	
Total direct and indirect costs	15,757,949	2,942,209	(12,815,740)	
Less offsetting revenues and reimbursements	(77,795)	(49,878)	27,917	
Less offsetting savings	—	(4,115,186)	(4,115,186)	
Calculation error	944,961	—	(944,961)	
Subtotal	16,625,115	(1,222,855)	(17,847,970)	
Adjustment to eliminate negative balance	—	2,091,450	2,091,450	
Subtotal	16,625,115	868,595	(15,756,520)	
Less late filing penalty	—	(86,860)	(86,860)	
Total program costs	<u>\$ 16,625,115</u>	781,735	<u>\$ (15,843,380)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 781,735</u>		

¹ See the Findings and Recommendations section.

² The district filed its FY 2001-02 through FY 2005-06 initial reimbursement claims after the due date specified in Government Code section 17560. Pursuant to Government Code section 17561, subdivision (b)(3), the State assessed a late filing penalty equal to 10% of allowable costs, with no maximum penalty amount (for claims filed on or after September 30, 2002).

Findings and Recommendations

**FINDING 1—
Overstated salaries
and benefits**

The district claimed \$10,545,144 in salaries and benefits during the audit period. We determined that \$2,253,746 is allowable and \$8,291,398 is unallowable. The costs are unallowable because \$7,845,083 is unsupported and \$446,315 is ineligible.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
2001-02	\$ 1,143,422	\$ 241,426	\$ (901,996)
2002-03	1,180,349	253,033	(927,316)
2003-04	1,180,349	253,964	(926,385)
2004-05	1,206,252	256,387	(949,865)
2005-06	1,379,842	294,739	(1,085,103)
2006-07	1,434,715	307,160	(1,127,555)
2007-08	1,505,019	322,425	(1,182,594)
2008-09	1,515,196	324,612	(1,190,584)
	<u>\$ 10,545,144</u>	<u>\$ 2,253,746</u>	<u>\$ (8,291,398)</u>

Recap by reimbursable component	Amount Claimed	Amount Allowable	Audit Adjustment
Diversion and Maintenance of Approved Level of Reduction	\$ 9,894,618	\$ 2,049,535	\$ (7,845,083)
Training District Staff on Requirements of the Mandate	500,118	53,803	(446,315)
Designation of a Recycling Coordinator	43,717	43,717	—
Calculations of Annual Disposal Reduction	79,876	79,876	—
Annual Report to the IWM Board	26,815	26,815	—
	<u>\$ 10,545,144</u>	<u>\$ 2,253,746</u>	<u>\$ (8,291,398)</u>

Diversion and Maintenance of Approved Level of Reduction

The district claimed salaries and benefits of \$9,894,618 for the Diversion and Maintenance of Approved Level of Reduction cost component. We determined that \$2,049,535 is allowable and \$7,845,083 is unallowable. The costs are unallowable because the district claimed costs that were based entirely on estimates and not supported by any documentation.

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

. . . 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. . .

Time Study

The district requested, and we agreed, that the district be allowed to perform a time study to support allowable activities for the Diversion and Maintenance of Approved Level of Reduction cost component.

In October 2012, the district performed a time study at the Educational Services Center, East Los Angeles College, Harbor College, Valley College, and West Los Angeles College. In February 2013, the district performed a time study at the City College, Mission College, Pierce College, Southwest College, and Trade-Technical College.

The time study consisted of time spent by 196 employees for 20 working days. The employees kept a log of the activities they performed throughout the work day. Some of the activities that were time-studied included compacting cardboard, cleaning recycling bins, collecting and sorting recyclables, and transporting the recyclables to designated areas.

The time study supported 2,061.67 cumulative hours spent over the 20 days for recycling and composting activities. We reviewed the daily logs and determined that 1,504.16 hours were spent on mandated activities and 557.51 hours were spent on unallowable activities. The unallowable activities were for activities such as spraying for weeds, collecting trash, and cleaning restrooms.

Allocated Diversion Percentage

Public Resources Code section 42921 requires that the community college districts achieve a solid waste diversion percentage of 25% beginning 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 used to exceed these State-mandated levels.

In 2008, CalRecycle began focusing on “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 and 2013). In addition, the district did not provide documentation to support the diversion percentage for either 2012 or 2013. 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:

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

This calculation determines the salaries and benefits the district incurred to achieve the required level of diversion. In total, based on the time study results, we determined that \$2,049,535 in salaries and benefits is allowable.

