



JOHN CHIANG
California State Controller

April 11, 2014

Terry Newman, Senior Director
of Administrative Services
Gavilan Joint Community College District
5055 Santa Teresa Boulevard
Gilroy, CA 95020

Dear Ms. Newman:

The State Controller's Office reviewed the costs claimed by the Gavilan Joint Community College District for the legislatively mandated Integrated Waste Management (IWM) 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, 2011. We did not include the costs claimed for the period of July 1, 2001, through June 30, 2003, in the review period because the statute of limitations to initiate the review has expired. We conducted our review under the authority of Government Code sections 12410, 17558.5, and 17561. Our review was limited to ensuring that offsetting savings were properly reported in accordance with program requirements.

The district claimed \$658,967 for the mandated program. Our review found that \$458,791 is allowable and \$200,176 is unallowable. The costs are unallowable because the district did not report any offsetting savings realized as a result of implementing its IWM plan, as described in the attached Summary of Program Costs, Summary of Offsetting Savings Calculations, and the Finding and Recommendation.

For fiscal year (FY) 1999-2000 and FY 2003-04 through FY 2010-11 claims, the State made no payment to the district. Our review found that \$392,323 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2000-01 claim, the State paid the district \$8,406 from funds appropriated under Chapter 724, Statutes of 2010. Our review found that \$66,468 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$58,062, contingent upon available appropriations.

If you disagree with the review finding, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's website at www.csm.ca.gov/docs/IRCForm.pdf.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

Attachments

RE: S14-MCC-920

cc: Jeff Gopp, Director of Facilities Services
Gavilan Joint Community College District
Nancy Bailey, Executive Assistant of Administrative Services
Gavilan Joint Community College District
Christine Atalig, Specialist, College Finance and Facilities Planning
California Community Colleges Chancellor's Office
Mollie Quasebarth, Principal Program Budget Analyst
Education Systems Unit, California Department of Finance
Mario Rodriguez, Finance Budget Analyst
Education Systems Unit, California Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

**Attachment 1—
Summary of Program Costs
July 1, 1999, through June 30, 2001;
and July 1, 2003, through June 30, 2011**

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>July 1, 1999, through June 30, 2000</u>			
Direct costs:			
Salaries and benefits	\$ 20,585	\$ 20,585	\$ —
Indirect costs	7,046	7,046	—
Total direct and indirect costs	27,631	27,631	—
Less offsetting savings ²	—	(1,298)	(1,298)
Total program costs	<u>\$ 27,631</u>	26,333	<u>\$ (1,298)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 26,333</u>	
<u>July 1, 2000, through June 30, 2001</u>			
Direct costs:			
Salaries and benefits	\$ 44,971	\$ 44,971	\$ —
Contract services	7,799	7,799	—
Total direct costs	52,770	52,770	—
Indirect costs	16,437	16,437	—
Total direct and indirect costs	69,207	69,207	—
Less offsetting savings ²	—	(2,739)	(2,739)
Total program costs	<u>\$ 69,207</u>	66,468	<u>\$ (2,739)</u>
Less amount paid by the State ³		(8,406)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 58,062</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Salaries and benefits	\$ 46,046	\$ 46,046	\$ —
Contract services	4,000	4,000	—
Total direct costs	50,046	50,046	—
Indirect costs	16,710	16,710	—
Total direct and indirect costs	66,756	66,756	—
Less offsetting savings ²	—	(11,713)	(11,713)
Total program costs	<u>\$ 66,756</u>	55,043	<u>\$ (11,713)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 55,043</u>	

