PASADENA AREA COMMUNITY COLLEGE DISTRICT

Revised Audit Report

INTEGRATED WASTE MANAGEMENT PROGRAM

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

July 1, 1999, through June 30, 2008

JOHN CHIANG
California State Controller

June 2014

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California State Controller

June 27, 2014

Anthony R. Fellow, Ph.D., President
Board of Trustees
Pasadena Area Community College District
1570 E. Colorado Blvd. – C235
Pasadena, CA 91106-2003

Dear Dr. Fellow:

The State Controller's Office audited the costs claimed by the Pasadena Area 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, 2008.

This revised report supersedes our previous report dated April 4, 2011. We revised salaries, benefits, and related indirect costs; offsetting savings; and offsetting revenues as a result of additional information provided by CalRecycle and changes in the methodology to calculate allowable costs. In addition, we reduced the penalty for filing a late claim for fiscal year (FY) 1999-2000 through FY 2003-04 from 10% of claimed costs to 10% of allowable costs. As a result of these changes, allowable costs increased by $511,602, from $177,170 to $688,772.

The district claimed $2,263,005 for the mandated program. Our audit found that $688,772 is allowable ($725,844 less late filing penalties of $37,072) and $1,574,233 is unallowable. The costs are unallowable because the district estimated salaries and benefits, claimed reimbursement for hazardous waste and non-mandated equipment, did not offset avoided disposal fees, and understated recycling revenues. The State made no payments to the district. The State will pay $688,772, contingent upon available appropriations.

The district previously filed an Incorrect Reduction Claim (IRC) on March 27, 2014. The district may file an amended IRC with the Commission on State Mandates (CSM) based on this revised final audit report. 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 telephone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: Robert Miller, Assistant Superintendent/Senior Vice President of Business and College Services
Pasadena Area Community College District
Joe Simoneschi, Executive Director of Business Services
Pasadena Area Community College District
Rueben Smith, Executive Director of Facilities and Construction
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Revised Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Pasadena Area 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, 2008.

The district claimed $2,263,005 for the mandated program. Our audit found that $688,772 is allowable ($725,844 less late filing penalties of $37,072) and $1,574,233 is unallowable. The costs are unallowable because the district estimated salaries and benefits, claimed reimbursement for hazardous waste and non-mandated equipment, did not offset avoided disposal fees, and understated recycling revenues. The State made no payments to the district. The State will pay $688,772, 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, and 42920-42928; Public Contract Code section 12167 and 12167.1; and the State Agency Model Integrated Waste Management Plan (February 2000) require new activities which constitute new programs or higher levels of service for community college districts within the meaning of article XIII B, section 6, of the California Constitution, and impose costs mandated by the state pursuant to Government Code section 17514.

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

- 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 IWM 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 it on September 26, 2008. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies, school districts, and college districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Integrated Waste Management Program for the period of July 1, 1999, through June 30, 2008.

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

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

Conclusion

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

For the audit period, the Pasadena Area Community College District claimed $2,263,005 for costs of the Integrated Waste Management Program. Our audit found that $688,772 is allowable ($725,844 less late filing penalties of $37,072) and $1,574,233 is unallowable. The State made no payments to the district. The State will pay $688,772, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on March 11, 2011. Richard Van Pelt, Interim Vice-President of Administrative Services, responded by letter dated March 23, 2011 (Attachment), disagreeing with the audit results. This revised final audit report includes the district's response.

We issued a final audit report on April 4, 2011. Subsequently, we revised salaries, benefits and related indirect costs; offsetting savings; and offsetting revenues as a result of additional information provided by CalRecycle and changes in the methodology to calculate allowable costs. In addition, we reduced the penalty for filing a late claim for fiscal year (FY) 1999-2000 through FY 2003-04 from 10% of claimed costs to 10% of allowable costs. As a result of these changes, allowable costs increased by $511,602, from $177,170 to $688,772. We advised Robert Miller, Assistant Superintendent/Sr. Vice President of Business and College Services, of the revision on June 19, 2014. We requested that the district provided a response to the findings within the week. We did not receive a response from the district.

This revised report supersedes the previous report issued April 4, 2011.

Restricted Use

This report is solely for the information and use of Pasadena Area Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, the California Department of Resources Recycling and Recovery, 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

June 27, 2014

Revised Schedule 1—
Summary of Program Costs
July 1, 1999, through June 30, 2008

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference [1]
July 1, 1999, through June 30, 2000				
Direct costs:				
Salaries and benefits	$ 74,228	$ 18,522	$ (55,706)	Finding 1
Contract services	854	—	(854)	Finding 2
Total direct costs	75,082	18,522	(56,560)	
Indirect costs	22,269	5,557	(16,712)	Finding 1
Total direct and indirect costs	97,351	24,079	(73,272)	
Less offsetting savings	—	(710)	(710)	Finding 4
Less offsetting revenues	(1,287)	(3,208)	(1,921)	Finding 5
Subtotal	96,064	20,161	(75,903)	
Less late filing penalty [2]	—	(2,016)	(2,016)	
Total program costs	$ 96,064	18,145	$ (77,919)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 18,145		
July 1, 2000, through June 30, 2001				
Direct costs:				
Salaries and benefits	$ 145,740	$ 31,809	$ (113,931)	Finding 1
Contract services	1,965	101	(1,864)	Finding 2
Total direct costs	147,705	31,910	(115,795)	
Indirect costs	43,722	9,543	(34,179)	Finding 1
Total direct and indirect costs	191,427	41,453	(149,974)	
Less offsetting savings	—	(3,598)	(3,598)	Finding 4
Less offsetting revenues	(875)	(7,643)	(6,768)	Finding 5
Subtotal	190,552	30,212	(160,340)	
Less late filing penalty [2]	—	(3,021)	(3,021)	
Total program costs	$ 190,552	27,191	$ (163,361)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 27,191		
July 1, 2001, through June 30, 2002				
Direct costs:				
Salaries and benefits	$ 208,290	$ 72,441	$ (135,849)	Finding 1
Contract services	8,026	5,903	(2,123)	Finding 2
Total direct costs	216,316	78,344	(137,972)	
Indirect costs	62,487	21,732	(40,755)	Finding 1

