



Transmitted via e-mail

May 3, 2011

Mr. Mark E. Leary, Acting Director
Department of Resources Recycling and Recovery
801 K Street, MS 25A
Sacramento, CA 95814

Dear Mr. Leary:

Final Report—Department of Resources Recycling and Recovery, Financial Review of Used Oil Recycling Fund

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its financial statement review of the California Used Oil Recycling Fund (Fund) for the fiscal year ended June 30, 2010. The Department of Resources Recycling and Recovery (CalRecycle) is responsible for these financial statements.

The enclosed report is for your information and use. Because there were no audit findings or issues requiring a response, we are issuing the report as final.

This report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

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

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Tom Estes, Deputy Director, Administration, Finance, and Information Technology
Division, Department of Resources Recycling and Recovery
Mr. Jason Marshall, Deputy Director, Audits and Data Analysis Division, Department of
Resources Recycling and Recovery
Mr. Scott Limpach, Assistant Director, Program Evaluation Office, Department of
Resources Recycling and Recovery
Ms. Susan Villa, Chief, Fiscal Services Branch, Department of Resources Recycling and
Recovery
Ms. Sarah Keck, Accounting Administrator, Fiscal Services Branch, Department of
Resources Recycling and Recovery
Ms. Lori Moore, Accounting Administrator, Fiscal Services Branch, Department of
Resources Recycling and Recovery
Mr. Kevin Campbell, Senior Management Auditor, Program Evaluation Office, Department
of Resources Recycling and Recovery

FINANCIAL STATEMENT REVIEW

Department of Resources Recycling and Recovery
California Used Oil Recycling Fund
For the Fiscal Year Ended
June 30, 2010

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

MEMBERS OF THE TEAM:

Kimberly Tarvin, CPA
Manager

Alma Ramirez, CPA
Supervisor

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

You can contact our office at:

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Office of State Audits and Evaluations
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EXECUTIVE SUMMARY

The Department of Finance, Office of State Audits and Evaluations (Finance), performed this review under an interagency agreement with the Department of Resources Recycling and Recovery (CalRecycle). On January 1, 2010, the California Integrated Waste Management Board was abolished and transferred its duties to CalRecycle.

Review Objectives:

- Conduct a review of the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance of the California Used Oil Recycling Fund (Fund), for the fiscal year ended June 30, 2010, in accordance with attestation standards established by the American Institute of Certified Public Accountants.
- Provide limited assurance that the financial statements were prepared in conformity with the accounting policies and procedures of the Fund as prescribed by the State of California, which comprise a comprehensive basis of accounting other than Generally Accepted Accounting Principles.

Review Results:

- Nothing came to our attention that caused us to believe that the financial statements for the year ended June 30, 2010 are not presented, in all material respects, in conformity with a comprehensive basis of accounting other than Generally Accepted Accounting Principles.

This report is intended for the information and use of CalRecycle management, those charged with governance, and the Legislature, and is not intended to be, and should not be used by anyone other than these specified parties. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.



INDEPENDENT ACCOUNTANT'S REPORT

Mr. Mark E. Leary, Acting Director
Department of Resources Recycling and Recovery
801 K Street, MS 25A
Sacramento, CA 95814

We have reviewed the accompanying Balance Sheet-Statutory Basis as of June 30, 2010 and the related Statement of Revenues, Expenditures, and Changes in Fund Balance-Statutory Basis of the California Used Oil Recycling Fund (Fund) for the year then ended. These financial statements are the responsibility of the Department of Resources Recycling and Recovery's (CalRecycle) management (formerly the California Integrated Waste Management Board).

Except as discussed in the following paragraph, we conducted our review in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the financial statements. Accordingly, we do not express such an opinion.

The Department of Finance (Finance) is not independent of CalRecycle, as both are 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. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

As discussed in Note 1A, Definition of Reporting Entity, the financial statements present only the Fund and are not intended to present the financial position of CalRecycle or the State of California as of June 30, 2010, or changes in their financial position for the year then ended.

Based on our review, nothing came to our attention that caused us to believe that the financial statements referred to above are not presented, in all material respects, in conformity with a comprehensive basis of accounting other than Generally Accepted Accounting Principles.

