

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

Audit Report

INTEGRATED WASTE MANAGEMENT PROGRAM

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

July 1, 1999, through June 30, 2009



JOHN CHIANG
California State Controller

January 2013



JOHN CHIANG
California State Controller

January 31, 2013

Maria Fuentes, President
Board of Trustees
San Jose/Evergreen Community College District
4750 San Felipe Road
San Jose, CA 95135

Dear Ms. Fuentes:

The State Controller's Office audited the costs claimed by the San Jose/Evergreen 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 \$3,105,838 (\$3,125,838 less a \$20,000 penalty for filing late claims) for the mandated program. Our audit disclosed that \$48,914 is allowable and \$3,056,924 is unallowable. The costs are unallowable because the district overstated reimbursable costs and understated offsetting savings and revenues. The State paid the district \$13,193. Allowable costs claimed exceed the amount paid by \$35,721.

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/sk

cc: Rita Cepeda, Chancellor

San Jose/Evergreen Community College District

Peter Fitzsimmons, Director of Fiscal Services

San Jose/Evergreen Community College District

Christine Atalig, Specialist

College Finance and Facilities Planning

California Community Colleges Chancellor's Office

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Audit Report

Summary

The State Controller's Office audited the costs claimed by San Jose/Evergreen 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 \$3,105,838 (\$3,125,838 less a \$20,000 penalty for filing late claims) for the mandated program. Our audit disclosed that \$48,914 is allowable and \$3,056,924 is unallowable. The costs are unallowable because the district overstated reimbursable costs and understated offsetting savings and revenues. The State paid the district \$13,193. Allowable costs claimed exceed the amount paid by \$35,721.

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 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 this 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 State Agency Model Integrated Waste Management 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 Board (Public Resources Code sections 42926(a) and 42922(i); and
- 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 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.

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, San Jose/Evergreen Community College District claimed \$3,105,838 (\$3,125,838 less a \$20,000 penalty for filing late claims) for costs of the Integrated Waste Management Program. Our audit disclosed that \$48,914 is allowable and \$3,056,924 is unallowable.

For the fiscal year (FY) 1999-2000 claim, the State made no payment to the district. Our audit disclosed that \$1,994 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2000-01 claim, the State made no payment to the district. Our audit disclosed that \$16,643 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2001-02 claim, the State paid the district \$3,647. Our audit disclosed that \$3,015 is allowable. The State will offset \$632 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2002-03 claim, the State paid the district \$9,546. Our audit disclosed that \$3,800 is allowable. The State will offset \$5,746 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 \$3,545 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2004-05 claim, the State made no payment to the district. Our audit disclosed that \$4,308 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2005-06 claim, the State made no payment to the district. Our audit disclosed that \$5,450 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2006-07 claim, the State made no payment to the district. Our audit disclosed that \$4,738 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2007-08 claim, the State made no payment to the district. Our audit disclosed that \$5,407 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2008-09 claim, the State made no payment to the district. Our audit disclosed that \$194 is allowable. The State will pay that amount, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft report on January 4, 2013. We contacted Peter Fitzsimmons, Director of Fiscal Services, by e-mail on January 23, 2013. Mr. Fitzsimmons responded by e-mail on January 23, 2013, stating that the district will not be submitting a response to the draft report.

Restricted Use

This report is solely for the information and use of San Jose/Evergreen 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

January 31, 2013

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

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 1999, through June 30, 2000</u>				
Divert solid waste/maintain required level:				
Direct costs:				
Contract services	\$ 1,500	\$ —	\$ (1,500)	Finding 2
Fixed assets	32,880	—	(32,880)	Finding 3
Total direct costs	34,380	—	(34,380)	
Indirect costs	2,407	—	(2,407)	Findings 2, 3
Total divert solid waste/maintain required level	36,787	—	(36,787)	
All other activities:				
Direct costs:				
Salaries and benefits	1,864	1,864	—	
Indirect costs	130	130	—	
Total all other activities	1,994	1,994	—	
Total program costs	\$ 38,781	1,994	\$ (36,787)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 1,994		
<u>July 1, 2000, through June 30, 2001</u>				
All other activities:				
Direct costs:				
Salaries and benefits	\$ 402	\$ 402	\$ —	
Contract services	14,950	14,950	—	
Travel and training	34	34	—	
Total direct costs	15,386	15,386	—	
Indirect costs	1,077	1,077	—	
Total all other activities	16,463	16,463	—	
Total program costs	\$ 16,463	16,463	\$ —	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 16,463		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
July 1, 2001, through June 30, 2002				
Divert solid waste/maintain required level:				
Direct costs:				
Salaries and benefits	\$ 219,162	\$ 18,786	\$ (200,376)	Finding 1
Fixed assets	—	210	210	Finding 3
Total direct costs	219,162	18,996	(200,166)	
Indirect costs	24,600	1,889	(22,711)	Findings 1, 3, 4
Total direct and indirect costs	243,762	20,885	(222,877)	
Less offsetting revenues	—	(560)	(560)	Finding 5
Less offsetting savings	—	(87,087)	(87,087)	Finding 6
Subtotal	243,762	(66,762)	(310,524)	
Adjustment to eliminate unused portion of offsetting savings	—	66,762	66,762	
Total divert solid waste/maintain required level	243,762	—	(243,762)	
All other activities:				
Direct costs:				
Salaries and benefits	2,742	2,742	—	
Indirect costs	277	273	(4)	Finding 4
Total all other activities	3,019	3,015	(4)	
Subtotal	246,781	3,015	(243,766)	
Less late filing penalty ^{2, 3}	(10,000)	—	10,000	
Total program costs	<u>\$ 236,781</u>	3,015	<u>\$ (233,766)</u>	
Less amount paid by the State		(3,647)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (632)</u>		
July 1, 2002, through June 30, 2003				
Divert solid waste/maintain required level:				
Direct costs:				
Salaries and benefits	\$ 234,738	\$ 27,015	\$ (207,723)	Finding 1
Materials and supplies	216	216	—	
Contract services	4,745	—	(4,745)	Finding 2
Total direct costs	239,699	27,231	(212,468)	
Indirect costs	38,112	4,368	(33,744)	Findings 1, 2, 4
Total direct and indirect costs	277,811	31,599	(246,212)	
Less offsetting revenues	—	(1,723)	(1,723)	Finding 5
Less offsetting savings	—	(116,081)	(116,081)	Finding 6