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference [1]
July 1, 2001, through June 30, 2002 (continued)				
Total direct and indirect costs	278,803	100,076	(178,727)	
Less offsetting savings	—	(6,890)	(6,890)	Finding 4
Less offsetting revenues	(322)	(5,792)	(5,470)	Finding 5
Subtotal	278,481	87,394	(191,087)	
Less late filing penalty [2]	—	(8,739)	(8,739)	
Total program costs	$ 278,481	78,655	$ (199,826)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 78,655		
July 1, 2002, through June 30, 2003				
Direct costs:				
Salaries and benefits	$ 229,024	$ 103,854	$ (125,170)	Finding 1
Contract services	9,975	7,655	(2,320)	Finding 2
Total direct costs	238,999	111,509	(127,490)	
Indirect costs	68,707	31,156	(37,551)	Finding 1
Total direct and indirect costs	307,706	142,665	(165,041)	
Less offsetting savings	—	(10,812)	(10,812)	Finding 4
Less offsetting revenues	(131)	(8,241)	(8,110)	Finding 5
Subtotal	307,575	123,612	(183,963)	
Less late filing penalty [2]	—	(12,361)	(12,361)	
Total program costs	$ 307,575	111,251	$ (196,324)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 111,251		
July 1, 2003, through June 30, 2004				
Direct costs:				
Salaries and benefits	$ 220,719	$ 99,194	$ (121,525)	Finding 1
Contract services	10,864	8,499	(2,365)	Finding 2
Total direct costs	231,583	107,693	(123,890)	
Indirect costs	66,216	29,758	(36,458)	Finding 1
Total direct and indirect costs	297,799	137,451	(160,348)	
Less offsetting savings	—	(20,915)	(20,915)	Finding 4
Less offsetting revenues	(400)	(7,183)	(6,783)	Finding 5
Subtotal	297,399	109,353	(188,046)	
Less late filing penalty [2]	—	(10,935)	(10,935)	
Total program costs	$ 297,399	98,418	$ (198,981)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 98,418		

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference [1]
July 1, 2004, through June 30, 2005				
Direct costs:				
Salaries and benefits	$ 208,505	$ 95,201	$ (113,304)	Finding 1
Contract services	12,294	8,600	(3,694)	Finding 2
Total direct costs	220,799	103,801	(116,998)	
Indirect costs	68,390	31,226	(37,164)	Finding 1
Total direct and indirect costs	289,189	135,027	(154,162)	
Less offsetting savings	—	(28,651)	(28,651)	Finding 4
Less offsetting revenues	(1,798)	(5,748)	(3,950)	Finding 5
Total program costs	$ 287,391	100,628	$ (186,763)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 100,628		
July 1, 2005, through June 30, 2006				
Direct costs:				
Salaries and benefits	$ 169,546	$ 106,808	$ (62,738)	Finding 1
Contract services	4,149	731	(3,418)	Finding 2
Total direct costs	173,695	107,539	(66,156)	
Indirect costs	55,611	35,033	(20,578)	Finding 1
Total direct and indirect costs	229,306	142,572	(86,734)	
Less offsetting savings	—	(74,054)	(74,054)	Finding 4
Less offsetting revenues	(1,407)	(4,992)	(3,585)	Finding 5
Total program costs	$ 227,899	63,526	$ (164,373)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 63,526		
July 1, 2006, through June 30, 2007				
Direct costs:				
Salaries and benefits	$ 173,527	$ 91,388	$ (82,139)	Finding 1
Materials and supplies	308	308	—	
Contract services	6,778	—	(6,778)	Finding 2
Fixed assets	68,403	11,401	(57,002)	Finding 3
Total direct costs	249,016	103,097	(145,919)	
Indirect costs	56,917	29,975	(26,942)	Finding 1
Total direct and indirect costs	305,933	133,072	(172,861)	
Less offsetting savings	—	(70,318)	(70,318)	Finding 4
Less offsetting revenues	(1,175)	(5,259)	(4,084)	Finding 5
Total program costs	$ 304,758	57,495	$ (247,263)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 57,495		

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference [1]
July 1, 2007, through June 30, 2008				
Direct costs:				
Salaries and benefits	$ 192,872	$ 111,022	$ (81,850)	Finding 1
Contract services	20,792	16,830	(3,962)	Finding 2
Total direct costs	213,664	127,852	(85,812)	
Indirect costs	61,140	35,194	(25,946)	Finding 1
Total direct and indirect costs	274,804	163,046	(111,758)	
Less offsetting savings	—	(22,298)	(22,298)	Finding 4
Less offsetting revenues	(1,918)	(7,285)	(5,367)	Finding 5
Total program costs	$ 272,886	133,463	$ (139,423)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 133,463		
Summary: July 1, 1999, through June 30, 2008				
Direct costs:				
Salaries and benefits	$ 1,622,451	$ 730,239	$ (892,212)	
Materials and supplies	308	308	—	
Contract services	75,697	48,319	(27,378)	
Fixed assets	68,403	11,401	(57,002)	
Total direct costs	1,766,859	790,267	(976,592)	
Indirect costs	505,459	229,174	(276,285)	
Total direct and indirect costs	2,272,318	1,019,441	(1,252,877)	
Less offsetting savings	—	(238,246)	(238,246)	
Less offsetting revenues	(9,313)	(55,351)	(46,038)	
Subtotal	2,263,005	725,844	(1,537,161)	
Less late filing penalty	—	(37,072)	(37,072)	
Total program costs	$ 2,263,005	688,772	$ (1,574,233)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 688,772		

[1] See the Findings and Recommendations section.

[2] The district filed its fiscal year (FY) 1999-2000 through FY 2003-04 initial reimbursement claims after the due date specified in Government Code section 17560. Pursuant to Government Code section 17561, subdivision (d)(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. FY 1999-2000 through FY 2003-04 claims were filed after September 30, 2002.

Revised Findings and Recommendations

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

The district claimed $1,622,451 in salaries and benefits during the audit period. We found that $730,239 is allowable and $892,212 is unallowable. The costs are unallowable because the district claimed costs that were based on estimates and were not supported with source documentation. Related unallowable indirect costs total $276,285.

We initially determined that all of the costs claimed were unallowable because they were based on estimates and were not supported by any corroborating documentation. The district conducted a time study in May of 2010 for the cost component of Diverting Solid Waste. Based on the time study results, we determined that salaries and benefits totaling $359,256 are allowable and $1,263,195 are unallowable. Related indirect costs totaled $391,319. We reported these amounts in our initial final audit report dated April 4, 2011.

Subsequent to the issuance of the initial final audit report, CalRecycle posted 2007 diversion information for the district on its website. Therefore, we used the 2007 diversion information to determine allowable salaries and benefits, as opposed to the 2006 diversion information that was used in the initial final audit report to determine allowable salaries and benefits. In addition, in this revised final audit report, we allowed reimbursement for the district to ramp-up to the required diversion percentage of 25% by January 1, 2002, and 50% by January 1, 2004. For example, we previously did not allow reimbursement for salaries and benefits from January 1, 2000, through December 31, 2001; however, we revised the time study results to allow reimbursement for the district to ramp-up to the required diversion percentages.

