



Transmitted via e-mail

June 30, 2014

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, 2012 Financial Statement Audit of the 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 the Recovery's (CalRecycle) Used Oil Recycling Fund for the fiscal year ended June 30, 2012.

The enclosed report is for your information and use. The financial statements were fairly presented in accordance with a comprehensive basis of accounting other than generally accepted accounting principles. Because there were no audit findings 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:

Richard R. Sierra, 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 Financial Officer, Fiscal Services Branch, Department of Resources Recycling and Recovery
Mr. Kevin Campbell, Senior Management Auditor, Office of Audits, Department of Resources Recycling and Recovery

A FINANCIAL STATEMENT AUDIT

Department of Resources Recycling and Recovery
California Used Oil Recycling Fund
For the Fiscal Year Ended
June 30, 2012

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

MEMBERS OF THE TEAM

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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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TABLE OF CONTENTS

Executive Summary	iv
Independent Auditor's Report.....	1
Balance Sheet.....	3
Statement of Revenue, Expenditures, and Changes in Fund Balance	4
Notes to Financial Statements	5

EXECUTIVE SUMMARY

The Department of Finance, Office of State Audits and Evaluations, performed this audit in accordance with an interagency agreement with the Department of Resources Recycling and Recovery (CalRecycle). The audit objectives were to:

- Express an opinion on the *Balance Sheet* (statutory basis) and *Statement of Revenue, Expenditures, and Changes in Fund Balance* (statutory basis) of the California Used Oil Recycling Fund (Fund) for the fiscal year ended June 30, 2012.
- Verify that the financial statements were prepared in conformity with accounting principles prescribed by the State Administrative Manual, which comprise a comprehensive basis of accounting other than generally accepted accounting principles.
- Report on internal control and compliance weaknesses, and provide recommendations for improving controls over operations of the Fund.

Audit Results

- The aforementioned financial statements are fairly presented for the fiscal year ended June 30, 2012.
- We noted matters involving the internal control over financial reporting and its operation that we reported to CalRecycle. See our report on CalRecycle's Internal Control Over Fiscal Processes and Procedures issued December 12, 2013 for further details.

This report is intended solely for the information and use of the Fund's 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 report is a matter of public record and its distribution is not limited.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying *Balance Sheet* (statutory basis) as of June 30, 2012, and the related *Statement of Revenue, Expenditures, and Changes in Fund Balance* (statutory basis) of the California Used Oil Recycling Fund (Fund) for the fiscal year then ended. These financial statements are the responsibility of the Department of Resources Recycling and Recovery's (CalRecycle) management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In connection with our audit, there are certain disclosures required by *Government Auditing Standards*. The Department of Finance (Finance) is not independent of the audited entity, 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 1B, 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, 2012, or the results of operations or changes in their financial position for the year then ended.

As described in Note 1C, these financial statements were prepared in conformity with the accounting practices prescribed by the State Administrative Manual (SAM), which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2012, and the results of operations and changes in fund balance thereof for the fiscal year then ended, in conformity with a comprehensive basis of accounting other than generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Fund as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered CalRecycle's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, we identified several deficiencies in internal control that we consider to be significant deficiencies. We communicated these deficiencies to CalRecycle in a separate report on CalRecycle's Internal Control Over Fiscal Processes and Procedures, issued December 12, 2013. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements as of and for the year ended June 30, 2012, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, 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*.

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

Original signed by:

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

June 24, 2014

BALANCE SHEET
STATUTORY BASIS

Department of Resources Recycling and Recovery
California Used Oil Recycling Fund
Balance Sheet—Statutory Basis
As of June 30, 2012

Assets

Cash and Pooled Investments (Note 1E)	\$ 12,687,886
Receivables	7,643,714
Due From Other Funds or Appropriations (Note 3)	<u>2,467,689</u>
Total Assets	<u>\$ 22,799,289</u>

Liabilities

Accounts Payable	\$ 3,098,966
Due To Other Funds or Appropriations (Note 3)	1,128,372
Due To Local Governments	<u>7,232</u>
Total Liabilities	<u>4,234,570</u>

Fund Balance (Note 1G)

Deferred Payroll	257,726
Reserved for Encumbrances	5,776,431
Contingency Reserve for Economic Uncertainties	<u>12,530,562</u>
Total Fund Balance	<u>18,564,719</u>

Total Liabilities and Fund Balance	<u>\$ 22,799,289</u>
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The accompanying notes are an integral part of the financial statements.