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003 (continued)</u>				
Subtotal	277,811	(86,205)	(364,016)	
Adjustment to eliminate unused portion of offsetting savings	—	86,205	86,205	
Total divert solid waste/maintain required level	277,811	—	(277,811)	
All other activities:				
Direct costs:				
Salaries and benefits	3,275	3,275	—	
Indirect costs	521	525	4	Finding 4
Total all other activities	3,796	3,800	4	
Total program costs	\$ 281,607	3,800	\$ (277,807)	
Less amount paid by the State		(9,546)		
Allowable costs claimed in excess of (less than) amount paid		\$ (5,746)		
<u>July 1, 2003, through June 30, 2004</u>				
Divert solid waste/maintain required level:				
Direct costs:				
Salaries and benefits	\$ 266,330	\$ 29,782	\$ (236,548)	Finding 1
Materials and supplies	290	290	—	
Contract services	2,648	—	(2,648)	Finding 2
Total direct costs	269,268	30,072	(239,196)	
Indirect costs	40,482	4,610	(35,872)	Findings 1, 2, 4
Total direct and indirect costs	309,750	34,682	(275,068)	
Less offsetting revenues	—	(896)	(896)	Finding 5
Less offsetting savings	—	(113,334)	(113,334)	Finding 6
Total costs	309,750	(79,548)	(389,298)	
Adjustment to eliminate unused portion of offsetting savings	—	79,548	79,548	
Total divert solid waste/maintain required level	309,750	—	(309,750)	
All other activities:				
Direct costs:				
Salaries and benefits	3,074	3,074	—	
Indirect costs	467	471	4	Finding 4
Total all other activities	3,541	3,545	4	
Total program costs	\$ 313,291	3,545	\$ (309,746)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 3,545		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
Divert solid waste/maintain required level:				
Direct costs:				
Salaries and benefits	\$ 277,258	\$ 30,668	\$ (246,590)	Finding 1
Materials and supplies	—	—	—	
Contract services	<u>15,712</u>	<u>1,685</u>	<u>(14,027)</u>	Finding 2
Total direct costs	292,970	32,353	(260,617)	
Indirect costs	<u>42,697</u>	<u>11,660</u>	<u>(31,037)</u>	Findings 1, 2, 4
Total direct and indirect costs	335,667	44,013	(291,654)	
Less offsetting revenues	(1,453)	(1,274)	179	Finding 5
Less offsetting savings	<u>—</u>	<u>(182,086)</u>	<u>(182,086)</u>	Finding 6
Subtotal	334,214	(139,347)	(473,561)	
Adjustment to eliminate unused portion of offsetting savings	<u>—</u>	<u>139,347</u>	<u>139,347</u>	
Total divert solid waste/maintain required level	<u>334,214</u>	<u>—</u>	<u>(334,214)</u>	
All other activities:				
Direct costs:				
Salaries and benefits	3,167	3,167	—	
Indirect costs	<u>488</u>	<u>1,141</u>	<u>653</u>	Finding 4
Total all other activities	<u>3,655</u>	<u>4,308</u>	<u>653</u>	
Total program costs	<u>\$ 337,869</u>	4,308	<u>\$ (333,561)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,308</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005, through June 30, 2006</u>				
Divert solid waste/maintain required level:				
Direct costs:				
Salaries and benefits	\$ 291,866	\$ 32,260	\$ (259,606)	Finding 1
Contract services	27,962	6,631	(21,331)	Finding 2
Fixed assets	—	221	221	Finding 3
Total direct costs	319,828	39,112	(280,716)	
Indirect costs	82,288	14,773	(67,515)	Findings 1, 2, 4
Total direct and indirect costs	402,116	53,885	(348,231)	
Less offsetting revenues	(1,459)	(1,459)	—	
Less offsetting savings	—	(329,704)	(329,704)	Finding 6
Subtotal	400,657	(277,278)	(677,935)	
Adjustment to eliminate unused portion of offsetting savings	—	277,278	277,278	
Total divert solid waste/maintain required level	400,657	—	(400,657)	
All other activities:				
Direct costs:				
Salaries and benefits	3,956	3,956	—	Finding 1
Indirect costs	1,116	1,494	378	Findings 1, 4
Total all other activities	5,072	5,450	378	
Total program costs	<u>\$ 405,729</u>	5,450	<u>\$ (400,279)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 5,450</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Divert solid waste/maintain required level:				
Direct costs:				
Salaries and benefits	\$ 314,914	\$ 34,631	\$ (280,283)	Finding 1
Contract services	28,113	—	(28,113)	Finding 2
Fixed assets	—	859	859	Finding 3
Total direct costs	343,027	35,490	(307,537)	
Indirect costs	90,191	13,374	(76,817)	Findings 1, 2, 4
Total direct and indirect costs	433,218	48,864	(384,354)	
Less offsetting revenues	(2,529)	(2,412)	117	Finding 5
Less offsetting savings	—	(515,732)	(515,732)	Finding 6
Subtotal	430,689	(469,280)	(899,969)	
Adjustment to eliminate unused portion of offsetting savings	—	469,280	469,280	
Total divert solid waste/maintain required level	430,689	—	(430,689)	
All other activities:				
Direct costs:				
Salaries and benefits	3,441	3,441	—	
Indirect costs	1,149	1,297	148	Finding 4
Total all other activities	4,590	4,738	148	
Subtotal	435,279	4,738	(430,541)	
Less late filing penalty ⁴	(10,000)	—	10,000	Finding 7
Total program costs	\$ 425,279	4,738	\$ (420,541)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 4,738		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
Divert solid waste/maintain required level:				
Direct costs:				
Salaries and benefits	\$ 336,279	\$ 38,449	\$ (297,830)	Finding 1
Contract services	<u>60,850</u>	<u>14,559</u>	<u>(46,291)</u>	Finding 2
Total direct costs	397,129	53,008	(344,121)	
Indirect costs	<u>112,284</u>	<u>16,752</u>	<u>(95,532)</u>	Findings 1, 4
Total direct and indirect costs	509,413	69,760	(439,653)	
Less offsetting revenues	(4,671)	(5,362)	(691)	Finding 5
Less offsetting savings	<u>—</u>	<u>(520,889)</u>	<u>(520,889)</u>	Finding 6
Subtotal	504,742	(456,491)	(961,233)	
Adjustment to eliminate unused portion of offsetting savings	<u>—</u>	<u>456,491</u>	<u>456,491</u>	
Total divert solid waste/maintain required level	<u>504,742</u>	<u>—</u>	<u>(504,742)</u>	
All other activities:				
Direct costs:				
Salaries and benefits	3,630	3,766	136	Finding 1
Indirect costs	<u>1,212</u>	<u>1,641</u>	<u>429</u>	Finding 4
Total all other activities	<u>4,842</u>	<u>5,407</u>	<u>565</u>	
Total program costs	<u>\$ 509,584</u>	5,407	<u>\$ (504,177)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 5,407</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2008, through June 30, 2009</u>				
Divert solid waste/maintain required level:				
Direct costs:				
Salaries and benefits	\$ 328,748	\$ 41,624	\$ (287,124)	Finding 1
Contract services	108,336	9,109	(99,227)	Finding 2
Total direct costs	437,084	50,733	(386,351)	
Indirect costs	110,230	20,436	(89,794)	Findings 1, 4
Total direct and indirect costs	547,314	71,169	(476,145)	
Less offsetting revenues	(7,033)	(1,697)	5,336	Finding 5
Less offsetting savings	—	(551,342)	(551,342)	
Subtotal	540,281	(481,870)	(1,022,151)	
Adjustment to eliminate unused portion of offsetting savings	—	481,870	481,870	
Total divert solid waste/maintain required level	540,281	—	(540,281)	
All other activities:				
Direct costs:				
Salaries and benefits	130	130	—	
Indirect costs	43	64	21	Finding 4
Total all other activities	173	194	21	
Total program costs	\$ 540,454	194	\$ (540,260)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 194		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 1999, through June 30, 2009</u>				
Divert solid waste/maintain required level:				
Direct costs:				
Salaries and benefits	\$ 2,269,295	\$ 253,215	\$(2,016,080)	
Materials and supplies	506	506	—	
Contract services	249,866	31,984	(217,882)	
Fixed assets	32,880	1,290	(31,590)	
Total direct costs	<u>2,552,547</u>	<u>286,995</u>	<u>(2,265,552)</u>	
Indirect costs	<u>543,291</u>	<u>87,862</u>	<u>(455,429)</u>	
Total direct and indirect costs	3,095,838	374,857	(2,720,981)	
Less offsetting revenues	(17,145)	(15,383)	1,762	
Less offsetting savings	—	(2,416,255)	(2,416,255)	
Subtotal	<u>3,078,693</u>	<u>(2,056,781)</u>	<u>(5,135,474)</u>	
Adjustment to eliminate unused portion of offsetting savings	—	2,056,781	2,056,781	
Total divert solid waste/maintain required level	<u>3,078,693</u>	<u>—</u>	<u>(3,078,693)</u>	
All other activities:				
Direct costs:				
Salaries and benefits	25,681	25,817	136	
Contract services	14,950	14,950	—	
Travel and training	34	34	—	
Total direct costs	<u>40,665</u>	<u>40,801</u>	<u>136</u>	
Indirect costs	<u>6,480</u>	<u>8,113</u>	<u>1,633</u>	
Total all other activities	<u>47,145</u>	<u>48,914</u>	<u>1,769</u>	
Subtotal	3,125,838	48,914	(3,076,924)	
Less late filing penalty	<u>(20,000)</u>	—	<u>20,000</u>	
Total program costs	<u>\$ 3,105,838</u>	48,914	<u>\$(3,056,924)</u>	
Less amount paid by the State		<u>(13,193)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 35,721</u>		

