



Transmitted via e-mail

January 31, 2017

Mr. Scott Smithline, Director  
Department of Resources Recycling and Recovery  
1001 I Street, MS 25A  
Sacramento, CA 95814

Dear Mr. Smithline:

**Final Report—Department of Resources Recycling and Recovery, 2015 Financial Statement Audit of the California Used Oil Recycling Fund**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Department of Resources Recycling and Recovery's (CalRecycle) California Used Oil Recycling Fund for the year ended June 30, 2015.

The enclosed report is for your information and use. CalRecycle's response to the report finding and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

We appreciate the assistance and cooperation of CalRecycle. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Marilyn Santiago, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Cheryl L. McCormick, CPA  
Assistant Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Ken DaRosa, Chief Deputy Director, Department of Resources Recycling and Recovery  
Mr. Tom Estes, Deputy Director, Administration, Finance, and Information Technology  
Services Division, Department of Resources Recycling and Recovery  
Mr. Howard Levenson, Deputy Director, Materials Management and Local Assistance  
Division, Department of Resources Recycling and Recovery  
Ms. Sarah Keck, Chief Financial Officer, Fiscal Services Branch, Department of Resources  
Recycling and Recovery  
Ms. Josephine Urban, Branch Chief, Audits Office, Department of Resources Recycling and  
Recovery  
Ms. Jane Hayes, Chief Accounting Officer, Accounting Section, Department of Resources  
Recycling and Recovery

A F INANCIAL S TATEMENT A UDIT

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Department of Resources Recycling and Recovery  
California Used Oil Recycling Fund  
For the Fiscal Year Ended  
June 30, 2015

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

## **MEMBERS OF THE TEAM**

Kimberly Tarvin, CPA  
Manager

Marilyn Santiago, CPA  
Supervisor

### Staff

Amy Dieng  
Sarah Krtil

Hanzhao Meng, CPA, CIA  
Heenesh Patel, CPA  
Dennis Solheim, CPA

This report is also available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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# EXECUTIVE SUMMARY

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The Department of Finance, Office of State Audits and Evaluations performed an audit of the California Used Oil Recycling Fund (Fund) administered by the Department of Resources Recycling and Recovery in accordance with Public Resources Code section 48657. The objectives of our audit were to:

- Express an opinion on the *Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balance* of the Fund for the fiscal year ended June 30, 2015.
- Verify that the financial statements were prepared on the basis of accounting prescribed by the California State Administrative Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America.
- Report on internal control and compliance weaknesses, and provide recommendations for improving controls over Fund operations.

## **Audit Results**

- The aforementioned financial statements are fairly presented for the fiscal year ended June 30, 2015, in accordance with a statutory basis of accounting.
- One significant deficiency was identified in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards, which is included in this report.

This report is intended solely for the information and use of the Fund's management, and is not intended to be, and should not be, used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.



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## INDEPENDENT AUDITOR'S REPORT

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Mr. Scott Smithline, Director  
Department of Resources Recycling and Recovery  
1001 I Street, MS 25A  
Sacramento, CA 95814

We have audited the accompanying financial statements (statutory basis) of the governmental activities of the California Used Oil Recycling Fund (Fund) as administered by the Department of Resources Recycling and Recovery (CalRecycle). The financial statements comprise the Balance Sheet (statutory basis) as of June 30, 2015, related Statement of Revenue, Expenditures, and Changes in Fund Balance for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with a statutory basis of accounting described in Note 1B. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The Department of Finance (Finance) and CalRecycle are both part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. Under *Government Auditing Standards*, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented sufficient safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Fund as of June 30, 2015, and the respective changes in financial position for the year then ended, in accordance with a statutory basis of accounting described in Note 1B.

### **Emphasis of Matter**

As described in Note 1B, these financial statements were prepared on the basis of accounting prescribed by the California State Administrative Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of Public Resources Code, section 48657, and to present financial information for the Fund only. Also as discussed in Note 1B, the financial statements are not intended to present the financial position of CalRecycle or the State of California as of June 30, 2015 or the results of operations or changes in their financial position for the year then ended.

Our opinion is not modified with respect to these matters.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016, on our consideration of CalRecycle's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CalRecycle's internal control over financial reporting and compliance.