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

**Department of Resources Recycling and Recovery
California Used Oil Recycling Fund
Statement of Revenue, Expenditures,
and Changes in Fund Balance—Statutory Basis
For the Fiscal Year Ended June 30, 2012**

Revenue	
Fees	\$ 29,317,333
Interest	65,719
Miscellaneous	<u>471</u>
Total Revenue	<u>29,383,523</u>
Expenditures	
Interdepartmental Consultant and Professional Services	549,254
External Consultant and Professional Services	1,749,096
Incentive Payments	5,767,713
Local Government Grants	18,193,905
Administrative Support	<u>4,254,555</u>
Total Expenditures	<u>30,514,523</u>
Operating Expenditures in Excess of Revenue	(1,131,000)
Other Financing Uses	
Operating Transfers Out (Note 4)	<u>(2,580,000)</u>
Net Change in Fund Balance	(3,711,000)
Fund Balance, July 1, 2011	<u>22,275,719</u>
Fund Balance, June 30, 2012	<u>\$ 18,564,719</u>

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, 2012**

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 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 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]) effective July 1, 2010.

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.

CalRecycle administers the Fund, which is shared between CalRecycle, Office of Environmental Health Hazard Assessment (OEHHA), Department of Toxic Substances Control (DTSC), and 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 of the financial activities of the Fund only, and do not represent all of the financial activities of CalRecycle, OEHHA, DTSC, or Cal/EPA, or the State of California as of June 30, 2012.

C. Measurement Focus and Basis of Accounting

The governmental fund 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 (see Note 4).

The Fund follows a statutory basis of accounting prescribed by the 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 \$5.8 million at year-end are excluded from liabilities and expenditures, and are established as reserve for encumbrances against the fund balance. The OPP prepayments of \$8.2 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. 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 participates 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 is transferred to 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 the amortized cost and fair value are not material, no adjustment has been made in the financial statements.

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. 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, 2012 has been categorized as follows:

- *Deferred Payroll:* Amounts represent the amount of June 2012 payroll expenditures deferred to July 2012 for all state departments paid through the uniform payroll system per Control Section 12.45 of Chapter 33, Statutes of 2011. June 2012 payroll expenditures will be realized in July 2012.
- *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.

NOTE 2 Investments

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

NOTE 3 Due To/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.

As with deposits in SMIF (Note 1E), 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, 2012 in the amount of \$2,100,000. Repayment of this loan is anticipated to be within the ensuing fiscal year.

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

<u>Due To Other Funds or Appropriations:</u>	
CA Beverage Container Recycling Fund	\$ 873,460
Various Other Funds	<u>254,912</u>
Total Due To Other Funds	<u>\$ 1,128,372</u>
<u>Due From Other Funds or Appropriations:</u>	
General Fund	\$ 2,100,000
Deferred Payroll	257,726
Electronic Waste Recovery and Recycling Account	93,380
Various Other Funds	<u>16,583</u>
Total Due From Other Funds	<u>\$ 2,467,689</u>

NOTE 4 Interfund Balances and 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:

- Pursuant to Public Resource Code section 48100 and as authorized by the Budget Act of 2011 (Chapter 33, Statutes of 2011), CalRecycle executed a transfer of \$80,000 to the Farm and Ranch Solid Waste Cleanup and Abatement Account.
- A loan of \$2.5 million to the General Fund was authorized by the Budget Act of 2011 (Chapter 33, Statutes of 2011). The repayment date was extended to June 30, 2017. 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 moneys, or (b) there is no longer a need for the moneys 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.

As of June 30, 2012, the Interfund Loans Receivable balance was comprised of the following loans made to the General Fund:

Item/Authority	Ending Balance as of 6/30/2012	Repayment Date
Item 3500-011-0100/Budget Act of 2010	\$2,500,000	June 30, 2017
Item 3500-011-0100/Budget Act of 2011	\$2,500,000	June 30, 2017
Total	\$5,000,000	

NOTE 5 Subsequent Event

During March 2014, CalRecycle was notified that one fee payer may submit a refund request for approximately \$6.2 million for overpaid lubricating oil fees impacting fiscal years 2011-12 through 2013-14. No refund claims have been filed with CalRecycle as of the date of this report. Therefore, no provision for the potential liability has been made in the financial statements as of June 30, 2012.