¹ See the Findings and Recommendations section.

² The district deducted a 10% penalty for filing a late claim pursuant to Government Code section 17561, subdivision (d)(3).

³ The district filed its fiscal year (FY) 2001-02 initial reimbursement claim on October 26, 2006, for \$3,647 before the filing deadline of March 31, 2009, and amended it on April 26, 2009, for \$239,781 (\$246,781 in costs less a \$10,000 late filing penalty) before the deadline to file a late claim. There is no late filing penalty, as the claim filed before the initial filing deadline exceeded allowable costs of \$3,015.

⁴ The district filed its FY 2006-07 annual reimbursement claim on December 24, 2008, for \$425,279 (\$435,279 less a \$10,000 late filing penalty) before the filing deadline of March 31, 2009. When receipting the filed claim, the SCO's Division of Accounting and Reporting did not reduce claimed costs by the late penalty because the claim was filed on time.

Findings and Recommendations

FINDING 1— Overstated salaries and benefits and related indirect costs

The district claimed \$2,294,976 in salaries and benefits during the audit period. We determined that \$279,032 is allowable and \$2,015,944 is unallowable. The costs are unallowable because the district claimed:

- Costs based on estimates of time to perform reimbursable activities;
- Costs for activities that are not reimbursable under the mandated program;
- Allowable costs that were not allocated based on the difference between the district's actual solid waste diversion percentage during fiscal year (FY) 2007-08 (the time study year) and the actual diversion percentage for fiscal years prior to FY 2007-08;
- Duplicate costs for the Facilities Planner; and
- Understated productive hourly rates in its FY 2003-04 claim.

