



**JOHN CHIANG**  
**California State Controller**

August 15, 2013

Fred Williams, Vice Chancellor, Finance and Facilities  
North Orange County Community College District  
1830 West Romneya Drive  
Anaheim, CA 92801-1819

Dear Mr. Williams:

The State Controller's Office reviewed the costs claimed by the North Orange County 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, 2005, through June 30, 2011. Our review was limited to ensuring that offsetting savings were properly reported in accordance with program requirements.

The district claimed \$567,598 for the mandated program. Our review found that \$190,901 is allowable and \$376,697 is unallowable. The costs are unallowable because the district did not report any offsetting savings realized as a result of implementing its integrated waste management plan, as described in the attached Summary of Program Costs, Summary of Offsetting Savings Calculations, and the Finding and Recommendation. The State made no payment to the district. The State will pay the district \$190,901, contingent upon available appropriations.

We informed Rodrigo Garcia, Interim District Director of Fiscal Affairs, of the review results via email on July 2, 2013. On July 22, 2013, Mr. Garcia replied that the district has a general understanding of the issues involved in the adjustment, but that the district does not agree with the audit methodology.

If you disagree with the review finding, 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](http://www.csm.ca.gov/docs/IRCForm.pdf).

Fred Williams, Vice Chancellor,  
Finance and Facilities

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August 15, 2013

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, CPA  
Chief, Division of Audits

JVB/nh

Attachments

RE: S13-MCC-954

cc: Rodrigo Garcia, Interim District Director, Fiscal Affairs  
North Orange County Community College District  
Richard Williams, District Director, Facilities Control  
North Orange County Community College District  
Kashu Vyas, Interim District Manager, Fiscal Affairs  
North Orange County Community College District  
Christine Atalig, Specialist, College Finance and Facilities Planning  
California Community Colleges Chancellor's Office  
Mollie Quasebarth, Principal Program Budget Analyst  
Education Systems Unit, California Department of Finance  
Mario Rodriguez, Finance Budget Analyst  
Education Systems Unit, California Department of Finance  
Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office

**Attachment 1—  
Summary of Program Costs  
July 1, 2005, through June 30, 2011**

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment <sup>1</sup>
<u>July 1, 2005, through June 30, 2006</u>			
Direct costs:			
Salaries and benefits	\$ 13,900	\$ 13,900	\$ —
Indirect costs	5,421	5,421	—
Total direct and indirect costs	19,321	19,321	—
Less offsetting savings <sup>2</sup>	—	(141,312)	(141,312)
Subtotal	19,321	(121,991)	(141,312)
Adjustment to eliminate negative balance	—	121,991	121,991
Total program costs	<u>\$ 19,321</u>	—	<u>\$ (19,321)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Salaries and benefits	\$ 68,079	\$ 68,079	\$ —
Indirect costs	20,084	20,084	—
Total direct and indirect costs	88,163	88,163	—
Less offsetting savings <sup>2</sup>	—	(121,448)	(121,448)
Subtotal	88,163	(33,285)	(121,448)
Adjustment to eliminate negative balance	—	33,285	33,285
Total program costs	<u>\$ 88,163</u>	—	<u>\$ (88,163)</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	\$ 80,376	\$ 80,376	\$ —
Indirect costs	23,711	23,711	—
Total direct and indirect costs	104,087	104,087	—
Less offsetting savings <sup>2</sup>	—	(80,764)	(80,764)
Total program costs	<u>\$ 104,087</u>	23,323	<u>\$ (80,764)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 23,323</u>	

