

SANTA MONICA 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, 2001;
and July 1, 2003, through June 30, 2008*



JOHN CHIANG
California State Controller

August 2013



JOHN CHIANG
California State Controller

August 22, 2013

Nancy Greenstein, Ed.D., Chair
Board of Trustees
Santa Monica Community College District
1900 Pico Boulevard
Santa Monica, CA 90405

Dear Dr. Greenstein:

The State Controller's Office audited the costs claimed by Santa Monica 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, 2001 and July 1, 2003, through June 30, 2008. We did not audit the costs claimed for the period of July 1, 2001, through June 30, 2003, because the statute of limitations to initiate the audit had expired by the time the audit was started.

The district claimed \$680,674 for the mandated program. Our audit found that the entire amount is unallowable because the district overstated salary and benefit costs, overstated travel and training costs, misstated indirect costs, understated offsetting savings, and understated offsetting revenues and reimbursements. The State paid the district \$249,227. The State will apply \$249,227 against any balances of unpaid mandated program claims due the district as of October 19, 2010.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Bureau, by phone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/vb

Attachment

cc: Robert Isomoto, Vice President of Business/Administration
Santa Monica Community College District
Veronica Diaz, Budget Manager
Santa Monica Community College District
Tom Corpus, Grounds Manager
Santa Monica Community College District
Madeline Brodie, Recycling Coordinator
Santa Monica Community College District
Christine Atalig, Specialist
College Finance and Facilities Planning
California Community Colleges Chancellor's Office
Mollie Quasebarth, Principal Program Budget Analyst
Education Systems Unit
California Department of Finance
Mario Rodriguez, Finance Budget Analyst
Education Systems Unit
California Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Santa Monica 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, 2001 and July 1, 2003, through June 30, 2008. We did not audit the costs claimed for the period of July 1, 2001, through June 30, 2003, because the statute of limitations to initiate the audit had expired by the time the audit was started.

The district claimed \$680,674 for the mandated program. Our audit found that the entire amount is unallowable because the district overstated salary and benefit costs, overstated travel and training costs, misstated indirect costs, understated offsetting savings, and understated offsetting revenues and reimbursements. The State paid the district \$249,227. The State will apply \$249,227 against any balances of unpaid mandated program claims due the district as of October 19, 2010.

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 sections 12167 and 12167.1; and the State Agency Model Integrated Waste Management Plan (February 2000) require new activities which constitute new programs or higher levels of service for community college districts within the meaning of article XIII B, section 6, of the California Constitution, and impose costs mandated by the state pursuant to Government Code section 17514.

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

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

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Integrated Waste Management Program for the period of July 1, 1999, through June 30, 2001 and July 1, 2003, 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), Summary of Offsetting Savings Calculations (Schedule 2), and in the Findings and Recommendations section of this report.

For the audit period, Santa Monica Community College District claimed \$680,674 for costs of the Integrated Waste Management Program. Our audit found that the entire amount is unallowable.

For the fiscal year (FY) 1999-2000 through FY 2000-01, and FY 2003-04 through FY 2004-05 claims, the State paid the district \$249,227 from funds appropriated under Chapter 724, Statutes of 2010. Our audit found that the entire amount is unallowable. The State will apply \$249,227 against any balances of unpaid mandated program claims due the district as of October 19, 2010.

For the FY 2005-06 through FY 2007-08 claims, the State made no payment to the district. Our audit found that the entire amount is unallowable.