The related unallowable indirect costs, based on the indirect cost rates claimed, totaled \$469,798.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
1999-2000	\$ 1,864	\$ 1,864	\$ -
2000-01	402	402	-
2001-02	221,904	21,528	(200,376)
2002-03	238,013	30,290	(207,723)
2003-04	269,404	32,856	(236,548)
2004-05	280,425	33,835	(246,590)
2005-06	295,822	36,216	(259,606)
2006-07	318,355	38,072	(280,283)
2007-08	339,909	42,215	(297,694)
2008-09	328,878	41,754	(287,124)
Total salaries and benefits	2,294,976	279,032	(2,015,944)
Related indirect costs	538,135	68,337	(469,798)
Grand total	<u>\$2,833,111</u>	<u>\$ 347,369</u>	<u>\$ (2,485,742)</u>

Time Study Hours

For FY 2001-02 through FY 2007-08, the district claimed salaries and benefits totaling \$1,937,473 for certain employee classifications based on a time study that it conducted during FY 2007-08. We determined that \$211,591 is allowable and \$1,725,882 is unallowable. The costs are unallowable because the costs claimed for time spent by Groundskeepers on reimbursable activities was based entirely on estimates. In addition, all of the costs claimed for time spent by Facility Maintenance Workers, the Purchasing Agent, and the Purchasing Clerk were spent on unallowable activities.

The district also did not adjust the number of hours spent on mandated activities in years prior to FY 2007-08 based on the level of effort expended to divert solid waste. During the year of the time study, hours recorded for time spent on mandated activities were based on diversion percentages of 74.29% for San Jose City College (SJC) and 75.9% for Evergreen Valley College (EVC) and District Office (DO). In order to properly apply the time study results to prior years, the level of effort must be adjusted based on the applicable diversion percentage for each year. To do this, we allocated allowable costs based on an allocation of the actual diversion percentage for each year for each college divided by the diversion percentages for FY 2007-08.

The following table summarizes the claimed, allowable, and audit adjustment amounts for the audit period by employee classification:

Classification	Amount Claimed	Amount Allowable	Audit Adjustment
Warehouse Coordinator	\$ 64,769	\$ 8,987	\$ (55,782)
EVC Custodian I	81,023	50,958	(30,065)
SJC Custodian I and II	208,580	143,230	(65,350)
EVC Groundskeeper II	777,183	-	(777,183)
SJC Groundskeeper II	610,852	-	(610,852)
Facility Maintenance Worker	161,567	-	(161,567)
Purchasing Agent	488	-	(488)
Warehouse Distributor	32,144	8,416	(23,728)
Purchasing Clerk	867	-	(867)
	<u>\$ 1,937,473</u>	<u>\$ 211,591</u>	<u>\$ (1,725,882)</u>

Time Study Methodology

The district performed a 12-month time study from June 1, 2007, through July 31, 2008. The time study consisted of tracking time spent by 13 EVC Custodian Is, 10 SJC Custodian Is, three SJC Custodian IIs, three EVC Groundskeeper IIs, four SJC Groundskeeper IIs, four Facility Maintenance Workers, one Warehouse Coordinator, one Warehouse Distributor, and one Purchasing Clerk performing activities related to the Diverting Solid Waste/Maintaining the Required Level cost component.

Estimated Costs

The district claimed salaries and benefits totaling \$1,388,035 for time spent by Groundskeepers on activities for FY 2001-02 through FY 2007-08 (\$777,183 for district staff at EVC and \$610,852 for district staff at SJC). We determined that the entire amount is unallowable. The costs are unallowable because the district claimed costs that were based entirely on estimates.

The costs claimed were for time spent by Groundskeepers performing activities related to mulching trees and grass and preparing shrubs and small bushes for recycling pickup. The time sheets submitted showed one line item reporting 10 to 20 hours weekly for mulching trees and grass. It also showed one line item reporting three to seven hours weekly

for preparing shrubs and small bushes for recycling pickup. During fieldwork, we met with EVC and SJC Groundskeepers and discussed the time they spent on mandated activities and the activity logs they completed during the course of the district's time study. The Groundskeepers stated that the activity logs are estimated because of the nature of their jobs, which include both reimbursable and non-reimbursable activities such as:

- Mowing and caring for the college's fields and surrounding shrubs, plants, and trees;
- Spraying the plants and grass for weeds;
- Mowing, edging, and blowing the fields;
- Power-sweeping the leaves and trash on campus grounds; and
- Fixing and repairing any irrigation issues that may arise on the grounds.

The Groundskeepers explained that they perform mulching once a week and this activity sometimes requires more than eight hours of work. However, the level of activities performed varies according to the season and any recreational events that may be scheduled throughout the fiscal year. For example, during winter months, Groundskeepers perform little or no mulching activities. Therefore, the groundskeepers did not report actual hours performed. Instead, the hours reported on the time sheets were based on estimates of time spent performing mandated activities. Accordingly, the costs claimed are unallowable.

We determined that there is no reasonable way to determine the level of effort actually spent by Groundskeepers on reimbursable activities based on the information provided. In the absence of actual cost information, the entire amount claimed for these activities is unallowable. The district will need to track the actual time required to perform the activities for an entire year in order to make a reasonable determination of the time required to perform these reimbursable activities. The district must also identify who performed the activities and the number of activities performed. If a correlation can be made that the level of effort required during that year would be consistent with any other year, we may be able to apply the results to the audit period and revise the audit report as appropriate.

Unallowable Activities

The district claimed salaries and benefits totaling \$259,835 (\$161,567 for time spent by Facility Maintenance Workers, \$64,769 for time spent by the Warehouse Coordinator, \$32,144 for time spent by the Warehouse Distributor, \$867 for time spent by the Purchasing Clerk, and \$488 for time spent by the Purchasing Agent) on reimbursable activities for FY 2001-02 through FY 2007-08. We determined that \$17,403 is allowable and \$242,432 is unallowable. The costs are unallowable because the district claimed costs for activities involving hazardous waste, which are unallowable activities, and did not allocate allowable costs based on the difference between the district's actual solid waste diversion percentage during FY 2007-08 (the time study year) and the actual diversion percentage for fiscal years prior to FY 2007-08.