This report is intended solely for the information and use of CalRecycle management, those charged with governance, and the Legislature, 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:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

April 25, 2011

BALANCE SHEET

**Department of Resources Recycling and Recovery
(Formerly the California Integrated Waste Management Board)
California Used Oil Recycling Fund
Balance Sheet-Statutory Basis
As of June 30, 2010**

Assets

Cash and Pooled Investments (Note 1E)	\$ 22,637,810
Receivables	6,868,483
Due from Other Funds (Note 2)	1,993,327
Due from Other Governments	8,319
Prepayments to Other Governments (Note 1I)	<u>165,629</u>
Total Assets	<u>\$ 31,673,568</u>

Liabilities

Accounts Payable (Note 1J)	\$ 23,855,610
Due to Other Funds (Note 2)	519,685
Due to Local Governments	248,871
Due to Other Governments	<u>3,585</u>
Total Liabilities	<u>\$ 24,627,751</u>

Fund Balance

Reserved for Prepaid Items (Note 1I)	165,629
Reserved for Unencumbered Balances of Continuing Appropriations	<u>6,880,188</u>
Total Fund Balance	<u>7,045,817</u>

Total Liabilities and Fund Balance \$ 31,673,568

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

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE

**Department of Resources Recycling and Recovery
(Formerly the California Integrated Waste Management Board)
California Used Oil Recycling Fund
Statement of Revenues, Expenditures, and Changes
in Fund Balance-Statutory Basis
For the Fiscal Year Ended June 30, 2010**

Revenue	
Fees	\$ 21,351,881
Interest	147,161
Miscellaneous	<u>1,369</u>
Total Revenue	<u>\$ 21,500,411</u>
Expenditures	
Incentive Payments	3,983,326
External Consultant and Professional Services	210,570
Inter-Departmental Consultant and Professional Services	353,152
Local Government Grants	8,464,139
Administrative Support (Note 4)	<u>3,507,782</u>
Total Expenditures	<u>16,518,969</u>
Excess of Revenue Over Expenditures	4,981,442
Other Financing Sources (Uses)	
Operating Transfer Out (Note 5)	(266,000)
Prior Year Appropriation Adjustment	<u>2,629</u>
Net Change in Fund Balance	4,718,071
Fund Balance Beginning of Year (Note 1K)	<u>2,327,746</u>
Fund Balance End of Year	<u>\$ 7,045,817</u>

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

NOTES TO FINANCIAL STATEMENTS

**Department of Resources Recycling and Recovery
(Formerly the California Integrated Waste Management Board)
California Used Oil Recycling Fund
Notes to the Financial Statements-Statutory Basis
For the Fiscal Year Ended June 30, 2010**

NOTE 1 Summary of Significant Accounting Policies

A. Definition of Reporting Entity

The California Used Oil Recycling Fund (Fund 100) was created with passage of the California Used Oil Recycling Enhancement Act of 1991 (Act). State law places administration of the Act with the Department of Resources Recycling and Recovery (CalRecycle).

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 loans, 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 (SB 546), increased the fee rates and incentive rates effective January 1, 2010.

Chapter 21, Statutes of 2009 (SB 63), merged the California Integrated Waste Management Board (CIWMB) and the Division of Recycling (within the California Department of Conservation), under the newly created Department of Resources Recycling and Recovery (CalRecycle), effective January 1, 2010. Therefore, year-end financial statements for CIWMB are for the reporting period July 1, 2009 through December 31, 2009; and year-end financial statements for CalRecycle are for the reporting period January 1, 2010 through June 30, 2010.

CalRecycle administers Fund 100 which is shared between CalRecycle, the Office of Environmental Health Hazard Assessment (OEHHA), the Department of Toxic Substances Control (DTSC), and the California Environmental Protection Agency (Cal/EPA). The Legislature makes appropriations to OEHHA, DTSC, and Cal/EPA from the Fund for used-oil-recycling activities. The financial statements present information of the financial activities of the Fund only, and do not represent all of the financial activities of CalRecycle, CIWMB, OEHHA, DTSC, or Cal/EPA, or the State of California as of June 30, 2010.

B. Basis of Presentation—Fund Accounting

The financial statements are presented in accordance with State of California laws and accounting procedures. For financial reporting purposes, the Fund is classified as a Governmental/Other Governmental Cost Fund in the California Manual of State Funds.

C. Basis of Accounting

The Fund follows the statutory basis of accounting prescribed by the California State Administrative Manual (SAM) and California Government Code, which comprise a comprehensive basis of accounting other than generally accepted accounting principles. 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 or encumbered.

D. Budget and Budgetary Control

The accounting policies of CalRecycle conform to SAM and are based on the state's budgetary provisions. Program funds 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 is responsible for statewide appropriation control and does not allow expenditures in excess of authorized appropriations.