**Views of
Responsible
Official**

We issued a draft audit report on August 5, 2013. Robert G. Isomoto, Vice President, Business/Administration, responded by letter dated August 16, 2013 (Attachment), agreeing with the audit results. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of Santa Monica Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

August 22, 2013

**Schedule 1—
Summary of Program Costs
July 1, 1999, through June 30, 2001;
and July 1, 2003, through June 30, 2008**

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹
<u>July 1, 1999, through June 30, 2000</u>				
Direct costs:				
Salaries and benefits	\$ 14,355	\$ 9,318	\$ (5,037)	Finding 1
Materials and supplies	1,257	1,257	—	
Total direct costs	15,612	10,575	(5,037)	
Indirect costs	6,598	1,972	(4,626)	Finding 3
Total direct and indirect costs	22,210	12,547	(9,663)	
Less offsetting savings ²	(438)	(19,007)	(18,569)	Finding 5
Subtotal	21,772	(6,460)	(28,232)	
Adjustment to eliminate negative balance	—	6,460	6,460	
Total program costs	<u>\$ 21,772</u>	—	<u>\$ (21,772)</u>	
Less amount paid by the State ³		(21,772)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (21,772)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Direct costs:				
Salaries and benefits	\$ 22,786	\$ 5,859	\$ (16,927)	Finding 1
Materials and supplies	1,229	1,229	—	
Total direct costs	24,015	7,088	(16,927)	
Indirect costs	9,506	1,245	(8,261)	Finding 3
Total direct and indirect costs	33,521	8,333	(25,188)	
Less offsetting savings ²	(802)	(145,809)	(145,007)	Finding 5
Subtotal	32,719	(137,476)	(170,195)	
Adjustment to eliminate negative balance	—	137,476	137,476	
Total program costs	<u>\$ 32,719</u>	—	<u>\$ (32,719)</u>	
Less amount paid by the State ³		(32,719)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (32,719)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits	\$ 61,492	\$ 28,674	\$ (32,818)	Finding 1
Materials and supplies	6,543	6,543	—	
Travel and training	1,967	1,539	(428)	Finding 2
Total direct costs	70,002	36,756	(33,246)	
Indirect costs	20,951	7,035	(13,916)	Finding 3
Total direct and indirect costs	90,953	43,791	(47,162)	
Less offsetting revenues and reimbursements	—	(3,915)	(3,915)	Finding 4
Less offsetting savings ²	(3,915)	(161,602)	(157,687)	Finding 5
Subtotal	87,038	(121,726)	(208,764)	
Adjustment to eliminate negative balance	—	121,726	121,726	
Total program costs	<u>\$ 87,038</u>	—	<u>\$ (87,038)</u>	
Less amount paid by the State ³		(87,038)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (87,038)</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries and benefits	\$ 74,701	\$ 31,290	\$ (43,411)	Finding 1
Materials and supplies	6,269	6,269	—	
Travel and training	1,772	—	(1,772)	Finding 2
Total direct costs	82,742	37,559	(45,183)	
Indirect costs	27,572	12,060	(15,512)	Finding 3
Total direct and indirect costs	110,314	49,619	(60,695)	
Less offsetting revenues and reimbursements	—	(2,904)	(2,904)	Finding 4
Less offsetting savings ²	(2,616)	(186,228)	(183,612)	Finding 5
Subtotal	107,698	(139,513)	(247,211)	
Adjustment to eliminate negative balance	—	139,513	139,513	