- Facility Maintenance Workers:

The district claimed salaries and benefits totaling \$161,567 for time spent discarding fluorescent lamps, electronic ballasts, and acid batteries. These materials have been determined to contain hazardous waste (such as mercury, silver, lead, and chromium). Reimbursement for the mandated program is limited to activities involving diverting solid waste materials from landfills. Public Resources Code section 42921(b) states that "...each large facility shall divert 50% of all **solid waste** [emphasis added] through source reduction, recycling, and composting activities." In addition, Public Resources Code section 40191 (b) (1) states that "Solid waste does not include hazardous waste." Therefore, these activities are not reimbursable under the mandated program and the entire amount claimed for activities involving hazardous waste is unallowable.

- Purchasing Clerk and Purchasing Agent

The district claimed salaries and benefits totaling \$1,355 (\$867 for time spent by the Purchasing Clerk and \$488 for time spent by the Purchasing Agent) for "making out receipts and receiving money." This activity was related to yard sales conducted by the district to sell surplus equipment and furniture. We discussed the yard sales with district representatives who stated that the yard sales were conducted for the sale of surplus district property such as furniture, computers, computer monitors, equipment, tools, etc. We noted that items such as computers and monitors are designated as e-waste, which consists of hazardous materials. As noted above, hazardous waste is not included in the definition of solid waste, and any associated diversion activities for this material are not reimbursable under the mandated program. District representatives advised us that they were not able to distinguish what portion of the yard sales were related to e-waste versus other property that would not be classified as hazardous. Therefore, the entire amount claimed is unallowable.

- Warehouse Coordinator

The district claimed salaries and benefits totaling \$64,769 for the Warehouse Coordinator based on 262 hours identified within the district's time study for this employee classification. We reviewed the activities included in the time study and determined that 58 hours were spent on mandated activities and 204 hours were spent on unallowable activities (such as activities related to hazardous waste and district yard sales of surplus equipment and furniture). We also allocated allowable costs based on the difference between the percentage of solid waste diverted during the year of the time study versus the diversion percentages in prior years. Therefore, \$8,987 of the amount claimed is allowable and \$55,782 is unallowable.

- Warehouse Distributor

The district claimed salaries and benefits totaling \$32,144 for the Warehouse Distributor based on 134 hours identified within the district's time study for this employee classification. We reviewed the activities included in the time study and determined that 56 hours were spent on mandated activities and 78 hours were spent on unallowable activities (such as activities related to hazardous waste and district yard sales of surplus equipment and furniture). We also allocated allowable costs based on the difference between the percentage of solid waste diverted during the year of the time study versus the diversion percentages in prior years. Therefore, \$8,416 of the amount claimed is allowable and \$23,728 is unallowable.

- Custodians

The district claimed salaries and benefits totaling \$289,603 (\$81,023 for EVC/DO Custodians and \$208,580 for SJC Custodians) based on 1,353.39 hours identified within the district's time study. We reviewed the activities included in the time study and determined that all of the hours reported were spent on mandated activities. We allocated allowable costs based on the difference between the percentage of solid waste diverted during the year of the time study versus the diversion percentages in prior years. Therefore, \$194,188 of the amount claimed is allowable and \$95,415 is unallowable.

The following table summarizes the allowable pre-allocated amounts for each classification by fiscal year:

Fiscal Year	Allowable Pre-Allocated Salaries and Benefits					Total
	Warehouse Coordinator	Warehouse Distributor	EVC and DO Custodians	SJC Custodians		
2001-02	\$ 1,724	\$ 1,651	\$ 8,867	\$ 24,455		\$ 36,697
2002-03	1,839	1,669	9,867	26,215		39,590
2003-04	2,054	1,869	11,080	28,668		43,671
2004-05	2,096	1,914	11,577	29,393		44,980
2005-06	2,192	1,995	12,315	30,824		47,326
2006-07	2,158	2,099	13,166	33,355		50,778
2007-08	2,362	2,321	14,691	37,003		56,377
Total	\$ 14,425	\$ 13,518	\$ 81,563	\$ 209,913		\$ 319,419

Allocated Time Study Hours

For FY 2001-02 through FY 2007-08, the allowable pre-allocated salaries and benefits total \$319,419, as noted in the table above. After allocating these costs based on the difference between the diversion percentage during the time study year versus the diversion percentages in prior years, we determined that \$211,591 is allowable and \$107,828 is unallowable. The allowable cost is noted below.

- Allocation Percentages

The time study that the district performed during FY 2007-08 tracked the amount of time required to achieve solid waste diversion percentages of 77.86% at EVC and DO, and 71.14% at SJC. In order to apply the time study results to prior fiscal years, we allocated the time study results to be consistent with the requirements of the mandated program. Accordingly, we adjusted the level of effort performed in each calendar year and applied an allocation diversion percentage to allowable salaries and benefits.