**Attachment 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment <sup>1</sup>
<u>July 1, 2008, through June 30, 2009</u>			
Direct costs:			
Salaries and benefits	\$ 91,511	\$ 91,511	\$ —
Contract services	1,006	1,006	—
Total direct costs	92,517	92,517	—
Indirect costs	36,157	36,157	—
Total direct and indirect costs	128,674	128,674	—
Less offsetting revenues and reimbursements	(2,053)	(2,053)	—
Less offsetting savings <sup>2</sup>	—	(86,474)	(86,474)
Total program costs	<u>\$ 126,621</u>	40,147	<u>\$ (86,474)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 40,147</u>	
<u>July 1, 2009, through June 30, 2010</u>			
Direct costs:			
Salaries and benefits	\$ 128,802	\$ 128,802	\$ —
Materials and supplies	2,125	2,125	—
Total direct costs	130,927	130,927	—
Indirect costs	50,335	50,335	—
Total direct and indirect costs	181,262	181,262	—
Less offsetting revenues and reimbursements	(3,558)	(3,558)	—
Less offsetting savings <sup>2</sup>	—	(90,554)	(90,554)
Total program costs	<u>\$ 177,704</u>	87,150	<u>\$ (90,554)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 87,150</u>	
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Salaries and benefits	\$ 37,523	\$ 37,523	\$ —
Materials and supplies	192	192	—
Total direct costs	37,715	37,715	—
Indirect costs	15,190	15,190	—
Total direct and indirect costs	52,905	52,905	—
Less offsetting revenues and reimbursements	(1,203)	(1,203)	—
Less offsetting savings <sup>2</sup>	—	(11,421)	(11,421)
Total program costs	<u>\$ 51,702</u>	40,281	<u>\$ (11,421)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 40,281</u>	

**Attachment 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment <sup>1</sup>
<u>Summary: July 1, 2005, through June 30, 2011</u>			
Direct costs:			
Salaries and benefits	\$ 420,191	\$ 420,191	\$ —
Materials and supplies	2,317	2,317	—
Contract services	1,006	1,006	—
Total direct costs	423,514	423,514	—
Indirect costs	150,898	150,898	—
Total direct and indirect costs	574,412	574,412	—
Less offsetting revenues and reimbursements	(6,814)	(6,814)	—
Less offsetting savings	—	(531,973)	(531,973)
Subtotal	567,598	35,625	(531,973)
Adjustment to eliminate negative balance	—	155,276	155,276
Total program costs	<u>\$ 567,598</u>	190,901	<u>\$ (376,697)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 190,901</u>	

<sup>1</sup> See Attachment 3, Finding and Recommendation.

<sup>2</sup> See Attachment 2, Summary of Offsetting Savings Calculations.

## Attachment 2— Summary of Offsetting Savings Calculations July 1, 2005, through June 30, 2011

Cost Elements	Offsetting Savings Reported	Offsetting Savings Realized			Review Adjustment <sup>1</sup>
		July-December	January-June	Total	
<u>July 1, 2005, through June 30, 2006</u>					
<i>Cypress College</i>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 49.98%	÷ 51.88%		
Allocated diversion percentage <sup>2</sup>		100.00%	96.38%		
Tonnage diverted	×	(633.15)	×	(382.75)	
Statewide average landfill fee per ton	×	\$39.00	×	\$46.00	
Offsetting savings, Cypress College		(24,693)	(16,969)	(41,662)	
<i>Fullerton College</i>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 49.96%	÷ 76.36%		
Allocated diversion percentage <sup>3</sup>		100.00%	65.48%		
Tonnage diverted	×	(880.25)	×	(2,168.60)	
Statewide average landfill fee per ton	×	\$39.00	×	\$46.00	
Offsetting savings, Fullerton College		(34,330)	(65,320)	(99,650)	
Total offsetting savings, FY 2005-06	\$ —	\$ (59,023)	\$ (82,289)	\$ (141,312)	\$ (141,312)
<u>July 1, 2006, through June 30, 2007</u>					
<i>Cypress College</i>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 51.88%	÷ 40.41%		
Allocated diversion percentage <sup>2</sup>		96.38%	100.00%		
Tonnage diverted	×	(382.75)	×	(430.85)	
Statewide average landfill fee per ton	×	\$46.00	×	\$48.00	
Offsetting savings, Cypress College		(16,969)	(20,681)	(37,650)	
<i>Fullerton College</i>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 76.36%	÷ 32.75%		
Allocated diversion percentage <sup>3</sup>		65.48%	100.00%		
Tonnage diverted	×	(2,168.60)	×	(384.95)	
Statewide average landfill fee per ton	×	\$46.00	×	\$48.00	
Offsetting savings, Fullerton College		(65,320)	(18,478)	(83,798)	
Total offsetting savings, FY 2006-07	\$ —	\$ (82,289)	\$ (39,159)	\$ (121,448)	\$ (121,448)