E. Cash and Pooled Investments

Cash in excess of current needs is deposited in the state's centralized treasury system, which combines the balances of state agencies into a single bank account to simplify cash management. The Surplus Money Investment Fund (SMIF) is managed by the Pooled Money Investment Board (PMIB). State statutes, bond resolutions, and investment policy resolutions allow the state to invest in government securities, certificates of deposit, banker's acceptances, commercial paper, corporate bonds, mortgage loans and notes, other debt securities, repurchase agreements, equity securities, real estate, investment agreements, mutual funds, and other investments. The reported amount represents an equity share in the balance of the investment pool. Because there are no individually owned investments, the deposits in SMIF are not reported by type of investment.

As a shared fund, deposits in SMIF are not recorded in the Fund's accounting records. Therefore, the Cash and Pooled Investments includes an adjustment of \$22,637,000 to present the Fund's balance in SMIF as listed in the State Controller's Office Fund Reconciliation Report at June 30, 2010.

F. Revenue

Revenue consists of oil recycling fees imposed on the sale or transfer of lubricating oil and rerefined oil in the state or imported into the state, interest income earned on funds deposited in SMIF, and unclaimed checks escheated to the issuing fund. Revenues are accrued if the underlying transaction has 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.

G. Compensated Absences

Liability for vested and unpaid vacation and annual leave is reported as a long-term liability on the government-wide financial statements. It is anticipated that compensated absences will generally not be used in excess of a normal year's accumulation. Unused sick leave balances are not included in compensated absences because they do not vest to employees. For further information, refer to the *State of California Comprehensive Annual Financial Report*.

H. Retirement Plan

Employees of CalRecycle are members of the California Public Employees Retirement System (CalPERS), which is a defined benefit contributory retirement plan. Retirement contributions by employees are set by statute as a percentage of payroll (Tier I employees), or are zero (Tier II employees). Retirement contributions are actuarially determined under a program where total contributions plus CalPERS' investment earnings will provide the necessary funds to pay retirement benefits when incurred. The employer contributions are included in the cost of personal services. For further information, refer to the *State of California Comprehensive Annual Financial Report*, and to the *CalPERS Comprehensive Annual Financial Report*.

I. Prepaid Items

Payments made to local governments for services that will benefit periods beyond June 30, 2010, are recorded as prepaid items. A portion of the fund balance equal to the prepaid items has been reserved to indicate it is not available for encumbrance. The prepaid items balance at June 30, 2010 was \$165,629.

J. Accounts Payable

Accounts payable includes encumbrances of \$21,679,156.

K. Restatement of Beginning Fund Balance

A short-term loan to the General Fund in the amount of \$2 million was inadvertently omitted from the Due from Other Funds account balance in the prior year Financial Statement Review Report, thereby understating the ending fund balance by the same amount. An adjustment was made in the current year to correct the effect of this error, which resulted in a restatement of the beginning fund balance from \$327,746 to \$2,327,746.

NOTE 2 Due to/from Other Funds

The Due from Other Funds account represents amounts due from other state funds; the Due to Other Funds account represents the amounts due to other state funds. The balances include the following:

<u>Due from Other Funds:</u>	
General Fund	\$ 1,900,000
Surplus Money Investment Fund	30,131
Hazard Waste Control Account	<u>63,196</u>
Total Due from Other Funds	<u>\$ 1,993,327</u>
 <u>Due to Other Funds:</u>	
Integrated Waste Management Account	\$ 507,426
Various Other Funds	<u>12,259</u>
Total Due to Other Funds	<u>\$ 519,685</u>

NOTE 3 Fund Balance

Fund Balance is the excess of the Fund's assets over its liabilities. Reserves represent those portions of the fund balance that are legally segregated for specific uses. Reserved for Unencumbered Balances of Continuing Appropriations represents the Fund's resources currently available for future spending.

NOTE 4 Administrative Support Expenditures

Administrative support expenditure balances include the following:

Salaries	\$ 1,734,513
Staff Benefits	707,162
General	21,430
Printing	4,938
Communication	39,500
Postage	765
Travel	25,395
Training	3,933
Facilities Operations	115,393
Departmental Services	621,513
Data Processing	76,972
Central Administrative Services	116,691
Equipment	29,418
Other	<u>10,159</u>
Total Administrative Support	<u>\$ 3,507,782</u>

NOTE 5 Operating Transfers

Legally authorized transfers between state funds occurring during the current period are reported as Operating Transfers and are accounted for as reductions or increases in residual equity. CalRecycle, pursuant to paragraph (2)(A), subdivision (c), section 48100, of the Public Resources Code and as authorized by the Legislature in the Budget Act of 2009-10, executed an Operating Transfer of \$266,000 to the Farm and Ranch Solid Waste Cleanup and Abatement Account.