



Transmitted via e-mail

December 31, 2012

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

Dear Ms. Mortensen:

Final Report—Department of Resources Recycling and Recovery, 2011 Financial Review of Used Oil Recycling Fund

The Department of Finance, Office of State Audits and Evaluations, has completed its financial statement review of the California Used Oil Recycling Fund (Fund) for the fiscal year ended June 30, 2011. The Department of Resources Recycling and Recovery (CalRecycle) is responsible for the Fund's financial statements.

The enclosed report is for your information and use. Because there were no audit observations or issues requiring a response, we are issuing the report as final. 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 Jennifer Arbis, 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. 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. Audrey Traina, Supervising Management Auditor, Office of Audits, Department of Resources Recycling and Recovery
Ms. Kellie Schneider, Branch Chief, Administrative Services Branch, Department of Resources Recycling and Recovery
Ms. Sarah Keck, Chief Accounting Officer, Accounting Section, Department of Resources Recycling and Recovery
Ms. Suzanne Blihovde, Budget Officer, Budget and Economic Forecasting Section, Department of Resources Recycling and Recovery
Ms. Theresa Bober, Manager, Business Services Section, Department of Resources Recycling and Recovery
Ms. Indra Sant, Accounting Administrator, Program Operations, Accounting, Department of Resources Recycling and Recovery
Ms. Jane Hayes, Accounting Administrator, General Ledger, Accounting, Department of Resources Recycling and Recovery
Mr. Kevin Campbell, Senior Management Auditor, Office of Audits, Department of Resources Recycling and Recovery

A Financial Statement Review

Department of Resources Recycling and Recovery California Used Oil Recycling Fund For the Fiscal Year Ended June 30, 2011

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

MEMBERS OF THE TEAM

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Manager

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Supervisor

Staff
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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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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).

Review objectives:

- Conduct a review of the Balance Sheet—Statutory Basis and Statement of Revenues, Expenditures, and Changes in Fund Balance—Statutory Basis of the California Used Oil Recycling Fund (Fund), for the fiscal year ended June 30, 2011, 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, 2011 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

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

We have reviewed the accompanying Balance Sheet—Statutory Basis as of June 30, 2011, 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.

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, 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, 2011, or the results of operations 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.

As discussed in Note 3, the beginning fund balance was restated due to a change in accounting presentation. The prior year fund balance included amounts reserved for prepaid items and did not include amounts encumbered as of June 30, 2010. Therefore, the beginning fund balance was restated to eliminate the amount previously reserved for prepaid items and to include encumbrances.

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

November 13, 2012

BALANCE SHEET

**Department of Resources Recycling and Recovery
California Used Oil Recycling Fund
Balance Sheet—Statutory Basis
As of June 30, 2011**

Assets

Cash and Pooled Investments (Note 1E)	\$19,701,353
Receivables	6,888,398
Due From Other Funds or Appropriations (Note 2)	<u>1,824,551</u>
Total Assets	<u>28,414,302</u>

Liabilities

Accounts Payable	2,889,085
Due To Other Funds or Appropriations (Note 2)	3,120,654
Due To Local Governments	61,207
Due To Other Governmental Entities	<u>65,758</u>
Total Liabilities	<u>6,136,704</u>

Fund Balance (Note 3)

Deferred Payroll	249,000
Reserved for Encumbrances	13,488,230
Contingency Reserve for Economic Uncertainties	<u>8,540,368</u>
Total Fund Balance	<u>22,277,598</u>

Total Liabilities and Fund Balance	<u>28,414,302</u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE

**Department of Resources Recycling and Recovery
California Used Oil Recycling Fund
Statement of Revenues, Expenditures,
and Changes in Fund Balance—Statutory Basis
For the Fiscal Year Ended June 30, 2011**

Revenues (Note 1F)

Fees	\$27,346,321
Interest	123,621
Escheat—Unclaimed Warrants	556
Miscellaneous	<u>26,620</u>
Total Revenues	<u>27,497,118</u>

Expenditures

Interdepartmental Consultant and Professional Services	493,051
External Consultant and Professional Services	2,262,073
Incentive Payments	5,360,027
Local Government Grants	19,065,265
Administrative Support	<u>3,832,448</u>
Total Expenditures	<u>31,012,864</u>

Operating Expenditures in Excess of Revenue (3,515,746)

Other Financing Sources/Uses

Operating Transfers Out (Note 4) (2,766,000)

Net Change in Fund Balance (6,281,746)

Fund Balance, July 1, 2010, Restated (Note 3) 28,559,344

Fund Balance, June 30, 2011 \$22,277,598

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

**Department of Resources Recycling and Recovery
California Used Oil Recycling Fund
Notes to the Financial Statements—Statutory Basis
For the Fiscal Year Ended June 30, 2011**

NOTE 1 Summary of Significant Accounting Policies

A. Definition of Reporting Entity

The California Used Oil Recycling Fund (Fund) 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 California, or imported into California for use in California. 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, to pay the necessary costs to administer the program, to provide a reserve for contingencies, and to 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), made various changes to the Act, including increased fee rates and incentive rates effective January 1, 2010, and replacement of 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]) effective July 1, 2010.