### **Restriction on Use**

Our report is intended solely for the information and use of the Fund's management and is not intended to be, and should not be, used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

Cheryl L. McCormick, CPA  
Assistant Chief, Office of State Audits and Evaluations

October 31, 2016

# BALANCE SHEET—STATUTORY BASIS

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**Department of Resources Recycling and Recovery  
California Used Oil Recycling Fund  
As of June 30, 2015**

**Assets**

Cash and Pooled Investments	\$ 29,981,166
Receivables	6,388,020
Due From Other Funds or Appropriations	<u>357,425</u>
<b>Total Assets</b>	<u>36,726,611</u>

**Liabilities**

Accounts Payable	2,937,778
Due To Other Funds or Appropriations	723,622
Due To Other Governments	<u>1,030,833</u>
<b>Total Liabilities</b>	<u>4,692,233</u>

**Fund Balance**

Deferred Payroll	293,012
Reserved for Encumbrances	4,962,362
Contingency Reserve for Economic Uncertainties	<u>26,779,004</u>
<b>Total Fund Balance</b>	<u>32,034,378</u>

<b>Total Liabilities and Fund Balance</b>	<u>\$ 36,726,611</u>
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The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUE, EXPENDITURES, AND  
CHANGES IN FUND BALANCE—STATUTORY BASIS

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**Department of Resources Recycling and Recovery  
California Used Oil Recycling Fund  
For the Fiscal Year Ended June 30, 2015**

<b>Revenue</b>	
Fees	\$ 24,195,515
Interest	140,334
Miscellaneous Revenue	72,721
<b>Total Revenue</b>	<u>24,408,570</u>
<b>Expenditures</b>	
Used Oil Incentive Payments	4,589,068
Used Oil Grants and Subventions (Local Assistance)	10,831,208
Used Oil Grants and Subventions (State Operations)	2,871,876
Contaminated Oil Claims	34,435
Local Conservation Corps Grants	688,937
Administrative Support	5,498,068
<b>Total Expenditures</b>	<u>24,513,592</u>
<b>Excess of Expenditures Over Revenue</b>	<u>(105,022)</u>
<b>Other Financing Sources/Uses</b>	
Operating Transfers In	<u>5,000,000</u>
<b>Net Change in Fund Balance</b>	4,894,978
<b>Fund Balance, July 1, 2014</b>	<u>27,139,400</u>
<b>Fund Balance, June 30, 2015</b>	<u>\$ 32,034,378</u>

The notes to the financial statements are an integral part of this statement.

# NOTES TO FINANCIAL STATEMENTS—STATUTORY BASIS

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## Department of Resources Recycling and Recovery California Used Oil Recycling Fund For the Fiscal Year Ended June 30, 2015

### NOTE 1 Definition of Reporting Entity and Summary of Significant Accounting Policies

#### A. Definition of Reporting Entity

The California Used Oil Recycling Fund (Fund) was created with the enactment of the California Used Oil Recycling Enhancement Act of 1991 (Act). The Fund is administered by the California Department of Resources Recycling and Recovery (CalRecycle) and is shared with the Office of Environmental Health Hazard Assessment (OEHHA), and the Department of Toxic Substances Control (DTSC).

Pursuant to the Act, every oil manufacturer shall pay a fee for any lubricating oil sold or transferred into the state, or imported into the state for use in the state. Fees received by CalRecycle from oil manufacturers are deposited into the Fund.

The Act authorizes CalRecycle to pay a recycling incentive to certified used oil collection centers and registered curbside collection programs for used lubricating oil collected from the public, or for used lubricating oil generated by certified used oil collection centers or registered industrial generators, and transported to qualifying used oil recycling facilities. In addition, all registered participants are required to report to CalRecycle the amount of used oil transported, the location to which it is transported, and the source of the used oil. Further, each used oil recycling facility located in California is required to report to CalRecycle the amount of used oil received and the amount of recycled oil produced.

The Act stipulates that all monies deposited in the Fund shall be used to pay recycling incentives, pay the necessary costs to administer the program, provide a reserve for contingencies, and make available block grants for the implementation of local used oil collection programs.

Pursuant to the Act, the balance of monies deposited in the Fund remaining after the payment of all expenditures, except as noted above, shall be available to CalRecycle for specified uses. The Act limits the use of the remaining balance to expenditures for the development and implementation of an information and education program for the promotion of alternatives to the illegal disposal of used oil, for certain types of grants and contracts, and to fund the disposal of used oil that is contaminated by excessive hazardous materials and collected by a certified used oil collection center.