## Attachment 2 (continued)

Cost Elements	Offsetting Savings Reported	Offsetting Savings Realized			Review Adjustment <sup>1</sup>
		July-December	January-June	Total	
<u>July 1, 2007, through June 30, 2008</u>					
<i>Cypress College</i>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage	÷	40.41%	÷	40.41%	
Allocated diversion percentage <sup>2</sup>		100.00%	100.00%		
Tonnage diverted	×	(430.85)	×	(430.85)	
Statewide average landfill fee per ton	×	(\$48.00)	×	\$51.00	
Offsetting savings, Cypress College		(20,681)	(21,973)	(42,654)	
<i>Fullerton College</i>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage	÷	32.75%	÷	32.75%	
Allocated diversion percentage <sup>3</sup>		100.00%	100.00%		
Tonnage diverted	×	(384.95)	×	(384.95)	
Statewide average landfill fee per ton	×	\$48.00	×	\$51.00	
Offsetting savings, Fullerton College		(18,478)	(19,632)	(38,110)	
Total offsetting savings, FY 2007-08	\$ —	\$ (39,159)	\$ (41,605)	\$ (80,764)	\$ (80,764)
<u>July 1, 2008, through June 30, 2009</u>					
<i>Cypress College</i>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage	÷	40.41%	÷	40.41%	
Allocated diversion percentage <sup>2</sup>		100.00%	100.00%		
Tonnage diverted	×	(430.85)	×	(430.85)	
Statewide average landfill fee per ton	×	\$51.00	×	\$55.00	
Offsetting savings, Cypress College		(21,973)	(23,697)	(45,670)	
<i>Fullerton College</i>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage	÷	32.75%	÷	32.75%	
Allocated diversion percentage <sup>3</sup>		100.00%	100.00%		
Tonnage diverted	×	(384.95)	×	(384.95)	
Statewide average landfill fee per ton	×	\$51.00	×	\$55.00	
Offsetting savings, Fullerton College		(19,632)	(21,172)	(40,804)	
Total offsetting savings, FY 2008-09	\$ —	\$ (41,605)	\$ (44,869)	\$ (86,474)	\$ (86,474)

## Attachment 2 (continued)

Cost Elements	Offsetting Savings Reported	Offsetting Savings Realized			Review Adjustment <sup>1</sup>
		July-December	January-June	Total	
<u>July 1, 2009, through June 30, 2010</u>					
<i>Cypress College</i>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage	÷	40.41%	÷ 40.41%		
Allocated diversion percentage <sup>2</sup>		100.00%	100.00%		
Tonnage diverted	×	(430.85)	×	(430.85)	
Statewide average landfill fee per ton	×	\$55.00	×	\$56.00	
Offsetting savings, Cypress College		(23,697)	(24,128)	(47,825)	
<i>Fullerton College</i>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage	÷	32.75%	÷ 32.75%		
Allocated diversion percentage <sup>3</sup>		100.00%	100.00%		
Tonnage diverted	×	(384.95)	×	(384.95)	
Statewide average landfill fee per ton	×	\$55.00	×	\$56.00	
Offsetting savings, Fullerton College		(21,172)	(21,557)	(42,729)	
Total offsetting savings, FY 2009-10	\$ —	\$ (44,869)	\$ (45,685)	\$ (90,554)	\$ (90,554)
<u>July 1, 2010, through June 30, 2011</u>					
<i>Cypress College</i>					
Maximum allowable diversion percentage		50.00%	—		
Actual diversion percentage	÷	40.41%	—		
Allocated diversion percentage <sup>2</sup>		100.00%	—		
Tonnage diverted	×	(215.43)	—		
Statewide average landfill fee per ton	×	\$56.00	—		
Offsetting savings, Cypress College		(6,032)	—	(6,032)	
<i>Fullerton College</i>					
Maximum allowable diversion percentage		50.00%	—		
Actual diversion percentage	÷	32.75%	—		
Allocated diversion percentage <sup>3</sup>		100.00%	—		
Tonnage diverted	×	(192.48)	—		
Statewide average landfill fee per ton	×	\$56.00	—		
Offsetting savings, Fullerton College		(5,389)	—	(5,389)	
Total offsetting savings, FY 2010-11	\$ —	\$ (11,421)	—	\$ (11,421)	\$ (11,421)
Total offsetting savings, FY 2005-06 through FY 2010-11	\$ —	\$ (278,366)	\$ (253,607)	\$ (531,973)	\$ (531,973)

<sup>1</sup> See Attachment 3, Finding and Recommendation.