Therefore, based on additional information provided by CalRecycle and the changes in our audit methodology, we decreased the audit adjustment identified in the initial final audit report for salaries and benefits by $370,983, from $1,263,195 to $892,212. We also increased the related indirect costs by $115,034.

The following table summarizes the claimed, allowable, and unallowable salaries, benefits, and indirect costs for the audit period by fiscal year:

Object Account	Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits	1999-2000	$ 74,228	$ 18,522	$ (55,706)
	2000-01	145,740	31,809	(113,931)
	2001-02	208,290	72,441	(135,849)
	2002-03	229,024	103,854	(125,170)
	2003-04	220,719	99,194	(121,525)
	2004-05	208,505	95,201	(113,304)
	2005-06	169,546	106,808	(62,738)
	2006-07	173,527	91,388	(82,139)
	2007-08	192,872	111,022	(81,850)
		1,622,451	730,239	(892,212)
Indirect costs		505,459	229,174	(276,285)
Total		$ 2,127,910	$ 959,413	$ (1,168,497)

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

Reimbursable Component	Amount Claimed	Amount Allowable	Audit Adjustment
Policies and Procedures	$ 7,278	$ 330	$ (6,948)
Staff Training	42,102	14,931	(27,171)
Complete and Submit Plan to Board	4,411	4,411	—
Designate Recycling Coordinator	19,397	—	(19,397)
Divert Solid Waste / Maintain Required Level	1,510,036	710,567	(799,469)
Time Extension	2,441	—	(2,441)
Accounting System	10,625	—	(10,625)
Annual Recycling Material Reports	26,161	—	(26,161)
Total	$ 1,622,451	$ 730,239	$ (892,212)

Background

We initially determined that all of the claimed salary and benefit costs were based on estimates and not supported by corroborating source documentation. We met with district representatives on February 25, 2010, to inform them that the costs were unallowable as claimed because they were based on estimates of time spent performing mandated activities.

The district requested that it be allowed to perform a time study during the current period of time spent performing the "diverting solid waste/maintaining the required level" cost component. This cost component is found in section IV.B.5 of the parameters and guidelines, which states:

> Divert at least 25 percent of all solid waste from landfill disposal or transformation facilities by January 1, 2002, and at least 50 percent of all solid waste from landfill disposal or transformation facilities by January 1, 2004, through source reduction, recycling, and composting activities. Maintain the required level of reduction, as approved by the Board.

We agreed with the district's proposal to conduct a time study and noted that we would apply the time study results to the audit period as appropriate.

Time Study Results

The district performed a two-week time study during May of 2010. The time study actually consisted of 12 working days, as district employees performing the mandated activities do not work on Sundays. The time study consisted of time spent by ten custodians, six gardeners, and one power sweep operator. These employees kept a log of all of the activities they performed throughout the day, including, but not limited to, stocking supplies, recycling, and picking up litter around the campus.

Time Study Cumulative Hours

The district tallied the total time devoted to recycling and composting activities and calculated 172.9 cumulative hours spent over the 12 days. We reviewed the daily logs and determined that 168.28 hours were spent on mandated activities. We noted that the time study results included 4.62 hours spent on non-mandated activities, such as mowing the lawn and discussing the time study record-keeping process with the Facilities Supervisor.

Daily Average per Position

We calculated a daily average of time spent performing mandated activities by employee classification. For instance, the time study revealed that custodians spent 109.03 cumulative hours devoted to mandated activities, which is approximately 9.086 hours per day (109.03 total hours ÷ 12 time-studied days), or 0.91 hours per day per custodian (9.086 hours per day ÷ 10 custodians).

The following table summarizes the time study results by employee classification:

Position	(A) Cumulative Hours	(B) Average Hours per Day [(B) = (A) ÷ 12]	(C) Average Hours per Day per Employee [(C) = (B) ÷ number of employees]
10 Custodians	109.03	9.086	0.91
6 Gardeners	46.67	3.889	0.65
1 Power Sweep Operator	12.58	1.048	1.05
Total	168.28	14.023	2.61

Time Study Allocation of Hours

We then determined an allocation of the time study results based on the requirements of the mandated program. Public Resources Code section 42921 requires that 25% of all solid waste be diverted by January 1, 2002, and that 50% of all solid waste be diverted by January 1, 2004. The parameters and guidelines allow districts to be reimbursed for all mandated costs incurred to achieve these levels, without reduction for when they fall short of stated goals, but not for amounts that 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 community college districts to report the actual amount of tonnage diverted, and the annual reports no longer identify a “diversion percentage.” Consequently, the diversion percentage is not available for the period during which the time study was performed (i.e., 2010). In addition, the district did not provide documentation to support the diversion percentage for 2010. Therefore, we used the 2007 diversion percentage to calculate allowable salaries and benefits.

The following table documents how we allocated the time study results for the years included in the audit period:

	(A)	(B)	(C)	(D)
	May 2010 Time Study Results			
Position	Hours	Required Diversion Percentage	2007 Actual Diversion Percentage	Allocated Time Study Hours (D) = [(B) ÷ (C)] × (A)
1/1/2000–12/31/2001:				
Custodians	0.91	25%	54.2%	0.42
Gardeners	0.65	25%	54.2%	0.60
Power Sweep Operators	1.05	25%	54.2%	0.48
	2.61			1.20
1/1/2002–6/30/2008:				
Custodians	0.91	50%	54.2%	0.84
Gardeners	0.65	50%	54.2%	0.60
Power Sweep Operators	1.05	50%	54.2%	0.97
	2.61			2.41

We applied the allocated time study hours for each fiscal year (as shown in column (D)) by the number of employees claimed. Using the average productive hourly rates for these employee classifications, we found that $730,239 in salaries and benefits is allowable. The related allowable indirect costs totaled $229,174.

New Time Study Proposal

During our audit exit conference with the district, Richard Van Pelt, Interim Vice President of Administrative Services, disagreed with the methodology used for the time study. Sarah Flores, Grounds Supervisor, also disagreed. Mr. Van Pelt believes that capturing time spent by district staff over a two-week period performing certain mandated activities did not reflect the actual cost incurred by the district. Mr. Van Pelt proposed a revised methodology, in which the district would analyze the cost incurred by the district to process one ton of various recyclable materials (aluminum cans, paper, plastics, cardboard, etc.). We responded that the proposal seemed reasonable and asked that the district send us a plan explaining how it intends to capture the costs for these activities. The district did not provide us with a time study proposal by the issuance of the initial final audit report on April 4, 2011. We advised the district that if it subsequently provides an analysis that more closely captures the costs incurred to perform the mandated activities, we will revise the audit results as appropriate.