Chapter 353, Statutes of 2009 (Senate Bill 546), established a dual fee structure and dual incentive rates effective January 1, 2010, and replaced the reimbursable grant program (formerly known as the Used Oil Block Grant Program [UBG]) to a payment program (referred to as the Oil Payment Program [OPP]). Per Statute, the fee paid by manufacturers for new lubricating oil sold in California was set at \$0.24 per gallon on and after January 1, 2014.

#### B. Basis of Presentation—Statutory Basis

The financial statements are presented in accordance with state laws and state accounting procedures prescribed by the California State Administrative Manual (SAM), which is a basis of accounting other than generally accepted accounting principles (GAAP). The significant variances from GAAP are as follows:

- *Fund Balance Categorization* – The fund balance in the financial statements are presented in “reserve” categories according to their specified purposes. Under GAAP, the Fund’s fund balance would be classified as “restricted” due to enabling legislation.
- *Deferred Payroll* – Control Section 12.45 of the Budget Act deferred the June 2015 payroll expense to July 2015. Under GAAP, payroll expenses are recognized in the period in which the government receives the employee services.
- *Encumbrances* – Encumbrances at year-end are excluded from liabilities and expenditures and are established as *Reserve for Encumbrances* in the fund balance. Under GAAP, encumbrances are also excluded from liabilities and expenditures, but are not established as a separate reserve in the fund balance.
- *Compensated Absences* – Vacation, annual, sick and other leave are expensed as personal services cost when used. Under GAAP, compensated absences for other than sick leave should be recognized as expenditures when the benefits are earned by the employees.

The Fund is classified as an Other Governmental Cost Fund, which is used to account for revenues restricted by law for specified purposes. It is a shared fund among CalRecycle, OEHHA, and DTSC. The Legislature makes appropriations to OEHHA and DTSC from the Fund for used oil recycling activities administered by those agencies. The financial statements present information of the financial activities of the Fund only, and do not represent all of the financial activities of CalRecycle, OEHHA, DTSC, or the State of California as of June 30, 2015.

#### C. Measurement Focus and Basis of Accounting

The Fund financial statements are prepared using a current financial resources measurement focus. This measurement focus concentrates on transactions that increase or decrease resources available for spending in the near future. Accordingly, non-current or long-term assets and liabilities are not presented in the accompanying financial statements; instead, these items are presented in the notes (see Note 4).

The Fund and related accounts are presented using the modified accrual basis of accounting. Revenues are recorded when they become measurable and available to finance expenditures of the current period. Expenditures are recorded when the related liability is incurred. Encumbrances at year-end are excluded from liabilities and expenditures, and are established as a reserve for encumbrances against the fund balance.

#### D. Budget and Budgetary Control

The accounting policies of CalRecycle conform to SAM and are based on the state's budgetary provisions. Program funds not related to administrative support are continuously appropriated without regard to fiscal year. Management is responsible for exercising budgetary control to ensure available amounts are not overspent. In addition, the State Controller's Office (SCO) is responsible for statewide appropriation control and does not allow expenditures in excess of authorized appropriations.

#### E. Investment Basis and Allocation of Investment Income

Investments consist of cash in excess of current needs on deposit in the Surplus Money Investment Fund (SMIF). The Fund and related accounts participate in the State of California's Pooled Money Investment Program, whereby cash on deposit in the State Treasury determined to be in excess of immediate needs are transferred to the SMIF for investment purposes. All earnings from investments are apportioned to the contributing fund as provided in Government Code. The participant's shares are valued on an amortized cost basis, which approximates fair value. Because the difference between amortized cost and fair value are not material, no adjustment for this has been made in the financial statements.

Deposits in SMIF are recorded in the accounting records as overseen by SCO. As the administrator of the Fund and related accounts, CalRecycle made the appropriate entries to record the ending balances of Deposits in SMIF to be in agreement with SCO per the reconciliation requirements in SAM. Therefore, the Cash and Pooled Investments line item includes a balance of \$29,981,000 of Deposits in SMIF as recorded in the SCO Fund Reconciliation Report dated June 30, 2015.

#### F. Accounts Receivable

Receivables primarily consist of year-end estimated used oil fee returns to be collected in the following fiscal year. Other receivables include, but are not limited to, penalties, interest, and deferred receivables.

#### G. Accounts Payable

Payables primarily consist of year-end estimated used oil incentive payments and used oil fee refunds to be paid in the following fiscal year. It also includes accruals related to program expenses claimed, but not yet paid at fiscal year-end.