Total program costs	<u>\$ 107,698</u>	—	<u>\$ (107,698)</u>	
Less amount paid by the State ³		(107,698)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (107,698)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries and benefits	\$ 72,798	\$ 34,499	\$ (38,299)	Finding 1
Materials and supplies	4,018	4,018	—	
Contract services	186	186	—	
Fixed assets	102	102	—	
Travel and training	544	—	(544)	Finding 2
Total direct costs	77,648	38,805	(38,843)	
Indirect costs	28,354	12,972	(15,382)	Finding 3
Total direct and indirect costs	106,002	51,777	(54,225)	
Less offsetting revenues and reimbursements	(4,436)	(5,370)	(934)	Finding 4
Less offsetting savings ²	—	(221,198)	(221,198)	Finding 5
Subtotal	101,566	(174,791)	(276,357)	
Adjustment to eliminate negative balance	—	174,791	174,791	
Total program costs	<u>\$ 101,566</u>	—	<u>\$ (101,566)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Salaries and benefits	\$ 119,220	\$ 66,572	\$ (52,648)	Finding 1
Materials and supplies	2,325	2,325	—	
Contract services	192	192	—	
Fixed assets	8,886	8,886	—	
Travel and training	2,553	—	(2,553)	Finding 2
Total direct costs	133,176	77,975	(55,201)	
Indirect costs	42,108	24,966	(17,142)	Finding 3
Total direct and indirect costs	175,284	102,941	(72,343)	
Less offsetting revenues and reimbursements	(5,516)	(10,268)	(4,752)	Finding 4
Less offsetting savings ²	(4,752)	(222,598)	(217,846)	Finding 5
Subtotal	165,016	(129,925)	(294,941)	
Adjustment to eliminate negative balance	—	129,925	129,925	
Total program costs	<u>\$ 165,016</u>	—	<u>\$ (165,016)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Salaries and benefits	\$ 125,753	\$ 35,569	\$ (90,184)	Finding 1
Materials and supplies	1,616	1,616	—	
Contract services	2,610	2,610	—	
Travel and training	3,733	—	(3,733)	Finding 2
Total direct costs	133,712	39,795	(93,917)	
Indirect costs	40,769	12,961	(27,808)	Finding 3
Total direct and indirect costs	174,481	52,756	(121,725)	
Less offsetting revenues and reimbursements	(9,524)	(9,616)	(92)	Finding 4
Less offsetting savings ²	(92)	(538,797)	(538,705)	Finding 5
Subtotal	164,865	(495,657)	(660,522)	
Adjustment to eliminate negative balance	—	495,657	495,657	
Total program costs	<u>\$ 164,865</u>	—	<u>\$ (164,865)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>Summary: July 1, 1999, through June 30, 2001; and July 1, 2003, through June 30, 2008</u>				
Direct costs:				
Salaries and benefits	\$ 491,105	\$ 211,781	\$ (279,324)	
Materials and supplies	23,257	23,257	—	
Contract services	2,988	2,988	—	
Fixed Assets	8,988	8,988	—	
Travel and training	10,569	1,539	(9,030)	
Total direct costs	536,907	248,553	(288,354)	
Indirect costs	175,858	73,211	(102,647)	
Total direct and indirect costs	712,765	321,764	(391,001)	
Less offsetting revenues and reimbursements	(19,476)	(32,073)	(12,597)	
Less offsetting savings	(12,615)	(1,495,239)	(1,482,624)	
Subtotal	680,674	(1,205,548)	(1,886,222)	
Adjustment to eliminate negative balance	—	1,205,548	1,205,548	
Total program costs	<u>\$ 680,674</u>	—	<u>\$ (680,674)</u>	
Less amount paid by the State		(249,227)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (249,227)</u>		