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>July 1, 2004, through June 30, 2005</u>			
Direct costs:			
Salaries and benefits	\$ 49,040	\$ 49,040	\$ —
Contract services	2,800	2,800	—
Total direct costs	51,840	51,840	—
Indirect costs	16,654	16,654	—
Total direct and indirect costs	68,494	68,494	—
Less offsetting savings ²	—	(9,098)	(9,098)
Total program costs	<u>\$ 68,494</u>	59,396	<u>\$ (9,098)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 59,396</u>	
<u>July 1, 2005, through June 30, 2006</u>			
Direct costs:			
Salaries and benefits	\$ 49,741	\$ 49,741	\$ —
Indirect costs	18,364	18,364	—
Total direct and indirect costs	68,105	68,105	—
Less offsetting savings ²	—	(122,630)	(122,630)
Subtotal	68,105	(54,525)	(122,630)
Adjustment to eliminate negative balance	—	54,525	54,525
Total program costs	<u>\$ 68,105</u>	—	<u>\$ (68,105)</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	\$ 51,880	\$ 51,880	\$ —
Indirect costs	18,910	18,910	—
Total direct and indirect costs	70,790	70,790	—
Less offsetting savings ²	—	(122,685)	(122,685)
Subtotal	70,790	(51,895)	(122,685)
Adjustment to eliminate negative balance	—	51,895	51,895
Total program costs	<u>\$ 70,790</u>	—	<u>\$ (70,790)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries and benefits	\$ 56,440	\$ 56,440	\$ —
Indirect costs	22,322	22,322	—
Total direct and indirect costs	78,762	78,762	—
Less offsetting savings ²	—	(10,485)	(10,485)
Total program costs	<u>\$ 78,762</u>	68,277	<u>\$ (10,485)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 68,277</u>	
<u>July 1, 2008, through June 30, 2009</u>			
Direct costs:			
Salaries and benefits	\$ 63,980	\$ 63,980	\$ —
Indirect costs	24,057	24,057	—
Total direct and indirect costs	88,037	88,037	—
Less offsetting savings ²	—	(11,226)	(11,226)
Total program costs	<u>\$ 88,037</u>	76,811	<u>\$ (11,226)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 76,811</u>	
<u>July 1, 2009, through June 30, 2010</u>			
Direct costs:			
Salaries and benefits	\$ 68,539	\$ 68,539	\$ —
Indirect costs	26,635	26,635	—
Total direct and indirect costs	95,174	95,174	—
Less offsetting savings ²	—	(11,756)	(11,756)
Total program costs	<u>\$ 95,174</u>	83,418	<u>\$ (11,756)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 83,418</u>	
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Salaries and benefits	\$ 18,909	\$ 18,909	\$ —
Indirect costs	7,102	7,102	—
Total direct and indirect costs	26,011	26,011	—
Less offsetting savings ²	—	(2,966)	(2,966)
Total program costs	<u>\$ 26,011</u>	23,045	<u>\$ (2,966)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 23,045</u>	

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>Summary: July 1, 1999, through June 30, 2001; and July 1, 2003, through June 30, 2011</u>			
Direct costs:			
Salaries and benefits	\$ 470,131	\$ 470,131	\$ —
Contract services	14,599	14,599	—
Total direct costs	484,730	484,730	—
Indirect costs	174,237	174,237	—
Total direct and indirect costs	658,967	658,967	—
Less offsetting savings ²	—	(306,596)	(306,596)
Subtotal	658,967	352,371	(306,596)
Adjustment to eliminate negative balance	—	106,420	106,420
Total program costs	<u>\$ 658,967</u>	458,791	<u>\$ (200,176)</u>
Less amount paid by the State ³		(8,406)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 450,385</u>	

¹ See Attachment 3, Finding and Recommendation.

² See Attachment 2, Summary of Offsetting Savings Calculations.

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

**Attachment 2—
Summary of Offsetting Savings Calculations
July 1, 1999, through June 30, 2001;
and July 1, 2003, through June 30, 2011**