Recommendation

The IWM Program was suspended in the FY 2011-12 through FY 2013-14 Budget Acts. Further, commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the IWM Program becomes active and if the district chooses to opt out of the block grant program, we recommend that the district ensure that claimed costs include only eligible costs and are based on actual costs

that are appropriately supported by source documentation. Documentation should identify the mandated functions performed and support the actual number of hours devoted to each function.

District's Response

The draft audit report states that the District claimed unallowable salaries and benefits in the amount of $1,680,234, of which $1,282,867 are direct costs and $397,367 are related indirect costs.

1. Estimated and Unsupported Costs

The draft audit report disallows a total of $112,415 ($1,622,451-$1,510,036 = $112,415) in direct costs for staff time claimed for policies and procedures, staff training, submitting the plan to the state board, recycling coordinator time, report filing extension requests, accounting system, and annual reports. The reason stated is that the time reported is based on "estimates" and are without "corroborating documentation." None of the time was disallowed as unreasonable. The audit made no findings that the staff time reported was not related to the mandate. The audit report characterizes the disallowed time as "estimates." It should be remembered that the parameters and guidelines were adopted on March 30, 2005, and the first claiming instructions for the initial fiscal years were released thereafter. Claimants had no actual notice of approved reimbursement for this program until that time. It seems unreasonable to require contemporaneous documentation of daily staff time for the retroactive initial fiscal years. While some historic staff time can be reconstructed from calendars and desk diaries, other staff time cannot and must be reported as a good-faith estimate. While the District agrees with the audit report recommendation that the claimants maintain records that document actual time spent on mandate-related activities, it would be more realistic standard for fiscal years after the initial fiscal year claims.

2. Time Study Results

The audit initially determined that he solid waste diversion costs ($1,510,036) were entirely unallowable because they were unsupported by sufficient or appropriate documentation, as it did for the other program costs discussed above. At the first exit conference on February 25, 2010, the District determined that it would conduct a time study to replace the time reports originally submitted with the claims. The auditor's evaluation of the District time study results accepted the reported time except for time spent lawn mowing and discussing the time study process. The evaluation determined the daily average time spent by job classification and per person participating in the time study, and then multiplied that amount by the number of working days per year for each person and an average productive hourly rate for each job classification. This is a logical process, except that the audit reduced the average time per day to the statutory targets of 25% and 50%. For example, the average hours per day for custodians from the time study is .91 hours. The auditor reduced this to .26 (25% of .91 hours per day divided by 86.80%). The 80.86% figure is the amount of the actual diversion in 2006 and properly "grosses-up" the measured time to 100% diversion. The time study results for hours per day should not be reduced by the statutory target amounts. The staff cannot reduce their activities by 25% or 50%. All recycling trash receptacles have to be emptied regardless of the amount diverted. One cannot empty only

> 25% of the locations. Regardless of the statutory target amounts, the same amount of work and time is required here for any amount of waste diversion.
>
> At the second exit conference on February 15, 2011, the District proposed an alternative method of identifying costs based on the cost of the diverted tonnage rather than the study of staff time because of the disproportionate results of the audited evaluation of the time study. A method to more accurately measure the cost of the mandated activities would be to record, for a finite period of time (a day or a week), the time spent by all the persons involved in the collection and processing of the recycled materials. The District will measure what is collected by categories (cans, glass, green waste, paper, etc.) to make a direct measurement of staff time per unit of measure (100 lbs., a ton, etc.) and type of material. Those results will then be used as the basis for determining the overall cost of the diversion program. Since the final audit report must be issued within a month, the District will perform this work after the final audit report is issued on the representation stated in the draft audit report that it will be reviewed and considered for a revised audit report. The District will send a proposed plan before it commences the study.

SCO's Comment

Based on the district's response to the draft audit report (dated March 11, 2011), we decreased the audit adjustments in the initial final audit report (dated April 4, 2011) for salaries and benefits, by $19,672, from $1,282,867 to $1,263,195. We also increased the related indirect costs by $6,048.

As updated in the finding, this revised final report considers additional information provided by CalRecycle and revises the methodology we used to determine allowable costs. As a result, we decreased the audit adjustment identified in the initial final report for salaries and benefits by $370,983, from $1,263,195 to $892,212. We also increased the related indirect costs by $115,034.

We will address our comments in the order they appear in the district's response to our draft report dated March 11, 2011.

Estimated and Unsupported Costs

We concur with the district's comment that the parameters and guidelines were adopted on March 30, 2005, and that the district may not have kept any contemporaneous time records for the initial fiscal years of the mandated program. However, we disagree with the district's comment that claimants had no actual notice of approved reimbursement for this program until the parameters and guidelines were adopted. The Statement of Decision for the Integrated Waste Management Program was adopted by CSM on March 25, 2004. Claimants had notice as of this date that a reimbursable state-mandated program existed based on the test claim legislation. When we met with the district representatives on February 25, 2010, to discuss the estimated costs, they were given an opportunity to perform a time study for these various cost components; they opted to perform a time study only on the "Divert Solid Waste / Maintain the Required Level" cost component.

Regardless of the dates involved and the time studies not performed, we again reviewed the district's claims for the activities it cited in its response (Policies and Procedures, Staff Training, Submitting the Plan to the State Board, Recycling Coordinator Time, Report Filing Extension Requests, Accounting System, and Annual Reports). The following comments relate to these activities.

Policies and Procedures

The parameters and guidelines (Section IV.A.1–One Time Activities) identify the following reimbursable activity, beginning January 1, 2000:

> Develop the necessary district policies and procedures for the implementation of the integrated waste management plan.

The district claimed $7,278 for this activity during the audit period. Based on the requirements of the parameters and guidelines, we determined that $330 claimed by the district only in its claim for FY 1999-2000 is allowable. This represented 12 hours claimed for the district's Facilities Supervisor to develop policies and procedures. Costs claimed in subsequent years, totaling $6,948, are unallowable because the costs are only allowable as a one-time activity. The district did not provide documentation showing that these costs relate to the development of, rather than updates to, policies and procedures. The related allowable indirect costs totaled $99.

Staff Training

The parameters and guidelines (Section IV.A.2–One Time Activities) identify the following reimbursable activity, beginning January 1, 2000:

> Train district staff on the requirements and implementation of the integrated waste management plan (one-time per employee). Training is limited to staff working directly on the plan.

The district claimed $42,102 for this activity during the audit period. Based on the requirements of the parameters and guidelines, we determined that $14,931 is allowable and $27,171 is unallowable. The related allowable indirect costs totaled $4,601.