## H. Fund Balance

The Fund Balance is the excess of a fund's assets over its liabilities. The Fund Balance increases during a fiscal period when receipts exceed disbursements. Conversely, the Fund Balance decreases during a fiscal period when disbursements exceed receipts. Part or all of the Fund Balance may be reserved as a result of law or statutory basis of accounting. Reserves represent those portions of the Fund Balance that are legally segregated for specific uses. The Fund Balance as of June 30, 2015 has been categorized as follows:

- *Deferred Payroll* – Represents the amount of June 2015 payroll expenditures recognized in July 2015 per Control Section 12.45 of the Budget Act.
- *Reserved for Encumbrances* – Represents a portion of the fund balance segregated for expected expenditures.
- *Contingency Reserve for Economic Uncertainties* – Represents the unappropriated balance of the Fund as of June 30, 2015, that is available for appropriation the following fiscal year.

## I. Revenue

Revenues are recorded when they become measurable and available to finance expenditures of the current period. Revenues are accrued if the underlying transaction occurred as of the last day of the fiscal year, and the due date for the revenue is within 12 months of the end of the fiscal year.

Revenues consist of used oil recycling fees imposed on the sale or transfer of lubricating oil and re-refined oil in the state or imported into the state, interest income earned on funds deposited in SMIF, interest income on Interfund loans, unclaimed checks escheated to the issuing fund, and miscellaneous revenue.

## J. Expenditures

Expenditures are recorded when the related liability is incurred, except for prepaid expenses, such as advanced amounts to the OPP and the Local Conservation Corps Grants Program, which are recorded as expenditures in the year of appropriation.

Expenditures consist of program claim payments, grant and subvention disbursements, and administrative support costs.

## K. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the assets and liabilities, disclosure of the contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period.

For fiscal year 2014-15, significant estimates included used oil fee returns, used oil fee refunds, used oil incentive claims, and OPP grant prepayments.

**NOTE 2 Investments**

For disclosures related to investment policy and related investment risk categories, see the State of California Comprehensive Annual Financial Report.

**NOTE 3 Due To/Due From Other Funds or Appropriations**

The Due To Other Funds account balance represents the amounts due from the Fund to other state funds. The Due From Other Funds account balance represents the amounts due from other state funds to the Fund.

The ending balances of Due To Other Funds and Due From Other Funds accounts include the following:

<b>Table 1: Due To Other Funds or Appropriations</b>	
<b>Fund Name</b>	<b>Amount</b>
California Beverage Container Recycling Fund	\$ 701,753
Hazard Waste Control Account	21,869
<b>Total Due To Other Funds or Appropriations</b>	<b>\$ 723,622</b>

<b>Table 2: Due From Other Funds or Appropriations</b>	
<b>Fund Name</b>	<b>Amount</b>
Deferred Payroll	\$ 293,012
General Fund	45,749
Surplus Money Investment Fund	18,664
<b>Total Due From Other Funds or Appropriations</b>	<b>\$ 357,425</b>

**NOTE 4 Interfund Balances**

As of June 30, 2015, all Interfund Loans have been repaid. A schedule of Interfund Loan balances is shown in the table below.

<b>Table 3: Interfund Loans Receivable</b>				
<b>Fund</b>	<b>Fund/Loan Number</b>	<b>Beginning Balance as of 7/1/2014</b>	<b>Ending Balance as of 6/30/2015</b>	<b>Repayment Date</b>
100	0001/1341	\$ 2,500,000	\$ 0	6/30/2017*
100	0001/1348	2,500,000	0	6/30/2017*
<b>Total Interfund Loans Receivable</b>		<b>\$ 5,000,000</b>	<b>\$ 0</b>	

\*Full repayment of the loan was made during fiscal year 2014-15.

**NOTE 5 Significant Effects of Subsequent Events**

During March 2014, CalRecycle was notified by Walmart, an oil recycling fee payer, that they overpaid lubricating oil fees due to a unit calculation error in their system. An audit report, issued by CalRecycle on July 22, 2016, confirmed Walmart's assertion that oil fees were overpaid by \$6,154,000. In August 2016, Walmart submitted amended fee returns, and a refund will be issued during fiscal year 2016-17.



INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

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Mr. Scott Smithline, Director  
Department of Resources Recycling and Recovery  
1001 I Street, MS 25A  
Sacramento, CA 95814

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements (statutory basis) of the governmental activities of the California Used Oil Recycling Fund (Fund) as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the Fund's financial statements and have issued our report thereon dated October 31, 2016.