¹ See the Findings and Recommendations section.

² See Schedule 2, Summary of Offsetting Savings Calculations.

³ Payment from funds appropriated under Chapter 724, Statutes of 2010 (Assembly Bill No. 1610).

**Schedule 2—
Summary of Offsetting Savings Calculations
July 1, 1999, through June 30, 2001;
and July 1, 2003, through June 30, 2008**

Cost Elements	Offsetting Savings Reported	Offsetting Savings Realized			Audit Adjustment ¹
		July - December	January - June	Total	
<u>July 1, 1999, through June 30, 2000</u>					
Maximum allowable diversion percentage		—		25.00%	
Actual diversion percentage		÷ —	÷	34.08%	
Allocated diversion percentage		—		73.36%	
Tonnage diverted	x	—	x	(712.00)	
Statewide average landfill fee per ton	x	—	x	\$36.39	
Total offsetting savings, FY 1999-2000	\$ (438)	\$ —	\$ (19,007)	\$ (19,007)	\$ (18,569)
<u>July 1, 2000, through June 30, 2001</u>					
Maximum allowable diversion percentage		25.00%		25.00%	
Actual diversion percentage		÷ 34.08%	÷	98.03%	
Allocated diversion percentage		73.36%		25.50%	
Tonnage diverted	x	(712.00)	x	(13,663.55)	
Statewide average landfill fee per ton	x	\$36.39	x	\$ 36.39	
Total offsetting savings, FY 2000-01	\$ (802)	\$ (19,007)	\$ (126,802)	\$ (145,809)	\$ (145,007)
<u>July 1, 2003, through June 30, 2004</u>					
Maximum allowable diversion percentage		50.00%		50.00%	
Actual diversion percentage		÷ 91.19%	÷	85.00%	
Allocated diversion percentage		54.83%		58.82%	
Tonnage diverted	x	(2,952.70)	x	(4,512.15)	
Statewide average landfill fee per ton	x	\$36.83	x	\$38.42	
Total offsetting savings, FY 2003-04	\$ (3,915)	\$ (59,627)	\$ (101,975)	\$ (161,602)	\$ (157,687)
<u>July 1, 2004, through June 30, 2005</u>					
Maximum allowable diversion percentage		50.00%		50.00%	
Actual diversion percentage		÷ 85.00%	÷	86.19%	
Allocated diversion percentage		58.82%		58.01%	
Tonnage diverted	x	(4,512.15)	x	(3,724.00)	
Statewide average landfill fee per ton	x	\$38.42	x	\$39.00	
Total offsetting savings, FY 2004-05	\$ (2,616)	\$ (101,975)	\$ (84,253)	\$ (186,228)	\$ (183,612)

Schedule 2 (continued)

Cost Elements	Offsetting Savings Reported	Offsetting Savings Realized			Audit Adjustment ¹
		July - December	January - June	Total	
<u>July 1, 2005, through June 30, 2006</u>					
Maximum allowable diversion percentage		50%		50.00%	
Actual diversion percentage		÷ 86.19%		÷ 89.26%	
Allocated diversion percentage		58.01%		56.02%	
Tonnage diverted		x (3,724.00)		x (5,314.65)	
Statewide average landfill fee per ton		x 39.00		x \$46.00	
Total offsetting savings, FY 2005-06	\$ —	\$ (84,253)	\$ (136,945)	\$ (221,198)	\$ (221,198)
<u>July 1, 2006, through June 30, 2007</u>					
Maximum allowable diversion percentage		50.00%		50.00%	
Actual diversion percentage		÷ 89.26%		÷ 91.37%	
Allocated diversion percentage		56.02%		54.72%	
Tonnage diverted		x (5,314.65)		x (3,260.89)	
Statewide average landfill fee per ton		x \$46.00		x \$ 48.00	
Total offsetting savings, FY 2006-07	\$ (4,752)	\$ (136,945)	\$ (85,653)	\$ (222,598)	\$ (217,846)
<u>July 1, 2007, through June 30, 2008</u>					
Maximum allowable diversion percentage		50.00%		50.00%	
Actual diversion percentage		÷ 91.37%		÷ 97.77%	
Allocated diversion percentage		54.72%		51.14%	
Tonnage diverted		x (3,260.89)		x (17,374.09)	
Statewide average landfill fee per ton		x \$48.00		x \$51.00	
Total offsetting savings, FY 2007-08	\$ (92)	\$ (85,653)	\$ (453,144)	\$ (538,797)	\$ (538,705)
<u>Total offsetting savings: July 1, 1999, through June 30, 2001; and July 1, 2003, through June 30, 2008</u>	\$ (12,615)	\$ (487,460)	\$ (1,007,779)	\$ (1,495,237)	\$ (1,482,624)

¹ See Finding 5, Findings and Recommendations.

Findings and Recommendations

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

The district claimed \$491,105 in salaries and benefits for the audit period. We determined that \$211,781 is allowable and \$279,324 is unallowable. The costs are unallowable because the district did not adequately support the costs claimed, did not allocate the costs claimed, claimed reimbursement for unallowable activities, and understated costs claimed.