Cost Elements	Offsetting Savings Reported	Offsetting Savings Realized			Review 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		÷ —	÷ 36.21%		
Allocated diversion percentage		—	69.04%		
Tonnage diverted	×	—	×	(51.65)	
Statewide average landfill fee per ton	×	—	×	\$36.39	
Offsetting savings, FY 1999-2000	\$ —	\$ —	\$ (1,298)	\$ (1,298)	\$ (1,298)
<u>July 1, 2000, through June 30, 2001</u>					
Maximum allowable diversion percentage		25.00%	25.00%		
Actual diversion percentage		÷ 36.21%	÷ 39.02%		
Allocated diversion percentage		69.04%	64.07%		
Tonnage diverted	×	(51.65)	×	(61.80)	
Statewide average landfill fee per ton	×	\$36.39	×	\$36.39	
Offsetting savings, FY 2000-01	\$ —	\$ (1,298)	\$ (1,441)	\$ (2,739)	\$ (2,739)
<u>July 1, 2003, through June 30, 2004</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 75.43%	÷ 61.80%		
Allocated diversion percentage		66.29%	80.91%		
Tonnage diverted	×	(313.10)	×	(130.90)	
Statewide average landfill fee per ton	×	\$36.83	×	\$38.42	
Offsetting savings, FY 2003-04	\$ —	\$ (7,644)	\$ (4,069)	\$ (11,713)	\$ (11,713)
<u>July 1, 2004, through June 30, 2005</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 61.80%	÷ 68.63%		
Allocated diversion percentage		80.91%	72.85%		
Tonnage diverted	×	(130.90)	×	(177.00)	
Statewide average landfill fee per ton	×	\$38.42	×	\$39.00	
Offsetting savings, FY 2004-05	\$ —	\$ (4,069)	\$ (5,029)	\$ (9,098)	\$ (9,098)

Attachment 2 (continued)

Cost Elements	Offsetting Savings Reported	Offsetting Savings Realized			Review Adjustment ¹
		July - December	January - June	Total	
<u>July 1, 2005, through June 30, 2006</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 68.63%	÷ 98.23%		
Allocated diversion percentage		72.85%	50.90%		
Tonnage diverted	×	(177.00)	×	(5,022.70)	
Statewide average landfill fee per ton	×	\$39.00	×	\$46.00	
Offsetting savings, FY 2005-06	\$ —	\$ (5,029)	\$ (117,601)	\$ (122,630)	\$ (122,630)
<u>July 1, 2006, through June 30, 2007</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 98.23%	÷ 61.80%		
Allocated diversion percentage		50.90%	80.91%		
Tonnage diverted	×	(5,022.70)	×	(130.90)	
Statewide average landfill fee per ton	×	\$46.00	×	\$48.00	
Offsetting savings, FY 2006-07	\$ —	\$ (117,601)	\$ (5,084)	\$ (122,685)	\$ (122,685)
<u>July 1, 2007, through June 30, 2008</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 61.80%	÷ 61.80%		
Allocated diversion percentage		80.91%	80.91%		
Tonnage diverted	×	(130.90)	×	(130.90)	
Statewide average landfill fee per ton	×	\$48.00	×	\$51.00	
Offsetting savings, FY 2007-08	\$ —	\$ (5,084)	\$ (5,401)	\$ (10,485)	\$ (10,485)
<u>July 1, 2008, through June 30, 2009</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 61.80%	÷ 61.80%		
Allocated diversion percentage		80.91%	80.91%		
Tonnage diverted	×	(130.90)	×	(130.90)	
Statewide average landfill fee per ton	×	\$51.00	×	\$55.00	
Offsetting savings, FY 2008-09	\$ —	\$ (5,401)	\$ (5,825)	\$ (11,226)	\$ (11,226)
<u>July 1, 2009, through June 30, 2010</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷ 61.80%	÷ 61.80%		
Allocated diversion percentage		80.91%	80.91%		
Tonnage diverted	×	(130.90)	×	(130.90)	
Statewide average landfill fee per ton	×	\$55.00	×	\$56.00	
Offsetting savings, FY 2009-10	\$ —	\$ (5,825)	\$ (5,931)	\$ (11,756)	\$ (11,756)

Attachment 2 (continued)

Cost Elements	Offsetting Savings Reported	Offsetting Savings Realized			Review Adjustment ¹
		July - December	January - June	Total	
<u>July 1, 2010, through June 30, 2011</u>					
Maximum allowable diversion percentage		50.00%	—		
Actual diversion percentage		÷ 61.80%	÷ —		
Allocated diversion percentage		80.91%	—		
Tonnage diverted	×	(65.45)	×	—	
Statewide average landfill fee per ton	×	\$56.00	×	—	
Offsetting savings, FY 2010-11	\$ —	\$ (2,966)	\$ —	\$ (2,966)	\$ (2,966)
<u>Summary: July 1, 1999, through June 30, 2001; and July 1, 2003, through June 30, 2011</u>					
	\$ —	\$ (154,917)	\$ (151,679)	\$ (306,596)	\$ (306,596)

¹ See Attachment 3, Finding and Recommendation.