The following table is an example of our calculations of the adjustment factors for FY 2005-06:

FY 2005-06	Maximum	FY 2007-08	Allocation
	Allowable %	Time-Studied	
	(A)	(B)	(A ÷ B)
<u>EVC and DO</u>			
07/01/05-12/31/05	50.00%	77.86%	64.22%
01/01/06-06/30/06	50.00%	77.86%	64.22%
<u>SJC</u>			
07/01/05-12/31/05	50.00%	71.14%	70.28%
01/01/06-06/30/06	50.00%	71.14%	70.28%

The following table is an example of our calculations of the allowable allocated salaries and benefits for FY 2005-06:

FY 2005-06	Allowable Pre-Allocated	Allocation	Allowable Allocated
	Salaries and Benefits	Diversion %	Salaries and Benefits
	(A)	(B)	(A x B)
Warehouse Coordinator	\$ 2,192	64.22%	\$ 1,408
Warehouse Distributor	1,995	64.22%	1,281
EVC/DO Custodians	12,315	64.22%	7,909
SJC Custodians	30,824	70.28%	21,662
Total	<u>\$ 47,326</u>		<u>\$ 32,260</u>

The following table summarizes the allowable salaries and benefits allocated for each employee classification by fiscal year:

Fiscal Year	Allowable Allocated Salaries and Benefits				Total
	Warehouse Coordinator	Warehouse Distributor	EVC and DO Custodians	SJC Custodians	
2001-02	\$ 830	\$ 795	\$ 4,271	\$ 12,890	\$ 18,786
2002-03	1,181	1,072	6,338	18,424	27,015
2003-04	1,319	1,200	7,116	20,147	29,782
2004-05	1,346	1,229	7,434	20,659	30,668
2005-06	1,408	1,281	7,909	21,662	32,260
2006-07	1,386	1,348	8,455	23,442	34,631
2007-08	1,517	1,491	9,435	26,006	38,449
Total	<u>\$ 8,987</u>	<u>\$ 8,416</u>	<u>\$ 50,958</u>	<u>\$ 143,230</u>	<u>\$ 211,591</u>

FY 2008-09 Hours

The district claimed salaries and benefits totaling \$328,748 for FY 2008-09 (excluding the Facilities Planner time, which is noted below). We determined that \$41,624 is allowable and \$287,124 is unallowable. The costs are unallowable because the district claimed costs that were not supported and claimed costs for unallowable activities similar to what was described for FY 2001-02 through FY 2007-08.

Duplicated Costs – Facilities Planner

The district claimed salaries and benefits totaling \$28,755 for the Facilities Planner during the audit period. We determined that \$25,817 is allowable and costs were misstated by \$2,938 (overstated by \$3,074 and understated by \$136). The costs are unallowable because the district claimed costs totaling \$3,074 twice for the Facilities Planner in its claim for FY 2003-04. Costs totaling \$3,074 were claimed correctly for preparing the annual recycling report, although the same costs were claimed again for Diverting Solid Waste and Maintaining Required Level activities. For FY 2007-08, allowable costs were understated by \$136 because the district understated productive hourly rates used in its claims.

Understated Productive Hourly Rates

For FY 2007-08, allowable costs were understated by \$2,030 (\$54,347-\$56,377) for salaries and benefits related to non-diversion activities because the district understated productive hourly rates used in its claims. We recalculated employee productive hourly rates using each employee's annual salary divided by 1,800 annual productive hours. We determined that the district understated productive hourly rates by 3.74%.

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 allocations 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 go on to 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. We also recommend that the district identify the mandated functions performed and support the actual number of hours devoted to each function.

District’s Response

The district did not respond to the audit finding.

**FINDING 2—
Overstated contract
services costs**

The district claimed \$264,816 in contract services for the audit period. We determined that \$46,934 is allowable and \$217,882 is unallowable. The costs are unallowable because the district claimed reimbursement for costs related to solid waste disposal (instead of diversion) and recycling of hazardous wastes. These costs are not reimbursable under the mandated program. The related unallowable indirect costs totaled \$6,121.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
1999-2000	\$ 1,500	\$ -	\$ (1,500)
2000-01	14,950	14,950	-
2001-02	-	-	-
2002-03	4,745	-	(4,745)
2003-04	2,648	-	(2,648)
2004-05	15,712	1,685	(14,027)
2005-06	27,962	6,631	(21,331)
2006-07	28,113	-	(28,113)
2007-08	60,850	14,559	(46,291)
2008-09	108,336	9,109	(99,227)
Total salaries and benefits	264,816	46,934	(217,882)
Related indirect costs	9,298	3,177	(6,121)
Grand total	<u>\$ 274,114</u>	<u>\$ 50,111</u>	<u>\$ (224,003)</u>

Review of Costs Claimed by Vendor

The following presents the results of our review of contract services costs claimed by individual vendor.

Environmental Planning Consultants

The district claimed \$14,950 in contract services for Environmental Planning Consultants to prepare the Integrated Waste Management Plan for FY 2000-01. We determined that the entire amount is allowable.

Stevens Creek Disposal and Recycling

The district claimed \$127,865 in contract services for Stevens Creek Disposal and Recycling for the audit period. We determined that \$31,984 is allowable and \$95,881 is unallowable. The costs are unallowable because the district claimed reimbursement for services related to hauling fees, weight charges, and franchise fees for various solid waste containers. We determined that these containers are used strictly for trash disposal instead of solid waste diversion activities. Therefore, the related costs are unallowable.

All Chemical Disposal Inc., ECS Refining, Stericycle, and Evergreen Oil Inc.

The district claimed \$85,594 in contract services for the vendors All Chemical Disposal Inc., ECS Refining, Stericycle, and Evergreen Oil Inc. during the audit period. We determined that the entire amount claimed is unallowable. The district claimed costs for the pickup of hazardous materials, pickup and disposal of infectious medical wastes and sharp objects, and the pickup and recycle of used oil and anti-freeze. Hazardous waste material including electronic waste, batteries, used oil/antifreeze, paint, fluorescent lights, universal waste, and medical waste cannot be disposed of as ordinary trash and are not included as reimbursable solid waste diversion activities. Public Resource Code section 40191, subsection (b), states that "Solid waste" does not include hazardous waste, as defined in Section 40141.

American Trash Management

The district claimed \$18,359 for the vendor American Trash Management. We determined that the entire amount claimed is unallowable. The costs claimed are for installation and trash management services setup (a one-time fee), compactor setup, preventative maintenance (a one-time fee), and for servicing and monitoring the level of trash in the compactor. After a discussion with the Facilities Supervisor, we determined that the compactor is used exclusively for trash. As no solid waste diversion activities are involved, all costs claimed for the services related to the compactor are unallowable.