Training District Staff on the Requirements of the Mandate

The district claimed salaries and benefits of \$500,118 for the Training District Staff on the Requirements of the Mandate cost component. We determined that \$53,803 is allowable and \$446,315 is unallowable. The costs are unallowable because the activity is limited to one-time per employee.

The parameters and guidelines (section IV. Reimbursable Activities, subsection (A)(2)) state that training is limited to one-time per employee on the requirements and implementation of the IWM plan and is limited to staff working directly on the plan.

We allowed the salaries and benefits claimed for FY 2001-02, the first year claimed, and did not allow any training claimed thereafter. We confirmed that salaries and benefits claimed for FY 2001-02 also were claimed for the same employees for FY 2002-03 through FY 2008-09. The district did not support that additional reimbursable training costs for mandated activities were incurred for FY 2002-03 through FY 2008-09.

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 audit findings of the State Controller's Office, but respectfully disagrees with the basis for certain adjustments. These adjustments include, but are not limited to the following:

Strict limitation (one-time) training costs for program implementation and reporting rules that Cal/Recycle, former California Integrated Waste Management Board ("CIWMB"), changed annually during the first seven years of implementation. The purchase and use of various container types, balers, recycling compactors, and conveyance equipment demanded additional training as each campus further developed its capabilities to effectively divert integrated wastes from landfills. Completing annual reports also required additional training, which the District co-sponsored with a CIWMB Integrated Waste Management Specialist, at least three years, consecutively, at Los Angeles Mission College. The audit rules did not allow for any consideration of either continuing training or training on new equipment, which was necessary for assurance that best management practices were being further developed and utilized as integrated waste management programs matured and became more effective.

Mandated costs limited to that which attained the minimum diversion of 25% in calendar year 2002; 50% in calendar year 2004 and beyond. In order to implement AB75 and attain substantial compliance with target diversion mandates, we were required to establish and commit to certain processes. Once those program processes were established, all staff supporting resources, including labor-intensive source separation activities, packaging (baling in some applications), shipping, and recordkeeping activities were also committed. We submit that no large state facility would consider cutting off such a program that has been successfully integrated within the campus community. It would not be practical to do so and, in fact would defeat the purpose of the mandated program. Therefore, we believe that the staffing commitment and diversion activities do not change substantially between a college meeting the minimum 50% diversion or District average of 75-80% diversion for a well-developed and effective Integrated Waste Management Program.

SCO's Comment

The finding and recommendation remain unchanged.

Strict limitation on training costs

The district asserts that we applied strict limitations on training costs. We agree that training is an on-going process that occurs both annually and intermittently when new equipment is purchased. However, the district did not provide documentation to support that such costs occurred throughout the audit period. Therefore, we allowed training costs claimed for the first year of the audit period (FY 2001-02) and none thereafter.

Mandated costs limited to that which attained the minimum diversion

The district asserts that we allowed reimbursement for the minimum diversion of only 25% beginning in calendar year 2002, and 50% beginning in calendar year 2004. This is incorrect. As stated in the finding, we allowed the maximum diversion percentage for each calendar year, but not beyond what was required by statute. For calendar years 2000 and 2001, we allowed salary and benefit costs incurred up to a maximum diversion of 25%, which accounts for the ramp-up period imposed on the district to meet the 25% diversion requirement by the statutory deadline of January 1, 2002. For calendar years 2002 and 2003, we allowed salary and benefit costs incurred up to a maximum diversion of 50%, which accounts for the ramp-up period imposed on the district to meet the 50% diversion requirement by the statutory deadline of January 1, 2004. For calendar years 2004 and later, we allowed salary and benefit costs incurred up to a maximum diversion of 50% because Public Resources Code section 42921 does not require the district to divert beyond that.

We recognize that the district diverted beyond what was required by law. However, reimbursement is for mandated costs associated with diverting at least 25% and 50% of all solid waste by the statutory dates. Since there is no mandate to exceed these levels, there is no legal basis for reimbursing any additional costs in surpassing the level set by statute. In addition, to provide reimbursement beyond what is mandated could be considered a gift of public funds, which would be in violation of Article XVI, section 6, of the State Constitution.