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

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
1999-2000	\$ 14,355	\$ 9,318	\$ (5,037)
2000-01	22,786	5,859	(16,927)
2003-04	61,492	28,674	(32,818)
2004-05	74,701	31,290	(43,411)
2005-06	72,798	34,499	(38,299)
2006-07	119,220	66,572	(52,648)
2007-08	125,753	35,569	(90,184)
	<u>\$491,105</u>	<u>\$ 211,781</u>	<u>\$ (279,324)</u>

Recap: by reimbursable component

Diversion / maintenance of approved level	\$372,387	\$ 115,819	\$ (256,568)
Staff training	31,057	8,301	(22,756)
Complete and submit plan to the Board	6,579	6,579	-
Annual report	5,595	5,595	-
Development of policies and procedures	3,536	3,536	-
Designation of waste reduction coordinator	53,631	53,631	-
Develop and maintain accounting system	6,244	6,244	-
Annual recycled materials report	12,076	12,076	-
	<u>\$491,105</u>	<u>\$ 211,781</u>	<u>\$ (279,324)</u>

Diversion and Maintenance of Approved Level of Reduction

The district claimed \$372,387 in salaries and benefits for the Diversion and Maintenance of Approved Level of Reduction cost component. We determined that \$115,819 is allowable and \$256,568 is unallowable. The costs are unallowable because the district did not adequately support the costs claimed, did not allocate the costs claimed, claimed reimbursement for unallowable activities, and made a calculation error.

Inadequately Supported Costs

For fiscal year (FY) 1999-2000 through FY 2007-08, the district did not provide sufficient documentation to support \$163,233 in claimed costs.

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 show the validity of such costs, when they incurred, and their relationship to the reimbursable activities. A source document is a documented created at or near the same time for the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited, to employee time record or time logs, sign-in sheets, invoices, receipts, and the community college plan approved by the Board.

Evidence corroborating source documents may include, but is not limited to, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, training packets, and declarations. Declarations must include a certification or declaration stating, “I certify (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct,” and must further comply with the requirements of Code of Civil Procedure section 2015.5. Evident 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 district provided inadequate documentation for the Grounds Manager, Custodians, Recycling Coordinator, Project Manager and Administrative Assistant.

- For the Grounds Manager and the Custodians, the district provided a document entitled “Employee Time Record Sheet for Mandated Programs.” The Time Sheet shows the total hours spent on diversion activities for each month and was completed at the end of each fiscal year when the mandated cost claims were prepared. The Time Sheet does not identify dates on which the diversion activities occurred nor does it identify specific diversion activities performed. The Time Sheet is considered a corroborating document that cannot be substituted for a source document, which is created at or near the same time the activity was performed.
- For the Recycling Coordinator, the district estimated costs using a formula. The district deducted the Recycling Coordinator’s sick, vacation, training, accounting, conference, annual report, composting, special waste, and procurement hours from the total time she could have worked for the entire month. Next, the district allocated 60% of the remaining hours to recycling and 40% to coordinating activities.

We initially determined that all of the salary and benefit costs claimed were unallowable because they were estimated and not sufficiently supported. However, during audit fieldwork, district staff told us that the Recycling Coordinator kept a detailed log of the time spent recycling for the months of April and May of 2005. Through various discussions regarding the activities performed on campus, we determined that the two-month time logs were representative of the time spent performing recycling activities each year. Based on this

two-month time log (April 4 through May 31, 2005), we determined that 92.2 hours were spent on recycling activities, which is 553.2 hours each fiscal year (92.2 hours in a two-month period × 6 months). We did not allow time reported on the time log for the Recycling Coordinator to provide waste tours, perform e-waste recycling, work on grant activities, or attend non-mandated meetings, as these activities are not reimbursable under the mandated program.

- For the Project Manager and Administrative Assistant, the district provided emails to support the hours claimed. The emails were submitted at the end of the fiscal year, when the mandated cost claims were prepared, and not when the actual diversion activity occurred. In one of the emails, the Project Manager stated that she was able to estimate the hours worked that month on recycling activities. In addition, the administrative assistant stated that she spent two hours per week supervising the student workers. However, she did not provide any documentation to validate the dates or time spent supervising the workers.