CINTAS (formerly known as Certified Document Destruction)

The district claimed \$18,048 in contract services for the vendor CINTAS. We determined that the entire amount claimed is unallowable. The district claimed costs for the pickup, purging, and shredding of documents. These costs are not reimbursable under the mandated program. While costs associated with shredding paper are not reimbursable, we will revise the audit results as appropriate if the district can separate the cost of diverting solid waste from the cost of shredding.

The parameters and guidelines (section V.A.3 – Claimed Preparation and Submissions – Direct Costs Reporting – Contract Services) requires 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.

Public Resources Code section 42921, subdivision (b), states that "...each large facility shall divert 50% of all **solid waste** [emphasis added] through source reduction, recycling, and composting activities." In addition, Public Resources Code section 40191, subdivision (b) (1), states that "Solid waste does not include hazardous waste."

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. We also recommend that the district identify the mandated functions performed and support the actual costs devoted to each function.

District's Response

The district did not respond to the audit finding.

**FINDING 3—
Overstated fixed asset
costs**

The district claimed \$32,880 in fixed assets for the audit period. We determined that \$1,290 is allowable and \$31,590 is unallowable. The costs are unallowable because the district claimed costs related to equipment that is used exclusively for trash disposal instead of solid waste diversion activities. The related unallowable indirect costs totaled \$1,993.

The following table summarizes the claimed, allowable and audit adjustment by fiscal year:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
1999-2000	\$ 32,880	\$ -	\$ (32,880)
2001-02	-	210	210
2005-06	-	221	221
2006-07	-	859	859
Total	32,880	1,290	(31,590)
Indirect costs	2,302	309	(1,993)
Total	<u>\$ 35,182</u>	<u>\$ 1,599</u>	<u>\$ (33,583)</u>

During audit fieldwork, we identified allowable costs totaling \$1,290 for the purchase of mulching kits that were not included in the district's claims.

The parameters and guidelines (section VI – Supporting Data) state that:

for audit purposes, all costs shall be traceable to source documents (e.g., employee time records, invoices, receipts, purchase orders, contracts, worksheets, calendars, and declarations) that show evidence of the validity of such costs and their relationship to the state mandated program.

The parameters and guidelines (section V.A – Claim Preparation and Submission – Supporting Documentation – Direct Costs) state that "...direct costs are defined as costs that can be traced to specific goods, services, units, programs, activities, or functions."

Public Resources Code section 42921, subdivision (b), states that "...each large facility shall divert 50% of all **solid waste** (emphasis added) through source reduction, recycling, and composting activities." In addition, Public Resources Code section 40191, subdivision (b) (1), states that "Solid waste does not include hazardous waste."

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 did not respond to the audit finding.

**FINDING 4—
Overstated indirect
costs**

The district claimed \$549,771 in indirect costs for the entire audit period. We determined that \$95,975 is allowable and \$453,796 is unallowable.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
1999-2000	\$ 2,537	\$ 130	\$ (2,407)
2000-01	1,077	1,077	-
2001-02	24,877	2,162	(22,715)
2002-03	38,633	4,893	(33,740)
2003-04	40,949	5,081	(35,868)
2004-05	43,185	12,801	(30,384)
2005-06	83,404	16,267	(67,137)
2006-07	91,340	14,671	(76,669)
2007-08	113,496	18,393	(95,103)
2008-09	110,273	20,500	(89,773)
Total	<u>\$ 549,771</u>	<u>\$ 95,975</u>	<u>\$ (453,796)</u>

Unallowable indirect costs totaling \$477,912 were overstated because of the unallowable costs identified in Findings 1 through 3. Indirect costs were also overstated by \$2,418 (overstated by \$2,465 in FY 2001-02 and understated by \$47 in FY 2005-06) due to calculation errors the district made on its claims. We also noted that indirect costs were understated by \$26,534 during the audit period due to misstated indirect cost rates.

For FY 2001-02, the district incorrectly included the amount in the Human Resources Management expense account as an indirect cost rather than a direct cost when calculating the SCO FAM-29C indirect cost rate. We recalculated the rate consistent with the FAM-29C instructions. Our calculations revealed that the district overstated its indirect cost rate by 0.16%, as shown in the table below.

For FY 2002-03 through FY 2004-05, the district misclassified costs between indirect costs and direct costs when calculating the SCO FAM-29C indirect cost rate. For FY 2004-05, the district also excluded depreciation applicable to the district's buildings and equipment. We used allowable indirect cost rates based on our prior audit of the district's Collective Bargaining Program claims for the period of July 1, 2002, through June 30, 2005. We recalculated the rate consistent with the FAM-29C instructions using depreciation amounts from the district's Basic Financial Statements' Notes. The revised audit report was issued on November 16, 2011, and identifies that the claimed rates for these three years were understated. The claimed and allowable rates are noted in the table below.

For FY 2005-06 through FY 2008-09, the district excluded depreciation applicable to the district's buildings and equipment when calculating the SCO FAM-29C indirect cost rate. We also noted that the district's claim for FY 2006-07 used two different indirect cost rates, one rate of 28.64%

for solid waste diversion activities and one rate of 33.39% for preparing the annual report to the California Integrated Waste Management Board. We recalculated the rate consistent with the FAM-29C instructions using depreciation amounts from the district's Basic Financial Statements' Notes. As a result, the indirect cost rate increased in each of the four years.

The following table summarizes the claimed and allowable indirect cost rates and the rate variances by fiscal year:

Fiscal Year	Rate Claimed	Rate Allowable	Rate Variance
1999-2000	7.00%	7.00%	-
2000-01	7.00%	7.00%	-
2001-02	10.10%	9.94%	-0.16%
2002-03	15.90%	16.04%	0.14%
2003-04	15.20%	15.33%	0.13%
2004-05	15.40%	36.04%	20.64%
2005-06	28.21%	37.77%	9.56%
2006-07	28.64% *	37.68%	9.04%
	33.39% *	37.68%	4.29%
2007-08	33.39%	43.57%	10.18%
2008-09	33.53%	49.10%	15.57%

* For FY 2006-07, the district claimed indirect costs rates of 28.64% for solid waste diversion activities and 33.39% for preparing the report to the California Integrated Waste Management Board

The parameters and guidelines 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 State Controller's Form FAM- 29C; or (3) a 7% indirect cost rate.