**FINDING 2—
Unsupported
materials and supplies**

The district claimed \$124,153 in materials and supplies during 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 material and supply costs for the audit period by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
2001-02	\$ 3,900	\$ -	\$ (3,900)
2002-03	2,400	-	(2,400)
2003-04	2,400	-	(2,400)
2004-05	2,400	-	(2,400)
2005-06	2,400	-	(2,400)
2006-07	2,400	-	(2,400)
2007-08	2,850	-	(2,850)
2008-09	<u>105,403</u>	<u>-</u>	<u>(105,403)</u>
Total	<u>\$ 124,153</u>	<u>\$ -</u>	<u>\$(124,153)</u>

The district claimed reimbursement for the purchase of recycling bags, recycling containers, trash containers, and trash can liners. Trash containers and trash can liners are not reimbursable because they are not an increased cost incurred by the district as a result of performing mandated activities. We were unable to determine how much was claimed specifically for the reimbursable recycling bags and recycling containers because the worksheets provided by the district did not separately identify the reimbursable and non-reimbursable purchases.

To support the material and supply purchases, the district provided an “Integrated Waste – Expenses and Revenues” worksheet and a “Recycling Expenditures Measure J” worksheet. The parameters and guidelines (section IV. Reimbursable Activities) state:

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. . . However, corroborating documents cannot be substituted for source documents.

During audit fieldwork, we requested source documentation such as an invoice or a receipt. The district did not provide us with any additional documentation. Furthermore, the district’s recycling coordinator informed us that most of the material and supply purchases were paid for with Measure J funds. The coordinator’s statement also was supported with the district’s “Recycling Expenditures Measure J” worksheet showing that \$74,441 spent on the purchase of recycling containers at Waxie Sanitary Supply was paid for from restricted resources (Measure J funds).

Had the district provided documentation to support that the costs claimed were for mandated activities, we would have allowed the supported costs and offset the portion paid from restricted resources.

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 audit findings of the State Controller's Office, but respectfully disagrees with the basis for certain adjustments.

SCO's Comment

The finding and recommendation remain unchanged. The district did not specifically identify its disagreement with this finding.

**FINDING 3—
Unsupported contract
services**

The district claimed \$488,559 in contract services during 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 services for the audit period by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
2007-08	\$ 111,585	\$ -	\$(111,585)
2008-09	<u>376,974</u>	<u>-</u>	<u>(376,974)</u>
Total	<u>\$488,559</u>	<u>\$ -</u>	<u>\$(488,559)</u>

The district claimed reimbursement for consulting services provided by Anew and Recycling Strategies. The district provided a “Recycling Expenditures Measure J” worksheet to support the contract service costs claimed. The parameters and guidelines (section IV. Reimbursable Activities) state:

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. . . . However, corroborating documents cannot be substituted for source documents.

During audit fieldwork, we requested source documentation such as an invoice. The district did not provide us with any additional documentation. Furthermore, the district’s recycling coordinator informed us that the contract services claimed were paid for with either Measure J funds or by the Proposition A and Proposition AA Bond Construction Program. The coordinator’s statement also was supported with the district’s “Recycling Expenditures Measure J” worksheet showing that \$221,381 of the consulting service fees were paid for with Measure J funds, and \$267,178 of the consulting service fees were paid for from Proposition A and Proposition AA bond funds, which are both restricted resources.

Had the district provided documentation to support that the costs claimed were for mandated activities, we would have allowed the supported costs and offset the portion paid from restricted resources.

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 audit findings of the State Controller's Office, but respectfully disagrees with the basis for certain adjustments. These adjustments include, but are not limited to the following:

Construction purchases were not considered in support of program development. We now understand that our bond program expenditures should not have been included in our initial claim; however, as with offsetting savings, we are somewhat unclear as to how construction planning for integrated waste management programs, supporting equipment and contracts purchases are not allowable for reimbursement while construction diversion is considered as "savings." How can this be?

SCO's Comment

The finding and recommendation remain unchanged.

We agree that construction contract costs incurred by the district to develop and plan an IWM Program are an allowable cost; however, the district did not provide documentation to support such costs. Had the district provided copies of contracts or invoices to support that such costs were incurred for mandated activities, we would have allowed the supported cost.