Overstatement Due to Lack of Allocation

The district overstated salaries and benefits by \$87,255 because it did not allocate costs according to the diversion requirements.

The parameters and guidelines (section IV – Reimbursable Activities, subsection (B)(5)) 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.

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. For every fiscal year in the audit period, the district diverted a larger percentage of tonnage than what was required by the mandated program. For example, in calendar year 2006, the district was required to achieve a 50% diversion rate, yet it reported a diversion rate of 89.26%. Therefore, we allocated the allowable salaries and benefits to only what was necessary for the district to achieve the required diversion rate.

For the audit period, we determined that \$99,653 in salaries and benefits are allowable based on supporting documentation for each fiscal year, and that \$103,421 in salaries and benefits are allowable based on a time study performed by the Recycling Coordinator in FY 2004-05. We allocated the \$99,653 based on each respective fiscal years diversion requirement and the time study results based on the FY 2004-05 diversion rate of 58.42%. As a result of the allocation, we determined that \$87,255 in salaries and benefits is unallowable.

Unallowable Costs

For FY 2004-05 through FY 2007-08, the district claimed unallowable salaries and benefits of \$10,649 because the district claimed reimbursement for electronic waste disposal (hazardous waste) and non-mandated grant activities.

- **Hazardous Waste.** For FY 2005-06 through FY 2007-08, the district claimed \$7,186 in salary and benefit costs for recycling computers. Computers are considered to be hazardous waste because they contain mercury, lead, and other heavy metals. Reimbursement for the mandated program is limited to activities involving solid waste only. Public Resources Code section 42921, subdivision (b), states "...each 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."
- **Non-mandated Grant Activities.** For FY 2004-05 through FY 2005-06, the district claimed \$3,463 in salaries and benefits to write grant proposals to increase funding for its recycling program. Applying for grants is at the discretion of the district and is not an increased cost the district is required to incur.

Understated Costs Due to a Calculation Error

For FY 2006-07, the district understated costs by \$4,569 because of a calculation error. The district calculated \$77,806 in salaries and benefit costs on Form 2A; however, it erroneously entered \$73,237 on Form 1A – Line 5(a) Divert Solid Waste/Maintain Required Level.

Staff Training

The district claimed \$31,057 in salaries and benefits for the Staff Training cost component. We determined that \$8,301 is allowable and \$22,756 is unallowable. The costs are unallowable because training is only allowable once.

The parameters and guidelines (section IV – Reimbursable Activities, subsection (A)(2)) state:

Train district staff on the requirement 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 reimbursement for the Recycling Coordinator to attend various training courses during FY 2003-04 through FY 2007-08. We allowed the training for the first year only (FY 2003-04) and not beyond that.

For FY 2003-04 through FY 2007-08, the district provided documentation for the time spent by the Recycling Coordinator to train student workers on the Integrated Waste Management plan. The documentation showed that the Recycling Coordinator spent three hours

training every new hire on the requirements of the mandate. The three hours were not originally claimed; however, we determined the costs were reasonable and allowed three hours for each new employee.

Recommendation

We recommend that the district ensure the claimed costs include only eligible costs, are based on actual costs, and are supported by source documentation.

District’s Response

The district accepts the finding.

**FINDING 2—
Overstated travel and training**

The district claimed \$10,569 in travel and training costs for the audit period. We determined that \$1,539 is allowable and \$9,030 is unallowable. The costs are unallowable because training is only allowable once.

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

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
2003-04	\$ 1,967	\$ 1,539	\$ (428)
2004-05	1,772	-	(1,772)
2005-06	544	-	(544)
2006-07	2,553	-	(2,553)
2007-08	3,733	-	(3,733)
	<u>\$ 10,569</u>	<u>\$ 1,539</u>	<u>\$ (9,030)</u>

The parameters and guidelines (section IV – Reimbursable Activities, subsection (A)(2)) state:

Train district staff on the requirement 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 reimbursement for travel and training costs incurred by the Recycling Coordinator for FY 2003-04 through FY 2007-08. We allowed the travel and training costs for the first year only (FY 2003-04) and not beyond that. We also allowed the travel and training costs for the Ground Manager for FY 2003-04 that were not originally claimed.