The SCO's FY 2004-05 Mandated Cost Manual for Community Colleges was revised in December 2005. Part of the revision included changes to the SCO's FAM-29C methodology. The revised computation excludes Capital Outlay and Other Outgo in accordance with the federal Office of Management and Budget (OMB) Circular A-21 methodology. The revised indirect cost rate computation includes any depreciation or use allowance applicable to district buildings and equipment. The FAM-29C methodology provides for the following costs to be classified as indirect costs: Operation and Maintenance of Plant; Planning, Policy Making, and Coordination; General Institutional Support Services (excluding Community Relations); and depreciation or use allowance. Community Relations includes fundraising costs, which are unallowable under OMB Circular A-21.

Recommendation

We recommend that the district ensure that the indirect cost rate calculations used are consistent with the methodology outlined in the SCO's Mandated Cost Manual for Community Colleges for the preparation of Form FAM-29C.

District's Response

The district did not respond to the audit finding.

**FINDING 5—
Overstated offsetting
revenues**

The district identified \$17,145 in offsetting revenues for the audit period. We determined that the district overstated offsetting revenues by \$1,762 and should have reported offsets totaling \$15,383 for the audit period.

The following table summarizes the amount claimed, amount allowable, and audit adjustment by fiscal year:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
2001-02	\$ -	\$ (560)	\$ (560)
2002-03	-	(1,723)	(1,723)
2003-04	-	(896)	(896)
2004-05	(1,453)	(1,274)	179
2005-06	(1,459)	(1,459)	-
2006-07	(2,529)	(2,412)	117
2007-08	(4,671)	(5,362)	(691)
2008-09	(7,033)	(1,697)	5,336
Total	\$ (17,145)	\$ (15,383)	\$ 1,762

We determined that certain revenues recorded in accounts 10-96-999-00000-48912 (Sale of Waste Materials) and 10-96-6772-00000-54300 (Supplies, Non-Instructional) should have been offset on the district's mandated cost claims. We identified revenues that the district received from the sale of recyclable materials resulting from solid waste diversion activities performed by Custodians and the Warehouse Coordinator. If the district can document that certain revenues in these accounts 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.

The parameters and guidelines (section VII – Offsetting Revenues and Reimbursements) state that “Offsetting revenues shall include all revenues generate from implementing the Integrated Waste Management Plan.”

Recommendation

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

District's Response

The district did not respond to the audit finding.

**FINDING 6—
Understated offsetting
savings**

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. We determined that offsetting savings were understated by \$2,416,255.

We limited the application of offsetting savings to allowable costs for the activities of diverting solid waste. If the facility diverts more than 25% on or after January 1, 2000, and 50% on or after January 1, 2004, the community college district should limit its offsetting savings to the maximum diversion percentage. However, if the facility fell short in reaching the maximum diversion percentage the community college district should apply the entire amount of offsetting savings.

As a result, allowable offsetting savings totaled \$359,474 and offsetting savings realized exceeded allowable costs by \$2,056,781 (\$2,416,255 less \$359,474). Any excess offsetting savings applicable to 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:

Fiscal Year	Allowable Diversion Costs *	Offsetting Savings Claimed	Realized Offsetting Savings	Audit Adjustment	Unused Portion of Savings
2001-02	\$ 20,325	-	\$ (87,087)	\$ (66,762)	\$ (66,762)
2002-03	29,876	-	(116,081)	(86,205)	(86,205)
2003-04	33,786	-	(113,334)	(79,548)	(79,548)
2004-05	42,739	-	(182,086)	(139,347)	(139,347)
2005-06	52,426	-	(329,704)	(277,278)	(277,278)
2006-07	46,452	-	(515,732)	(469,280)	(469,280)
2007-08	64,398	-	(520,889)	(456,491)	(456,491)
2008-09	69,472	-	(551,342)	(481,870)	(481,870)
Total	\$ 359,474	\$ -	\$ (2,416,255)	\$ (2,056,781)	\$ (2,056,781)

* Total allowable diversion costs less offsetting revenues

Offsetting Savings Calculation

To compute the savings amount, we multiplied allowable diversion percentage, times tonnage diverted times the average hauling and landfill rates per ton. Essentially, the calculation is determining the expenditure amounts that the district did not incur with its solid waste disposal vendor through implementation of its Integrated Waste Management Plan.

The following table summarizes our calculation of offsetting savings realized for FY 2005-06:

FY 2005-06	Allowable Diversion Percentage (%)	Tonnage Diverted	Avoided Hauling and Landfill Disposal Fee	Realized Offsetting Savings
	(A)	(B)	(C)	(A) x (B) x (C)
EVC/DO	65.88%	813.00	\$ 210	\$ 112,476
SJC	67.30%	1,537.03	\$ 210	\$ 217,228
Total				\$ 329,704

Tonnage Diverted

For calendar years 2002 through 2007, we used tonnage of solid waste diversion amounts that the district provided.

Avoided Landfill Disposal and Hauling Fees

For FY 2001-02 to FY 2003-04, we calculated the average landfill disposal and hauling fees from the invoices that the district provided from its solid waste disposal vendor, Stevens Creek Disposal.

For FY 2004-05 to FY 2007-08, the district provided the landfill disposal and hauling fee rates per ton.

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; the revenues 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. Regardless, we have determined that the district 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) 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).

Recommendation

We recommend that the district offset all savings realized from implementation of the community college district's Integrated Waste Management plan.

District's Response

The district did not respond to the audit finding.

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