In addition, the district questions why construction diversion is considered a "savings" (see Finding 7). Construction debris (e.g., concrete, asphalt, rubble, lumber, etc...) is considered a diversion activity *if* the debris has been properly disposed of. For example, construction debris can be ground-up and used for road base, lumber can be re-used or ground-up for mulch, and drywall can be ground-up and used as fertilizer (because it contains calcium).

We included the construction diversion in the offsetting savings calculation because the district classified it as such in its annual report to CalRecycle.

**FINDING 4—
Unsupported fixed
assets**

The district claimed \$867,963 in fixed assets during 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 fixed assets for the audit period by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
2002-03	\$ 11,064	\$ —	\$ (11,064)
2003-04	45,081	—	(45,081)
2004-05	—	—	—
2005-06	12,620	—	(12,620)
2006-07	104,940	—	(104,940)
2007-08	146,370	—	(146,370)
2008-09	547,888	—	(547,888)
Total	\$ 867,963	\$ —	\$ (867,963)

The district claimed reimbursement for the following equipment purchases:

- Cardboard baler
- 3-yard compactor bin
- Trash compactor
- Kubota trucks
- Brush chipper
- Komatsu forklift
- Motor cart and dump truck

The district provided an “Integrated Waste – Expenses and Revenues” worksheet and an internal email to support the fixed assets purchased. The parameters and guidelines (section IV. Reimbursable Activities) state:

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. . . . However, corroborating documents cannot be substituted for source documents.

During audit fieldwork, we requested source documentation such as an invoice or a receipt. The district did not provide us with any additional documentation.

Neither the worksheet nor the email reported the purchase price paid, the date on which the purchase was made, or a description of how the equipment will be used for mandated activities. Most of the equipment purchased, such as the trucks, the forklift, and the trash compactor, can be used for both mandated and non-mandated activities. The parameters and guidelines (section V. Claim Preparation and Submission, subsection (A)(4)) state:

If the fixed asset or equipment is also used for purposes other than 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, are based on actual costs, and are supported by source documentation.

District's Response

The district accepts the audit findings of the State Controller's Office, but respectfully disagrees with the basis for certain adjustments

SCO's Comment

The finding and recommendation remain unchanged. The district did not specifically identify its disagreement with this finding.

**FINDING 5—
Misstated indirect costs**

The district claimed \$3,732,130 in indirect costs for the audit period. We determined that \$688,463 is allowable and \$3,043,667 is unallowable. The costs are unallowable because the district applied the indirect cost rate to unallowable salaries and benefits (see Finding 1), incorrectly applied the federally approved rate to benefits, and did not support the indirect cost rates claimed for FY 2001-02 through FY 2003-04.

The district claimed a federally approved rate of 40% for each fiscal year in the audit period. The federal approval letter specifically states that the indirect cost rate is to be applied to salaries and wages, excluding fringe benefits. However, for each fiscal year in the audit period, the district incorrectly applied the federally approved rate to benefits.

Furthermore, the federal approval letter states that the indirect cost rate was approved for FY 2004-05 through FY 2008-09. As the district did not support that it had a federally approved rate for FY 2001-02 through FY 2003-04, we calculated indirect costs using the FAM-29C methodology outlined in the SCO’s claiming instructions for these years. The FAM-29C was calculated using information contained in the California Community Colleges Annual Financial and Budget Report Expenditures by Activity (CCFS-311).

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

Fiscal Year	Claimed Indirect Cost Rate	Allowable Indirect Cost Rate	Unsupported Indirect Cost Rate
2001-02	40.00%	15.90%	(24.10%)
2002-03	40.00%	30.66%	(9.34%)
2003-04	40.00%	29.48%	(10.52%)

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

Fiscal Year	Allowable Salaries ¹	Allowable Direct Costs ²	Allowable Indirect Cost Rate	Allowable Indirect Costs	Claimed Indirect Costs	Audit Adjustment
2001-02	\$ -	\$ 241,426	15.90%	\$ 38,387	\$ 457,369	\$ (418,982)
2002-03	-	253,033	30.66%	77,580	472,140	(394,560)
2003-04	-	253,964	29.48%	74,869	472,139	(397,270)
2004-05	211,890	-	40.00%	84,756	482,501	(397,745)
2005-06	243,585	-	40.00%	97,434	551,937	(454,503)
2006-07	253,851	-	40.00%	101,540	87,958	13,582
2007-08	266,467	-	40.00%	106,587	602,007	(495,420)
2008-09	268,274	-	40.00%	107,310	606,079	(498,769)
Total	\$ 1,244,067	\$ 748,423		\$ 688,463	\$ 3,732,130	\$ (3,043,667)

¹ The federally approved rate is applied to salaries and wages, excluding fringe benefits.