CalRecycle administers the Fund 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 administered by those agencies. The financial statements present information on the financial activities of the Fund only, and do not represent all of the financial activities of CalRecycle, OEHHA, DTSC, Cal/EPA, or the State of California as of June 30, 2011.

B. Basis of Presentation—Fund Accounting

The financial statements are presented in accordance with State of California laws and accounting procedures. The Fund is classified as an Other Governmental Cost Fund which is used to account for revenues restricted by law for specified purposes.

C. Measurement Focus and Basis of Accounting

The accompanying financial statements have been 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.

The Fund follows a statutory basis of accounting prescribed by the California Government Code and California State Administrative Manual (SAM), 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. Encumbrances of \$13.5 million at year-end are excluded from liabilities and expenditures, and are established as reserve for encumbrances against the fund balance. The OPP and UBG prepayments of \$12.9 million to other governments are accounted for as expenditures in the period paid.

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 (SCO) 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, federal agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, other debt securities, repurchase agreements, reverse repurchase agreements, 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 any one department's accounting records. Rather, they are recorded in the Fund's accounting records as overseen by the State Controller's Office (SCO). Therefore, the Cash and Pooled Investments line item includes an adjustment of \$19 million to present the Fund's balance in SMIF as listed in the SCO Fund Reconciliation Report at June 30, 2011.

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 unpaid vacation, annual leave, and other paid leave programs 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*.

NOTE 2 Due to/from Other Funds or Appropriations

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

SCO oversees the Fund's short-term loan activity; therefore, the Due from Other Funds account includes the amount owed to the Fund from the General Fund at June 30, 2011 in the amount of \$1.5 million per the SCO Fund Reconciliation Report. This loan amount is expected to be repaid within the ensuing fiscal year.

Additionally, the Due to Other Funds account balance includes a long-term loan from the Fund to the General Fund in the amount of \$2.5 million authorized from fiscal year 2010-11 funds but not yet transferred. The transfer of funds was accrued as an operating transfer at fiscal year-end (See Note 4).

The ending balances of Due from Other Funds and Due to Other Funds accounts include the following:

<u>Due from Other Funds:</u>	
General Fund	\$1,500,000
Deferred Payroll	249,000
Surplus Money Investment Fund	26,675
Hazard Waste Control Account	22,397
Various Other Funds	<u>26,479</u>
Total Due from Other Funds	<u>\$1,824,551</u>
<u>Due to Other Funds:</u>	
General Fund	\$2,500,000
CA Beverage Container Recycling Fund	601,929
Various Other Funds	<u>18,725</u>
Total Due to Other Funds	<u>\$3,120,654</u>

NOTE 3 Fund Balance

Fund balance is the excess of a fund's assets over its liabilities. Fund balance is increased during a fiscal period when receipts exceed disbursements. Conversely, fund balance is decreased during a fiscal period when disbursements exceed receipts. Part or all of the total 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, 2011 has been categorized as follows:

- *Deferred Payroll:* Amounts represent the amount of June 2011 payroll expenditures deferred to July 2011 for all state departments paid through the uniform payroll system per Control Section 12.45 of the Budget Act of 2010. June 2011 Payroll expenditures will be realized in July 2011.
- *Reserved for Encumbrances:* Amounts represent a portion of fund balance segregated for expected expenditures.

- *Contingency Reserve for Economic Uncertainties:* Amounts represent the unappropriated balance as of June 30 that is available for appropriation the following year.

The beginning fund balance at July 1, 2010, was restated due to a change in accounting presentation. The prior year fund balance included amounts reserved for prepaid items and did not include amounts encumbered as of June 30, 2010. Therefore, the beginning fund balance was restated to include encumbrances and eliminate the amount previously reserved for prepaid items in conformance with the statutory basis of accounting, as follows:

Fund Balance, July 1, 2010	\$ 7,045,817
Add: Encumbrances as of June 30, 2010	<u>21,679,156</u>
Subtotal	28,724,973
Less: Reserved for Prepaid Items	<u>(165,629)</u>
Total Fund Balance, July 1, 2010, Restated	<u>\$28,559,344</u>

NOTE 4 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. Operating Transfers Out represents the following items:

- A transfer of \$266,000 to the Farm and Ranch Solid Waste Cleanup and Abatement Account pursuant to Public Resources Code section 48100 and the Budget Act of 2010, Chapter 712, Statutes of 2010.
- A loan of \$2.5 million to the General Fund authorized by Chapter 13, Statutes of 2011 (Senate Bill 84), which states the loan shall be repaid no later than June 30, 2014. Pursuant to the terms of the loan, the Director of Finance shall order repayment of all or a portion of this loan if he or she determines that either of the following circumstances exists: (a) the fund or account from which the loan was made has a need for the money, or (b) there is no longer a need for the money in the fund or account that received the loan. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. The transfer of funds was recorded as an operating transfer at fiscal year end.