Recommendation

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

District's Response

The district accepts the finding.

**FINDING 3—
Misstated indirect
costs**

The district claimed \$102,647 in unallowable indirect costs for the audit period. The costs are unallowable because of related unallowable salaries and benefits (described in Finding 1), because the FAM-29C rate was incorrectly calculated, and because the district did not apply the FAM-29C rate to the proper direct cost base.

The district did not correctly calculate the FAM-29C indirect cost rate for all fiscal years in the audit period. Specifically, the district did not allocate direct and indirect costs as specified in the SCO's claiming instructions. In addition, the district used expenditures from the prior year's Form CCSF-311 to prepare the current year's indirect cost rates in each fiscal year.

We calculated the allowable indirect cost rate for each fiscal year by using the current information contained in the Form CCFS-311 and allocated direct and indirect costs as specified in the SCO's claiming instructions.

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

<u>Fiscal Year</u>	<u>Claimed Indirect Cost Rate</u>	<u>Allowable Indirect Cost Rate</u>	<u>Unsupported Indirect Cost Rate</u>
1999-2000	45.96%	18.65%	-27.31%
2000-01	41.72%	17.57%	-24.15%
2003-04	34.07%	19.14%	-14.93%
2004-05	36.91%	32.11%	-4.80%
2005-06	38.95%	33.43%	-5.52%
2006-07	35.32%	32.02%	-3.30%
2007-08	32.42%	36.44%	4.02%

In addition, the district understated indirect costs because it did not apply the FAM-29C rate to the proper direct cost base. The FAM-29C methodology for FY 1999-2000 through FY 2006-07 uses a direct cost base; however, the district applied the FAM-29C rate only to salaries and benefits.

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

<u>Fiscal Year</u>	<u>Allowable Direct Costs</u>	<u>Allowable Indirect Cost Rate</u>	<u>Allowable Indirect Costs</u>	<u>Claimed Indirect Costs</u>	<u>Audit Adjustment</u>
1999-2000	\$ 10,575	18.65%	\$ 1,972	\$ 6,598	\$ (4,626)
2000-01	7,088	17.57%	1,245	9,506	(8,261)
2003-04	36,756	19.14%	7,035	20,951	(13,916)
2004-05	37,559	32.11%	12,060	27,572	(15,512)
2005-06	38,805	33.43%	12,972	28,354	(15,382)
2006-07	77,975	32.02%	24,966	42,108	(17,142)
2007-08	<u>35,569</u> *	36.44%	<u>12,961</u>	<u>40,769</u>	<u>(27,808)</u>
	<u>\$ 244,327</u>		<u>\$ 73,211</u>	<u>\$ 175,858</u>	<u>\$ (102,647)</u>

* The FY 2007-08 indirect cost rate is applied to salaries and benefits only

The parameters and guidelines (section V – Claim Preparation and Submission, subsection B) state:

Community colleges have the option of using: (1) a federally approved rate, utilizing the cost accounting principles from the Office of Management and Budget Circular A-21, “Cost Principles of Educational Institutions”; (2) the rate calculated on the State Controller's Form FAM-29C; or (3) a 7% indirect cost rate.

Recommendation

We recommend that the district calculate the FAM-29C indirect cost rate in accordance with the SCO’s Claiming Instructions and apply the indirect cost rate to the correct direct cost base.

District’s Response

The district accepts the finding.