² The FAM-29C rate is applied to allowable direct costs.

The parameters and guidelines (section V. Claim Preparation and Submission, subsection (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 Educational 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 costs in the manner prescribed in the claiming instructions, and apply the indirect cost rates to allowable direct costs.

District's Response

The district accepts the audit findings of the State Controller's Office, but respectfully disagrees with the basis for certain adjustments.

SCO's Comment

The finding and recommendation remain unchanged. The district did not specifically identify its disagreement with this finding.

**FINDING 6—
Overstated offsetting
revenues**

The district overstated offsetting revenues by \$27,917 for the audit period. The following table summarizes the overstated offsetting revenues by fiscal year:

Fiscal Year	Offsetting Revenue Reported	Offsetting Revenue Received	Audit Adjustment
2001-02	\$ (1,719)	\$ (5,695)	\$ (3,976)
2002-03	(2,009)	(5,982)	(3,973)
2003-04	(4,080)	(5,250)	(1,170)
2004-05	(8,807)	(5,234)	3,573
2005-06	(3,753)	(5,480)	(1,727)
2006-07	(17,497)	(6,753)	10,744
2007-08	(9,060)	(7,742)	1,318
2008-09	(30,870)	(7,742)	23,128
Total	\$ (77,795)	\$ (49,878)	\$ 27,917

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

Reimbursement for this mandate from any source, including but not limited to, services 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 implementing the Integrated Waste Management Plan.

The district provided an “Integrated Waste – Expenses and Revenues” worksheet to support the offsetting revenues reported. This worksheet showed that Harbor College received revenue for cardboard recycling and Valley College received revenue for both cardboard and scrap metal recycling. The parameters and guidelines (section IV. Reimbursable Activities) state:

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. . . . However, corroborating documents cannot be substituted for source documents.

The district did not provide any source documents, such as a receipt, to support the offsetting revenues reported.

To determine the actual amount of revenue received by the district for both cardboard and scrap metal recycling at both Harbor College and Valley College, 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 \$49,878 from performing diversion activities.

Recommendation

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

District's Response

The district accepts the audit findings of the State Controller's Office, but respectfully disagrees with the basis for certain adjustments.

SCO's Comment

The finding and recommendation remain unchanged. The district did not specifically identify its disagreement with this finding.

**FINDING 7—
Understated offsetting
savings**

The district understated offsetting savings by \$ \$4,115,186 for the audit period. The following table summarizes the understated offsetting savings by fiscal year:

<u>Fiscal Year</u>	<u>Offsetting Revenue Reported</u>	<u>Offsetting Revenue Received</u>	<u>Audit Adjustment</u>
2001-02	\$ —	\$ (71,430)	\$ (71,430)
2002-03	—	(110,327)	(110,327)
2003-04	—	(135,357)	(135,357)
2004-05	—	(162,018)	(162,018)
2005-06	—	(297,207)	(297,207)
2006-07	—	(806,164)	(806,164)
2007-08	—	(1,224,165)	(1,224,165)
2008-09	—	(1,308,518)	(1,308,518)
Total	<u>\$ —</u>	<u>\$ (4,115,186)</u>	<u>\$ (4,115,186)</u>

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 IWM Board for the purposes of offsetting recycling program costs. For the audit period, the district did not deposit any revenue into the IWM Account. 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 of 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:

$$\begin{array}{rcccl}
 & \text{Allocated Diversion \%} & & & \\
 & \text{-----} & & & \\
 & \text{Maximum} & & & \text{Avoided} \\
 \text{Offsetting} & \text{Allowable} & & & \text{Landfill} \\
 \text{Savings} & = \frac{\text{Diversion \%}}{\text{Actual}} & \times & \text{Tonnage} & \times & \text{Disposal Fee} \\
 \text{Realized} & \text{Diversion \%} & & \text{Diverted} & & \text{(per Ton)}
 \end{array}$$

The calculation determines the cost 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 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 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 “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 and FY 2008-09. 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 and FY 2008-09. 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 landfill disposal fee provided by the district.

