



March 24, 2014

Ms. Caroll Mortensen, Director
Department of Resources Recycling and Recovery
1001 I Street, MS 25A
Sacramento, CA 95814

Dear Ms. Mortensen:

Final Report—CAM2 International, LLC, California Oil Recycling Fee Return Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of CAM2 International, LLC's (CAM2) Used Oil Recycling Fee Returns for the period July 1, 2011 through June 30, 2013.

The enclosed report is for your information and use. CAM2 did not provide a written response to the draft report; however, CalRecycle received payment of \$6,875 for the underpayment identified in Finding 1. This report will be placed on our website.

We appreciate the assistance and cooperation of CAM2. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Rick Cervantes, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA
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
Ms. Audrey Traina, Chief, Audits Office, Department of Resources Recycling and Recovery
Ms. Sarah Keck, Chief Financial Officer, Fiscal Services Branch, Department of Resources Recycling and Recovery
Mr. Kevin Campbell, Senior Management Auditor, Audits Office, Department of Resources Recycling and Recovery
Mr. Dave Bluestein, Controller, CAM2 International, LLC

AUDIT REPORT

CAM2 International, LLC
Used Oil Recycling Fee Returns
For the Period July 1, 2011
through June 30, 2013

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

MEMBERS OF THE TEAM

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Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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TABLE OF CONTENTS

Background, Scope and Methodology.....	1
Results.....	3

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

The Legislature enacted the California Oil Recycling Enhancement Act (Act), sections 48600 through 48691 of the Public Resources Code, to reduce illegal disposal of used oil, recycle and reclaim used oil in order to recover valuable natural resources, and avoid damage to the environment and threats to public health. This Act gives the Department of Resources Recycling and Recovery (CalRecycle) the authority to adopt and implement a used oil recycling program, and to collect fees from oil manufacturers at a rate of 26 cents for each gallon of lubricating oil sold, transferred, or used in California. These fees support various state and local programs that help promote local efforts to recycle used oil before harmful environmental impacts can occur.

CAM2 International, LLC (CAM2) markets a line of lubricants under the CAM2 brand a group of distributors across the United States and in numerous international countries. CAM2 products include brake fluids, power steering fluids, greases and gear oils, aerosol, liquid pour chemicals, antifreeze, washer fluid, and an extensive line of automotive, commercial and industrial lubricants.¹

SCOPE

The Department of Finance, Office of State Audits and Evaluations, conducted an audit of CAM2's Used Oil Recycling Fee Returns (Returns) submitted to CalRecycle. The audit objective was to determine whether CAM2 accurately reported the lubricating oil sold, transferred, or used in California, and remitted the proper fees in accordance with the terms and conditions of the Act for the period July 1, 2011 through June 30, 2013. In order to design adequate procedures to conduct our audit, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

CAM2 is responsible for ensuring accurate reporting of the oil recycling fees and oil sales, and ensuring compliance with applicable laws and regulations. CalRecycle is responsible for evaluating the efficiency and effectiveness of the program operations.

METHODOLOGY

To determine whether CAM2 accurately reported the used oil recycling fees and oil sales in accordance with the terms and conditions of the Act, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the internal controls related to the recording, classification, reporting of sales transactions, and preparation of the Returns.
- Obtained a limited understanding of the system used to account for oil sales.

¹ Excerpts from <http://www.cam2international.com/index.htm>

- Reviewed oil sales and fee reports to determine if the oil quantities and fees reported on the Returns were accurate and complete.
- Reviewed the product category list of industrial and lubrication oil to determine whether all products were correctly classified and reported.
- Determined whether the quantities on reports for lubrication oil were supported by sales orders, invoices, and other relevant documents.
- Determined whether the correct conversion factor was used to convert non-volume measurements.

We conducted this performance 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with CAM2's staff.

Except as noted below, CAM2 accurately reported the lubricating oil sales in compliance with applicable laws and regulations.

Table 1: Schedule of Lubricating Oil Sales and Fees

CAM2 International, LLC			
Categories	Reported Sales (Gallons)	Audited Sales (Gallons)	Adjustment (Gallons)
Total Lubricating Oil Sold	3,154,681	3,181,123	26,442
Other Exemptions	-	-	-
Lubricating Oil Subject to the Fee	3,154,681	3,181,123	26,442
Total Fees Due (26 cents per gallon)			\$6,875

Finding 1: Underpayment of \$6,875 due to Inaccurate Reporting of Lubricating Oil

CAM2 underreported its lubricating oil sales resulting in an underpayment of \$6,875 in lubricating oil fees. Specifically, the exempt transactions were either not supported by an exemption certificate or the exemption certificate was signed after the sales occurred. The sales invoices and bill of ladings for these transactions list a California shipping destination. CAM2 stated the receiving entity took title to the lubricating oil out of state and that the receiving entity was responsible for the fees. However, documentation provided did not indicate the lubricating oil title transfer occurred outside of California at the shipping location.

California Public Resources Code, section 48671, states that oil manufacturers who sell lubricating or industrial oil in the state shall report to CalRecycle the amount of lubricating or industrial oil sold each month. Additionally, Code of Regulations, Title 14, section 18626, states that an exemption certificate which is not issued in a timely manner is not retroactive, and will not relieve the seller of the responsibility for the fee. To be considered timely, an exemption certificate shall be issued as follows:

- Before the seller bills the purchaser for the lubricating oil.
- Within seller's normal billing and payment cycle.
- Prior to delivery of the subject oil to the purchaser.

Recommendations:

- A. Remit \$6,875 to CalRecycle.
- B. Ensure lubricating oil sold or transferred to California, including exempt sales, are accurately reported in future Returns.
- C. Timely obtain and retain exemption certificates to support exempted sales.