The following table summarizes the claimed, allowable, and unallowable amounts by fiscal year:

Object Account	Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits	1999-2000	$ 2,414	$ 2,414	$ —
	2000-01	5,267	—	(5,267)
	2001-02	6,227	2,913	(3,314)
	2002-03	7,145	2,239	(4,906)
	2003-04	6,965	2,322	(4,643)
	2004-05	6,883	2,486	(4,397)
	2005-06	4,880	846	(4,034)
	2006-07	610	—	(610)
	2007-08	1,711	1,711	—
Subtotal		42,102	14,931	(27,171)
Indirect costs		13,005	4,601	(8,404)
Totals		$ 55,107	$ 19,532	$ (35,575)

We noted that the district claimed costs for training its custodians, gardeners, a power-sweeper operator, a skilled-trades worker, and, in FY 2007-08, the Director of Facilities Services. This training was provided to district employees by the Facilities Supervisor. As noted in the audit report, the district did not provide any support for the hours claimed for training nor the type of training provided. We realize that the district trained its staff on the requirements of the mandated program. We noted that the district claimed 12 hours per year for its entire staff involved with the mandated program in all nine years of the audit period, except for FY 1999-2000, when it claimed six hours (presumably because reimbursement began on January 1, 2000) and for FY 2007-08, when it claimed only training for the Director of Facilities Services. Training in every year was provided by the Facilities Supervisor.

Therefore, allowable costs were based on training all employees in the first year of the audit period (FY 1999-2000). For all subsequent years of the audit period, allowable costs were based on training only for employees who appeared in the district's claims for the first time. In addition, we allowed time claimed for the Facilities Supervisor to provide the training. As noted in the table above, there were no allowable costs for FY 2000-01 and FY 2006-07. For FY 2000-01, training costs were claimed for the same employees who were claimed under the Training cost component in the district's claim for FY 1999-2000. For FY 2006-07, costs were claimed only for the Facilities Supervisor.

Complete and Submit Plan to the Board

The district claimed salaries and benefits totaling $4,411 for this activity. We determined that all of the costs should be allowable because they are immaterial. The related indirect costs totaled $1,348.

Designate Recycling Coordinator

The district claimed salaries and benefits totaling $19,397 for this activity. We determined that none of the costs claimed are allowable.

The parameters and guidelines (Section IV.B.4–Ongoing Activities) identify the following reimbursable activity:

> Designate one solid waste reduction and recycling coordinator ("coordinator") for each College in the district to perform new duties imposed by chapter 18.5 (Pub. Resources Code, Sections 42920-42928). The coordinator shall act as a liaison to other state agencies (as defined By section 40196.3) and coordinators. (Pub. Resources Code, section 42920, subd. (c).

The district claimed 48 hours for this activity in FY 1999-2000; 96 hours per year for FY 2000-01 through 2004-05, 12 hours per year for FY 2005-06 and FY 2007-08, and 11 hours for FY 2006-07. All salary and benefit costs claimed were for the district's Facilities Supervisor. As noted in the audit report, the district did not provide any support for the time claimed for this activity.

We concluded that the amount of time claimed by the district for this activity appears unreasonable when compared to the description of the activity in the parameters and guidelines. Absent some kind of actual cost support for the amount of time claimed by the district, these costs remain unallowable.

Time Extension

The district included $2,441 for this activity in its claim for FY 2006-07. However, we determined that all of the costs claimed are unallowable as claimed.

The parameters and guidelines (Section IV.C.2–Alternative Compliance) identify the following reimbursable activity:

> Seek either an alternative requirement or time extension if a community college is unable to comply with the January 1, 2004, deadline to divert 50 percent of its solid waste…

The parameters and guidelines also note that the activities described within Section IV.C. (Alternative Compliance) are reimbursable only during the period of January 1, 2000, through December 31, 2005. Therefore, costs claimed for FY 2006-07 are unallowable.

Accounting System

The district claimed salaries and benefits totaling $10,625 for this cost component during the audit period. We determined that all of the costs claimed are unallowable.

The parameters and guidelines (Section IV.D–Accounting System) identify the following reimbursable activities:

> Developing, implementing, and maintaining an accounting system to enter and track the college's source reduction, recycling, and composting activities, the cost of those activities, the proceeds from the sale of any recycled materials, and such other accounting systems which will allow it to make its annual reports to the state and determine waste reduction. Note: only the pro-rata portion of the costs incurred to implement the reimbursable activities can be claimed.

The district claimed 24 hours for this cost component for FY 1999-2000—48 hours per year for FY 2000-01 through 2004-05, and 12 hours per year for FY 2005-06 through FY 2007-08. All salary and benefit costs claimed were for the district's Facilities Supervisor. As noted in the audit report, the district did not provide any support for the time claimed for this activity.

We concluded that the amount of time claimed by the district for this activity appears unreasonable when compared to the description of the activities in the parameters and guidelines. The district's Facilities Coordinator involvement in activities related to developing, implementing, and maintaining an accounting system do not fit within the job duties for this employee classification. Further, the district did not provide evidence of any accounting system(s) that were developed,

implemented, and maintained during the audit period to comply with the mandated program. Absent some kind of actual cost support for the amount of time claimed by the district, these costs remain unallowable.

Annual Recycling Material Reports

The district claimed salaries and benefits totaling $26,161 for this cost component during the audit period. We determined that all of the costs are unallowable.

The parameters and guidelines (Section IV.F–Annual Recycled Material Reports) identify the following reimbursable activity:

> Annually report to the Board on quantities of recyclable materials collected for recycling.

The district's claims specify that the costs were incurred for "Reporting annually to the Board quantities of recyclable materials collected." We followed up with Cal Recycle (formerly the Integrated Waste Management Board), which stated that the district did not submit any annual reports to it identifying quantities of recyclable materials collected. Therefore, we concluded that it was unreasonable for the district to claim costs for activities not performed.

Time Study Results

The district objected to the methodology that we used to allocate time recorded within the district's time study to the audit period. We recognize that the district staff cannot reduce its diversion activities to achieve the mandated levels of 25% and 50%. We also recognize that all recycling receptacles have to be emptied regardless of the amount diverted. However, there is little relation between the amount of time spent emptying recycling bins and the percentage of solid waste diverted from the district's trash. There are a number of other activities involved in the district's diversion program beyond emptying the recycling receptacles. Examples include yard sales, business source reduction (e.g., two-side copies instead of one-sided copies), and material exchanges.

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

In its response, the district has agreed to perform a new time study using a methodology that should more accurately reflect the costs incurred by the district to perform the mandated activities. Therefore, we agreed that once the results of the new time study become available, we will revise the audit results as appropriate.