Recommendation

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

District's Response

The district accepts the audit findings of the State Controller's Office, but respectfully disagrees with the basis for certain adjustments.

SCO's Comment

The finding and recommendation remain unchanged. The district did not specifically identify its disagreement with this finding.

**FINDING 8—
Calculation errors**

The district overstated costs by \$944,961 (\$467,117 in FY 2003-04 and \$477,844 in FY 2004-05) due to calculation errors made when preparing the IWM claims. Specifically, the district made a math error when totaling the direct and indirect costs and erroneously claimed indirect costs twice.

Recommendation

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

District's Response

The district accepts the audit findings of the State Controller's Office, but respectfully disagrees with the basis for certain adjustments.

SCO's Comment

The finding and recommendation remain unchanged. The district did not specifically identify its disagreement with this finding.

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



LOS ANGELES COMMUNITY COLLEGE DISTRICT

CITY • EAST • HARBOR • MISSION • PIERCE • SOUTHWEST • TRADE-TECHNICAL • VALLEY • WEST

OFFICE OF THE CHIEF FINANCIAL OFFICER / TREASURER
JEANETTE L. GORDON

December 3, 2013

Jim L. Spano
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 Response for S12-MCC-016

Dear Mr. Spano:

The Los Angeles Community College District accepts the audit findings of the State Controller's Office in that allowable costs claimed total \$781,735. By allowing us to do a time study we were able to claim allowable direct and indirect costs totaling \$2,942,209 which were unfortunately reduced by offsetting savings. However, we respectfully disagree with certain disincentives that were incorporated into the audit process. These include, but were not limited to the following District observations:

- Strict limitation (one-time) training costs for program implementation and reporting rules that Cal/Recycle, former California Integrated Waste Management Board ("CIWMB"), changed annually during the first seven years of implementation. The purchase and use of various container types, balers, recycling compactors, and conveyance equipment demanded additional training as each campus further developed its capabilities to effectively divert integrated wastes from landfills. Completing annual reports also required additional training, which the District co-sponsored with a CIWMB Integrated Waste Management Specialist, at least three years, consecutively, at Los Angeles Mission College. The audit rules did not allow for any consideration of either continuing training or training on new equipment, which was necessary for assurance that best management practices were being further developed and utilized as integrated waste management programs matured and became more effective.
- Mandated costs limited to that which attained the minimum diversion of 25% in calendar year 2002; 50% in calendar year 2004 and beyond. In order to implement AB75 and attain substantial compliance with target diversion mandates, we were required to establish and

December 3, 2013

Page 2 of 2

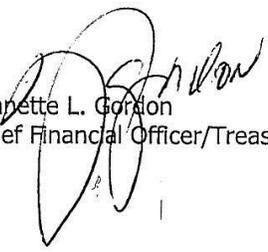
Integrated Waste Management Program Mandated Cost Claims Audit Response for S12-MCC-016

commit to certain processes. Once those program processes were established, all staff supporting resources, including labor-intensive source separation activities, packaging (baling in some applications), shipping, and recordkeeping activities were also committed. We submit that no large state facility would consider cutting off such a program that has been successfully integrated within the campus community. It would not be practical to do so and, in fact, would defeat the purpose of the mandated program. Therefore, we believe that the staffing commitment and diversion activities do not change substantially between a college meeting the minimum 50% diversion or District average of 75-80% diversion for a well-developed and effective Integrated Waste Management Program.

- Construction purchases were not considered in support of program development. We now understand that our bond program expenditures should not have been included in our initial claim; however, as with offsetting savings, we are somewhat unclear as to how construction planning for integrated waste management programs, supporting equipment and contracts purchases are not allowable for reimbursement while construction diversion is considered as "savings". How can this be?

In any case, we do genuinely appreciate the consideration, care and conduct of your staff in preparing this audit and visiting our nine colleges and District Educational Services Center. We note with commendation to our staff, students, and local communities that this audit finds the Los Angeles Community Colleges in substantial compliance with Integrated Waste Management Program rules and that we saved the District approximately \$4,000,000 in land disposal fees with allowable mandated costs calculated as \$781,735.

Sincerely,



Jeanette L. Gordon
Chief Financial Officer/Treasurer

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

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