**Attachment 3—
Finding and Recommendation
July 1, 1999, through June 30, 2001;
and July 1, 2003, through June 30, 2011**

**FINDING—
Unreported offsetting
savings**

The district did not report any offsetting savings on its mandated cost claims for the review period. We found that the district realized savings of \$306,596 from implementation of its integrated waste management (IWM) plan.

We informed Terry Newman, Senior Director of Administrative Services, of the review finding via email on January 17, 2014. On March 12, 2014, we provided Ms. Newman with documentation supporting the finding. On March 20, 2014, Nancy Bailey, Executive Assistant of Administrative Services, responded via email stating that the district does not agree with the audit methodology used to derive unallowable costs. The district did not provide a reason for its disagreement with the audit methodology.

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

<u>Fiscal Year</u>	<u>Offsetting Savings Reported</u>	<u>Offsetting Savings Realized</u>	<u>Review Adjustment</u>
1999-2000	\$ -	\$ (1,298)	\$ (1,298)
2000-01	-	(2,739)	(2,739)
2003-04	-	(11,713)	(11,713)
2004-05	-	(9,098)	(9,098)
2005-06	-	(122,630)	(122,630)
2006-07	-	(122,685)	(122,685)
2007-08	-	(10,485)	(10,485)
2008-09	-	(11,226)	(11,226)
2009-10	-	(11,756)	(11,756)
2010-11	-	(2,966)	(2,966)
Total	<u>\$ -</u>	<u>\$ (306,596)</u>	<u>\$ (306,596)</u>

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

The program's parameters and guidelines establish the state mandate and define the reimbursement criteria. The CSM adopted the parameters and guidelines on March 30, 2005.

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

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

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

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

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

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

Offsetting Savings Calculation

The CSM's 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 the multiplied the total by the avoided landfill disposal fee, as follows:

$$\begin{array}{rcccl}
 & & \text{Allocated Diversion \%} & & \\
 & & \overbrace{\hspace{1.5cm}} & & \\
 \text{Offsetting} & & \text{Maximum} & & \text{Avoided} \\
 \text{Savings} & & \text{Allowable} & & \text{Landfill} \\
 \text{Realized} & = & \frac{\text{Diversion \%}}{\text{Actual Diversion \%}} & \times & \text{Tonnage} \times \text{Disposal Fee} \\
 & & & & \text{Diverted} \quad \text{(per Ton)}
 \end{array}$$

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

Allocated Diversion Percentage

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

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

In 2008, CalRecycle began focusing on “per-capita disposal” instead of a “diversion percentage.” CalRecycle stopped requiring community college districts to report the actual amount of tonnage diverted, so the annual reports no longer identify a “diversion percentage.” Therefore, we used the 2007 diversion percentage to calculate offsetting savings for FY 2007-08, FY 2008-09, FY 2009-10, and FY 2010-11. The district did not provide documentation supporting a different diversion percentage.

Tonnage Diverted

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

For calendar years 2000 through 2007, we used the actual tonnage diverted, as reported by the district to CalRecycle pursuant to Public Resources Code section 42926, subdivision (b)(1).

As previously noted, in 2008, CalRecycle stopped requiring community college districts to report the actual amount of tonnage diverted. Therefore, we used the tonnage diverted in 2007 to calculate the offsetting savings for FY 2007-08, FY 2008-09, FY 2009-10, and FY 2010-11. The district did not provide documentation supporting a different amount of tonnage diverted.

Avoided Landfill Disposal Fee (per Ton)

The avoided landfill disposal fee is used to calculate realized savings because the district no longer incurs a cost to dispose of the diverted tonnage at the landfill. For each fiscal year in the review period, we used the statewide average disposal fee provided by CalRecycle. The district did not provide documentation supporting a different disposal fee.

Recommendation

The IWM Program was suspended in the FY 2011-12 through FY 2013-14 Budget Acts. If the program becomes active, we recommend that the district offset all savings realized from implementation of its IWM plan.