The Department of Finance (Finance) and the Department of Resources Recycling and Recovery (CalRecycle) are both part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. Under *Government Auditing Standards*, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented sufficient safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered CalRecycle's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CalRecycle's internal control. Accordingly, we do not express an opinion on the effectiveness of the internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, we identified one significant deficiency in internal control described below.

#### **Finding 16-01: Grant Expenditures of \$1.17 Million Not Accrued**

Condition: CalRecycle did not accrue \$1.17 million in grant expenditures. Specifically \$1.04 million in Used Oil Grants and Subventions (State Operations) and \$0.13 million in Local Conservation Corps grant expenditures were recorded as encumbrances instead of expenditure accruals. This error was corrected in the financial statements referenced in the first paragraph of this report.

Criteria: The California State Administrative Manual, section 10608, states obligations should be accrued for goods or services received or performed as of June 30, but not yet scheduled for payment.

Cause: CalRecycle did not have a detailed methodology for estimating accrual amounts for Used Oil Grants and Subventions (State Operations) or Local Conservation Corps grants for the Fund.

Effect: The Expenditures and associated liability accounts were understated by \$1.17 million. The Reserve for Encumbrance account was overstated by \$1.17 million.

Recommendation: Develop and implement a methodology for estimating accrual amounts to ensure all expenditure accounts are accrued for goods or services received or incurred but not yet paid at the year-end.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether CalRecycle's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Original signed by:

Cheryl L. McCormick, CPA  
Assistant Chief, Office of State Audits and Evaluation  
October 31, 2016





## DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

1001 I STREET, SACRAMENTO, CALIFORNIA 95814 • WWW.CALRECYCLE.CA.GOV • (916) 322-4027  
P.O. BOX 4025, SACRAMENTO, CALIFORNIA 95812

January 9, 2017

Ms. Cheryl McKormick  
Assistant Chief, Office of State Audits and Evaluations  
Department of Finance  
915 L Street  
Sacramento, CA 95814

Dear Ms. McKormick:

Thank you for the opportunity to review and comment on the December 16, 2016 Financial Statement Draft Audit Report for the Used Oil Recycling Fund for the fiscal year ended June 30, 2015. The Department of Resources Recycling and Recovery (CalRecycle) concurs with the results of the audit, and have addressed the following finding:

### **Finding 16-01: Grant Expenditures of \$1.17 Million Not Accrued**

#### **Condition:**

CalRecycle did not accrue \$1.17 million in grant expenditures. Specifically \$1.04 million in Used Oil Grants and Subventions (State Operations) and \$0.13 million in Local Conservation Corps grant expenditures were recorded as encumbrances instead of expenditure accruals. This error was corrected in the financial statements referenced in the first paragraph of this report.

#### **Recommendation:**

Develop and implement a methodology for estimating accrual amounts to ensure all expenditure accounts are accrued for goods or services received or incurred but not yet paid at the year-end.

#### **CalRecycle Response:**

CalRecycle agrees with the finding, but wishes to address the statement that grant expenditures "were not accrued". These grant expenditures were recorded and accrued as encumbrances, which are reported as liabilities and expenditures for year-end purposes. This finding had no effect on budgetary Fund Condition or the financial position of the program in the Budgetary/Legal financial statements.

CalRecycle currently has procedures in place to work with program staff to ensure the proper classification of accruals. In the future, CalRecycle will highlight that these procedures include an estimation of incurred grant expenditures.



Ms. Cheryl McKormick  
January 9, 2017  
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CalRecycle is committed to continuing the recommendations noted in the audit report and will ensure that processes are periodically evaluated to ensure compliance with applicable requirements. Thank you for the opportunity to respond to the Draft Audit Report. Should you have any questions or concerns regarding our response, please contact Josephine Urban at (916) 322-3472.

Sincerely,

Original signed by:

Scott Smithline  
Director

## EVALUATION OF RESPONSE

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CalRecycle's response to the draft report has been reviewed and incorporated into the final report. We acknowledge CalRecycle's willingness to implement our recommendation and in evaluating their response, we provide the following comments:

### **Finding 16-01: Grant Expenditures of \$1.17 Million Not Accrued**

We concur that CalRecycle recorded grant expenditures as encumbrances, which are reported as liabilities and expenditures for year-end purposes on the Budgetary/Legal financial statements submitted to the State Controller's Office. However, to fairly present the financial statements (statutory basis) included in this report, an adjusting entry was required to increase the liability accounts by \$1.17 million and reduce the Reserve for Encumbrances account by \$1.17 million. This additional entry is required by the California State Administrative Manual, section 10608.