FINDING 2—Overstated contract service costs

The district claimed $75,697 in contract service costs for the audit period. We determined that $48,319 is allowable and $27,378 is unallowable. The unallowable costs occurred because the district claimed reimbursement for recycling hazardous wastes.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
1999-2000	$ 854	$ —	$ (854)
2000-01	1,965	101	(1,864)
2001-02	8,026	5,903	(2,123)
2002-03	9,975	7,655	(2,320)
2003-04	10,864	8,499	(2,365)
2004-05	12,294	8,600	(3,694)
2005-06	4,149	731	(3,418)
2006-07	6,778	—	(6,778)
2007-08	20,792	16,830	(3,962)
Total	$ 75,697	$ 48,319	$ (27,378)

The following table summarizes the claimed, allowable, and unallowable costs by individual vendor.

Vendor	Amount Claimed	Amount Allowable	Audit Adjustment
Southern California Environmental	$ 31,389	$ 31,389	$ —
Lighting Resources	27,378	—	(27,378)
Commercial Waste Services	16,829	16,829	—
Allan Company	101	101	—
Total	$ 75,697	$ 48,319	$ (27,378)

We noted that the district claimed $27,378 for recycling batteries and lamps with vendor Lighting Resources. Both lamps and batteries have been determined to contain hazardous waste (such as mercury, silver, lead, and chromium). However, reimbursement for the mandated program is limited to activities involving solid waste. 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."

Recommendation

The IWM Program was suspended in the FY 2011-12 through FY 2013-14 Budget Acts. Further, commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If

the IWM Program becomes active and if the district chooses to opt out of the block grant program, we recommend that the district only claim reimbursement for the costs of diverting solid waste.

District's Response

> The District has no additional information available at this time regarding the $27,378 adjustment for the disposal of batteries and lamps.

SCO's Comments

The finding and recommendation remains unchanged.

FINDING 3—Overstated fixed asset costs

The district claimed $68,403 for fixed assets purchased during FY 2006-07. We determined that $11,401 is allowable and $57,002 is unallowable. The unallowable costs occurred because the district claimed reimbursement for unallowable equipment purchases.

In February of 2007, the district purchased six Taylor-Dunn trucks from Cart Masters. The district claimed $68,043, which represents 100% of the purchase price for all six trucks. However, the district's Facilities Coordinator stated that only one of the six trucks is used 100% for recycling. Therefore, only 1/6th of the total purchase is reimbursable ($68,403 ÷ 6 = $11,401).

District representatives expressed their belief that the five remaining trucks are sometimes used for mandated activities. If the district can provide support for an applicable allocation percentage, we will revise the audit results as appropriate. Reimbursement under the mandated program is limited to increased costs. Therefore, if the district transports both trash and recyclables in the same vehicle at the same time, no additional costs were incurred.

Recommendation

The IWM Program was suspended in the FY 2011-12 through FY 2013-14 Budget Acts. Further, commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the IWM Program becomes active and if the district chooses to opt out of the block grant program, we recommend that the district only claim reimbursement for mandated costs.

District's Response

> The District has no additional information available at this time regarding a potential reimbursable allocation of the asset cost for the five trucks disallowed by the audit based on time used for waste diversion.

SCO's Comment

The finding and recommendation remains unchanged.

FINDING 4—
Understated offsetting savings

The district did not identify any offsetting savings in its mandated cost claims for the audit period. We determined the district should have reported offsetting savings totaling $238,246 for the audit period.

As previously stated in Finding 1, subsequent to the issuance of the initial final audit report, CalRecycle posted 2007 diversion information for the district on its website. Therefore, we used the 2007 diversion information in this revised final audit report to determine offsetting savings for FY 2006-07 and FY 2007-08, as opposed to the 2006 diversion information that was previously used. Also, CalRecycle provided us with updated information on the statewide average disposal fee for 2007 and 2008.

In addition, as noted in SCO's Comments to Finding 1 in this revised final audit report, we are allowing reimbursement for districts to ramp-up to the required diversion percentage of 25% by January 1, 2002, and 50% by January 1, 2004. As a result, we allowed additional salaries and benefits of $370,983. However, a correlated offsetting savings adjustment is required because the district is not incurring a cost to dispose of this solid waste at a landfill.

Therefore, based on the additional information provided by CalRecycle and the changes in our audit methodology, we increased the audit adjustment identified in the initial final audit report for offsetting savings by $15,849, from $222,397 to $238,246. Even though this adjustment is an increase in unallowable costs, the overall impact is an increase in allowable costs because we are allowing salaries and benefits in this revised final audit report that previously were not allowed in Finding 1.

The following table summarizes the audit adjustment for offsetting savings by fiscal year:

Fiscal Year	Offsetting Savings Reported	Offsetting Savings Realized	Audit Adjustment
1999-2000	$ —	$ (710)	$ (710)
2000-01	—	(3,598)	(3,598)
2001-02	—	(6,890)	(6,890)
2002-03	—	(10,812)	(10,812)
2003-04	—	(20,915)	(20,915)
2004-05	—	(28,651)	(28,651)
2005-06	—	(74,054)	(74,054)
2006-07	—	(70,318)	(70,318)
2007-08	—	(22,298)	(22,298)
Total	$ —	$ (238,246)	$ (238,246)

Background

The parameters and guidelines for the program (section VIII – Offsetting Cost Savings) state that "reduced or avoided costs realized from implementation of the community college districts' Integrated Waste Management plans shall be identified and offset from this claim as cost savings, consistent with the directions for revenue in Public Contract Code sections 12167 and 12167.1."

Public Contract Code sections 12167 and 12167.1 require agencies in state-owned and state-leased buildings to deposit all revenues from the sale of recyclables into the Integrated Waste Management Account in the Integrated Waste Management Fund, which are continuously appropriated to the Board for the purposes of offsetting recycling program costs. For the audit period, the district did not deposit any revenue into the Integrated Waste Management Account in the Integrated Waste Management Fund. 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) states that "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)."

Offsetting Savings Calculation

In total, we determined that $238,246 should have been offset on the district's Integrated Waste Management claims for the audit period. We multiplied the tonnage diverted (as reported by Pasadena Area CCD to the IWM Board pursuant to Public Resources Code section 42926(b)(1) by the average landfill rate per ton by the required percentage, as follows:

$$\text{Offsetting Savings Realized} = \overbrace{\frac{\text{Maximum Required Diversion \%}}{\text{Actual Diversion \%}}}^{\text{Allocated Diversion \%}} \times \text{Tonnage Diverted} \times \text{Avoided Landfill Disposal Fee (per ton)}$$

Tonnage Diverted

For calendar years 2000 through 2007, we used the tonnage diverted as reported by the district to the Integrated Waste Management Board. However, as of January 1, 2008, community college districts are no longer required to report the tonnage of waste diverted. Therefore, we used the tonnage diverted in 2007 to calculate the offsetting savings for all of FY 2007-08. The district did not provide any documentation to support the tonnage diverted in 2008.