**FINDING 4—
Understated offsetting revenues**

The district understated offsetting revenues by \$12,597 for the audit period. The following table summarizes the audit adjustment by fiscal year:

<u>Fiscal Year</u>	<u>Offsetting Revenue Reported</u>	<u>Offsetting Revenue Received</u>	<u>Audit Adjustment</u>
2003-04	\$ -	\$ (3,915)	\$ (3,915)
2004-05	-	(2,904)	(2,904)
2005-06	(4,436)	(5,370)	(934)
2006-07	(5,516)	(10,268)	(4,752)
2007-08	<u>(9,524)</u>	<u>(9,616)</u>	<u>(92)</u>
	<u>\$ (19,476)</u>	<u>\$ (32,073)</u>	<u>\$ (12,597)</u>

The district performs most of the recycling itself. Recycling activities include taking aluminum cans, bottles, and glass to the recycling center for reimbursement. The revenues are recorded into the recycling account #914. We determined that all of the revenues deposited into this account should have been offset on the claim.

Recommendation

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

District’s Response

The district accepts the finding.

**FINDING 5—
Understated offsetting
savings**

The district understated offsetting savings by \$1,482,624 for the audit period. The following table summarizes the understated offsetting savings by fiscal year:

<u>Fiscal Year</u>	<u>Offsetting Savings Reported</u>	<u>Offsetting Savings Realized</u>	<u>Audit Adjustment</u>
1999-2000	\$ (438)	\$ (19,007)	\$ (18,569)
2000-01	(802)	(145,809)	(145,007)
2003-04	(3,915)	(161,602)	(157,687)
2004-05	(2,616)	(186,228)	(183,612)
2005-06	-	(221,198)	(221,198)
2006-07	(4,752)	(222,598)	(217,846)
2007-08	<u>(92)</u>	<u>(538,797)</u>	<u>(538,705)</u>
Total	<u>\$ (12,615)</u>	<u>\$ (1,495,239)</u>	<u>\$ (1,482,624)</u>

The amended parameters and guidelines (section VIII – Offsetting Cost Savings) state:

Reduced or avoided costs realized from implementation of the community college districts’ Integrated Waste Management Plan shall be identified and offset from this claim as cost savings, consistent with the direction for revenue in Public Contract Code sections 12167 and 12167.1.

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

Offsetting Savings Calculation

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

...cost savings may be calculated from the annual solid waste disposal reduction or diversion rates that community colleges must annually report to the Board pursuant to Public Resources Code section 42926, subdivision (b)(1).

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

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

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

Allocated Diversion Percentage

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

For calendar years 2000 through 2006, we used the diversion percentage reported by the district to CalRecycle (formerly the IWM Board) pursuant to Public Resource Code section 42926, subdivision (b)(1). For calendar years 2007 and 2008, we used the diversion percentage reported to us by the district.

Tonnage Diverted

The tonnage diverted is solid waste that the district recycled, composted, and kept out of the landfill.

For calendar years 2000 through 2006, we used the tonnage diverted, as reported by the district to CalRecycle pursuant to Public Resource Code section 42926, subdivision (b)(1). For calendar years 2007 and 2008, we used the tonnage amounts reported to us by the district.

Avoided Landfill Disposal Fee (per Ton)

The avoided landfill disposal fee is used to calculate realized savings because the district no longer incurs a cost to dispose of the diverted tonnage at the landfill. For each fiscal year in the audit period, we used the statewide average disposal fee (as provided by CalRecycle).

Recommendation

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

District's Response

The district accepts the finding.

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



August 16, 2013

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

Dear Mr. Spano,

Listed below is the response from Santa Monica College regarding the State Controller's Office audit of Government Integrated Waste Management Program.

The Santa Monica College District accepts the findings of the State Controller's Office audit of the District's mandated Integrated Waste Program claim. The District claimed \$680,674 of which \$321,764 were allowable costs. Because of its outstanding recycling program, the District savings, revenues, and reimbursements were calculated to be \$1,527,312, which more than offset the allowable costs. In addition, the District acknowledges that the State has previously paid \$249,227 and will apply these funds against any balances of unpaid mandated program claims due to the District.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert G. Isomoto". The signature is fluid and cursive, with a large initial "R" and "I".

Robert G. Isomoto
Vice President, Business/Administration
Santa Monica College

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

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