<sup>2</sup> Cypress College did not achieve the maximum allowable diversion percentage for calendar years 2005, 2007, 2008, 2009, and 2010. Therefore, 100% of tonnage diverted is offsetting savings realized by the district.

<sup>3</sup> Fullerton College did not achieve the maximum allowable diversion percentage for calendar years 2005, 2007, 2008, 2009, and 2010. Therefore, 100% of tonnage diverted is offsetting savings realized by the district.

## Attachment 3— Finding and Recommendation July 1, 2005, through June 30, 2011

**FINDING—  
Unreported offsetting  
savings**

The district did not report any offsetting savings on its mandated cost claims for the review period. We determined that the district realized savings of \$531,973 from implementation of its integrated waste management (IWM) plan.

The following table summarizes the unreported offsetting savings by fiscal year:

Fiscal Year	Offsetting Savings Reported	Offsetting Savings Realized	Review Adjustment
2005-06	\$ -	\$ (141,312)	\$(141,312)
2006-07	-	(121,448)	(121,448)
2007-08	-	(80,764)	(80,764)
2008-09	-	(86,474)	(86,474)
2009-10	-	(90,554)	(90,554)
2010-11	-	(11,421)	(11,421)
Total	<u>\$ -</u>	<u>\$ (531,973)</u>	<u>\$(531,973)</u>

On March 25, 2004, the Commission on State Mandates (CSM) adopted the statement of decision for the IWM Program. The CSM determined that Chapter 1116, Statutes of 1992; and Chapter 764, Statutes of 1999, imposed upon community college districts a state mandate reimbursable under Government Code section 17561, commencing July 1, 1999.

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.

In March 2007, the Department of Finance and the IWM Board filed a petition for writ of mandate requesting the CSM to issue new parameters and guidelines that give full consideration to the community colleges' cost savings (e.g. avoided landfill disposal fees) and revenues (from recyclables) by complying with the test claim statutes. The Judgment and a Writ of Mandate were issued on June 30, 2008, ordering the CSM to amend the parameters and guidelines to require community college districts to identify and offset from their claims cost savings realized as a result of implementing their plans.

On September 26, 2008, the CSM amended the parameters and guidelines to the original period of reimbursement because the court's decision interprets the test claim statutes as a question of law.

In compliance with Government Code section 17558, the State Controller's Office issues claiming instructions to assist community college districts in claiming mandated-program reimbursable costs.

The amended 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 direction for revenue in Public Contract Code sections 12167 and 12167.1.

Public Contract Code sections 12167 and 12167.1 require agencies in state-owned and state-leased buildings to deposit all revenues from the sale of recyclables into the IWM Account in the IWM Fund. The revenues are to be continuously appropriated to the Board for the purposes of offsetting recycling program costs. For the review period, the district did not deposit any revenue into the IWM Account in the IWM Fund. We have determined that the district had reduced or avoided costs realized from implementation of its IWM plan that it did not identify and offset from its claims as cost savings.

**Offsetting Savings Calculations**

The CSM's 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).

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

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

This calculation determines the cost that the district did not incur for solid waste disposal as a result of implementing its IWM plan. The offsetting savings calculation is presented in Attachment 2–Summary of Offsetting Savings Calculations.

### *Allocated Diversion Percentage*

Public Resource Code 42921 requires districts to 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 state that districts will be reimbursed for all mandated costs incurred to achieve these levels, without reduction when they fall short of stated goals, but not for amounts used to exceed these state-mandated levels. Therefore, we allocated the offsetting savings to be consistent with the requirements of the mandated program.

For calendar years 2005 through 2007, we used the actual 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 fiscal year (FY) 2007-08, FY 2008-09, FY 2009-10, and FY 2010-11. 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 the landfill.

For calendar years 2005 through 2007, we used the actual tonnage diverted, as reported by the district to CalRecycle pursuant to Public Resources Code section 42926, subdivision (b)(1).

As previously noted, in 2008, CalRecycle stopped requiring community college districts to report the actual amount of tonnage diverted. Therefore, we used the tonnage diverted in 2007 to calculate the offsetting savings for FY 2007-08, FY 2008-09, FY 2009-10, and FY 2010-11. 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. For each fiscal year in the review period, we used the statewide average disposal fee provided by CalRecycle. The district did not provide documentation supporting a different disposal fee.

### Recommendation

We recommend that the district offset all savings realized from implementation of the community college district’s IWM plan.