Average Landfill Disposal Fee per Ton

The statewide average landfill disposal fee that we used to calculate offsetting savings for the audit period was provided to us by CalRecycle. The district did not provide any documentation to support a different disposal fee.

Allocated Diversion Percentage

As noted in Finding 1, the district was diverting a larger percentage of tonnage than that required by the mandated program. Therefore, we allocated the offsetting savings to be consistent with the requirements of the mandated program.

For example, the district reported to CalRecycle that it diverted 4,491.5 tons during calendar year 2006. However, the period of January 1, 2006 through June 30, 2006 belongs in FY 2005-06 and the period of July 1, 2006 through December 31, 2006 belongs in FY 2006-07. Accordingly, we divided the tonnage in half for each six-month period; this tonnage equals 2,245.75 tons. For the period of January 1, 2006, through June 30, 2006, the district reported that it diverted 86.8% of its trash, although the mandated program requires that the district divert at least 50% of its trash to be in compliance with the mandated program. Therefore we divided 50% by 86.8% and determined an allocation factor of 0.576037. We then multiplied the 2,245.75 tons of diverted trash times this allocation factor and then multiplied the result times the average landfill rate of $46 to determine offsetting savings of $59,507 for the period of July 1, 2006, through June 30, 2006.

Recommendation

The IWM Program was suspended in the FY 2011-12 through FY 2013-14 Budget Acts. Further, commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the IWM Program becomes active and if the district chooses to opt out of the block grant program, we recommend that the district offset all savings realized from implementation of its IWM plan.

District's Response

> The draft audit report calculated $222,397 of understated offsetting cost savings. The parameters and guidelines (Part VIII) now require claimants to identify and offset "reduced or avoided costs realized" from implementation of the District integrated waste management plan. The District annual claims did not identify any avoided costs since these annual claims (except for FY 2007-08) were filed before the September 26, 2008, retroactive amendment of the parameters and guidelines that established this requirement as a result of a court decision. The District agrees that the defined cost savings should be reported. However, the Distirct has no additional information available at this time regarding the diverted tonnage or costs charged for landfill disposal.

SCO's Comment

As updated in the finding, this revised final report considers additional information provided by CalRecycle and revises the methodology we used to determine offsetting savings. As a result, we increased the audit adjustment identified in the initial final report by $15,849, from $222,397 to $238,246.

FINDING 5—Understated offsetting revenues

The district identified $9,313 in offsetting revenues for the audit period. We determined that the district understated offsetting revenues by $46,038 and should have reported offsets totaling $55,351 for the audit period.

Subsequent to the issuance of the initial final audit report, we revised our methodology in determining offsetting revenues. We found that because the district's diversion amounts exceeded the State-mandated level, the additional revenue generated is not a required offset.

Therefore, based on changes in our audit methodology, we decreased the audit adjustment identified in the initial final audit report for offsetting revenues by $5,196, from $51,234 to $46,038.

The following table summarizes the audit adjustment by fiscal year:

Fiscal Year	Offsetting Revenue Reported	Offsetting Revenue Generated	Audit Adjustment
1999-2000	$ (1,287)	$ (3,208)	$ (1,921)
2000-01	(875)	(7,643)	(6,768)
2001-02	(322)	(5,792)	(5,470)
2002-03	(131)	(8,241)	(8,110)
2003-04	(400)	(7,183)	(6,783)
2004-05	(1,798)	(5,748)	(3,950)
2005-06	(1,407)	(4,992)	(3,585)
2006-07	(1,175)	(5,259)	(4,084)
2007-08	(1,918)	(7,285)	(5,367)
Totals	$ (9,313)	$ (55,351)	$ (46,038)

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

For the audit period, the district offset revenues received from recycling vendors Allan Company and Smurfit Stone only for recycled paper, plastics, aluminum cans, metal, and glass. Per discussions with district representatives, we noted that the district also receives recycling revenue from other vendors; this revenue is deposited into the following two accounts:

- 01-8890-6502 – Other Local Revenue – Building Services
- 01-8890-6504 – Other Local Revenue – Custodial Services

To determine the revenue generated from implementing the IWM plan, we multiplied the revenue reported in these two accounts by the allocated diversion percentage, as follows:

$$\text{Offsetting Revenue Generated} = \text{Revenue Received} \times \overbrace{\frac{\text{Maximum Required Diversion \%}}{\text{Actual Diversion \%}}}^{\text{Allocated Diversion \%}}$$

As stated in Findings 1 and 4, Public Resource Code section 42921 requires that districts achieve a solid waste diversion of 25% beginning January 1, 2002, and a 50% diversion percentage by January 1, 2004. The parameters and guidelines allow reimbursement for all mandated costs incurred to achieve these levels, without reduction for when they fall short of stated goals, but not for amounts that exceed these State-mandated levels. Therefore, we allocated the offsetting revenue to be consistent with the requirements of the mandated program.

For calendar years 2000 through 2007, we used the diversion percentage as reported by the district to CalRecycle. However, as previously noted, beginning on January 1, 2008, CalRecycle stopped requiring districts to report their diversion information. Therefore, we used the 2007 diversion percentage to calculate the offsetting revenues for all of FY 2007-08. The district did not provide any documentation to support the 2008 diversion percentage.

Recommendation

The IWM Program was suspended in the FY 2011-12 through FY 2013-14 Budget Acts. Further, commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the IWM Program becomes active and if the district chooses to opt out of the block grant program, we recommend that the district offset all revenue generated from implementing its IWM plan.

District's Response

> The draft audit report identified $51,234 of offsetting cost revenues. The parameters and guidelines (Part VII) require claimants to identify and offset service fees, federal funds, and other state funds relevant to the mandate activities. The District annual claims reported and offset recycling revenue received from two vendors (Allan Company and Smurfit Stone). The draft audit report identifies two "other local revenue" accounts with amounts of about $3,000 to $8,000 per year as recycling income potentially attributable to the integrated waste management program. The draft audit report does not confirm hat these revenues are related to the program. However, the District has no additional information available at this time regarding the nature of those revenues.

SCO's Comment

As updated in the finding, this revised final report revises the methodology we used to determine offsetting revenues. As a result, we decreased the audit adjustment identified in the initial final report by $5,196, from $51,234 to $46,038.

OTHER ISSUES

The district's response to the draft audit report included other comments related to the management representation letter and a public records request. The district's responses and SCO's comments are presented below.

Management Representation Letter

District's Response

> The District will not be providing the requested management representation letter since the District has determined that it is outside the scope of a mandated cost compliance audit and could be construed as a waiver of future appeal rights.

SCO's Comment

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by generally accepted government auditing standards. Responding to the SCO's management representation letter does not waive the district's future appeal rights.

Public Records Request

District's Response

> The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable to all of the findings for all claiming periods.
>
> Government Code Section 6253, subdivision (c), requires the state agency that is the subject of the request, within ten days from the receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in possession of the agency and to promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

SCO's Comment

The SCO responded to the public records request in a separate letter dated April 8, 2011.

Attachment—
District's Response to
Draft Audit Report

PASADENA CITY COLLEGE

March 23, 2011

Fiscal Services

Mr. Jim L. Spano, Chief
Mandated Costs Audits Bureau
Division of Audits
California State Controller
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Integrated Waste Management
FY 1999-00 through 2007-08
Pasadena Area Community College District

Dear Mr. Spano:

This letter is the response of the Pasadena Area Community College District to the draft audit report dated March 11, 2011, received by e-mail on March 14, 2011, for the above referenced program and fiscal years, transmitted by the letter from Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office.

Finding 1 - Overstated salaries, benefits, and related indirect costs

The draft audit report states that the District claimed unallowable salaries and benefits in the amount of $1,680,234, of which $1,282,867 are direct costs and $397,367 are related indirect costs.

1. Estimated and Unsupported Costs

The draft audit report disallows a total of $112,415 ($1,622,451-$1,510,036 = $112,415) in direct costs for staff time claimed for policies and procedures, staff training, submitting the plan to the state board, recycling coordinator time, report filing extension requests, accounting system, and annual reports. The reason stated is that the time reported is based on "estimates" and are without "corroborating documentation." None of the time was disallowed as unreasonable. The audit made no findings that the staff time reported was not related to the mandate. The audit report characterizes the disallowed time as "estimates." It should be remembered that the parameters and guidelines were adopted on March 30, 2005, and the first claiming instructions for the initial fiscal years were released thereafter. Claimants had no actual notice of approved

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reimbursement for this program until that time. It seems unreasonable to require contemporaneous documentation of daily staff time for the retroactive initial fiscal years. While some historic staff time can be reconstructed from calendars and desk diaries, other staff time cannot and must be reported as a good-faith estimate. While the District agrees with the audit report recommendation that the claimants maintain records that document actual time spent on mandate-related activities, it would be a more realistic standard for fiscal years after the initial fiscal year claims.

2. Time Study Results

The audit initially determined that the solid waste diversion costs ($1,510,036) were entirely unallowable because they were unsupported by sufficient or appropriate documentation, as it did for the other program costs discussed above. At the first exit conference on February 25, 2010, the District determined that it would conduct a time study to replace the time reports originally submitted with the claims. The auditor's evaluation of the District time study results accepted the reported time except for time spent lawn mowing and discussing the time study process. The evaluation determined the daily average time spent by job classification and per person participating in the time study, and then multiplied that amount by the number of working days per year for each person and an average productive hourly rate for each job classification. This is a logical process, except that the audit reduced the average time per day to the statutory targets of 25% and 50%. For example, the average hours per day for custodians from the time study is .91 hours. The auditor reduced this to .26 (25% of .91 hours per day divided by 86.80%) and .52 hours per day (50% of .91 hours per day divided by 86.80%). The 80.86% figure is the amount of the actual diversion in 2006 and properly "grosses-up" the measured time to 100% diversion. The time study results for hours per day should not be reduced by the statutory target amounts. The staff cannot reduce their activities by 25% or 50%. All recycling trash receptacles have to be emptied regardless of the amount diverted. One cannot empty only 25% of the trash receptacle contents or only the trash receptacles from 25% of the locations. Regardless of the statutory target amounts, the same amount of work and time is required here for any amount of waste diversion.

At the second exit conference on February 15, 2011, the District proposed an alternative method of identifying costs based on the cost of the diverted tonnage rather than the study of staff time because of the disproportionate results of the audited evaluation of the time study. A method to more accurately measure the cost of the mandated activities would be to record, for a finite period of time (a day or a week), the time spent by all the persons involved in the collection and processing of the recycled materials. The District will measure what is collected by categories (cans, glass, green waste, paper, etc.) to make a direct measurement of staff time per unit of measure (100 lbs., a ton, etc.) and type of material. Those results will then be used as the basis for determining the overall

cost of the diversion program. Since the final audit report must be issued within a month, the District will perform this work after the final audit report is issued on the representation stated in the draft audit report that it will be reviewed and considered for a revised audit report. The District will send a proposed plan before it commences the study.

Finding 2- Overstated contract service costs

The District has no additional information available at this time regarding the $27,378 adjustment for the disposal of batteries and lamps.

Finding 3- Overstated fixed asset costs

The District has no additional information available at this time regarding a potential reimbursable allocation of the asset cost for the five trucks disallowed by the audit based on time used for waste diversion.

Finding 4- Understated offsetting savings

The draft audit report calculated $222,397 of understated offsetting cost savings. The parameters and guidelines (Part VIII) now require claimants to identify and offset "reduced or avoided costs realized" from implementation of the District integrated waste management plan. The District annual claims did not identify any avoided costs since these annual claims (except for FY 2007-08) were filed before the September 26, 2008, retroactive amendment of the parameters and guidelines that established this requirement as a result of a court decision. The District agrees that the defined cost savings should be reported. However, the District has no additional information available at this time regarding the diverted tonnage or costs charged for landfill disposal.

Finding 5- Understated offsetting revenues

The draft audit report identified $51,234 of offsetting cost revenues. The parameters and guidelines (Part VII) require claimants to identify and offset service fees, federal funds, and other state funds relevant to the mandate activities. The District annual claims reported and offset recycling revenue received from two vendors (Allan Company and Smurfit Stone). The draft audit report identifies two "other local revenue" accounts with amounts of about $3,000 to $8,000 per year as recycling income potentially attributable to the integrated waste management program. The draft audit report does not confirm that these revenues are related to the program. However, the District has no additional information available at this time regarding the nature of those revenues.

Management Representation Letter

The District will not be providing the requested management representation letter since the District has determined that it is outside the scope of a mandated cost compliance audit and could be construed as a waiver of future appeal rights.

Public Records Request

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable to all of the findings for all claiming periods.

Government Code Section 6253, subdivision (c), requires the state agency that is the subject of the request, within ten days from the receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in possession of the agency and to promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

Sincerely,

Richard Van Pelt, Interim Vice President
Administrative Services
Pasadena Area Community College District

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