



Transmitted via e-mail

May 10, 2013

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

Dear Ms. Mortensen:

**Final Report—ExxonMobil Oil Corporation, California Used Oil Recycling Fees Audit**

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of ExxonMobil Oil Corporation's (ExxonMobil) Used Oil Recycling Fee Returns for the period July 1, 2009 through September 30, 2012.

The enclosed report is for your information and use. ExxonMobil's response noting agreement with the report finding is incorporated into this final report. This report will be placed on our website.

We appreciate the assistance and cooperation of ExxonMobil. 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:

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  
Ms. Shirley Willd-Wagner, Chief, Financial Resources Management Branch, Department of Resources Recycling and Recovery  
Ms. Audrey Traina, Chief, Audits Office, Department of Resources Recycling and Recovery  
Ms. Sarah Keck, Manager, Fiscal Services Branch, Department of Resources Recycling and Recovery  
Mr. Kevin Campbell, Senior Management Auditor, Audits Office, Department of Resources Recycling and Recovery  
Ms. Anne Nicholson, Indirect Tax Advisory Supervisor, ExxonMobil Oil Corporation  
Mr. Robert Tidwell, Indirect Tax Audit Coordinator, ExxonMobil Oil Corporation

ExxonMobil Oil Corporation  
Used Oil Recycling Fee Returns

For the Period July 1, 2009  
through September 30, 2012

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

## **MEMBERS OF THE TEAM**

Kimberly Tarvin, CPA  
Manager

Rick Cervantes, CPA  
Supervisor

Staff  
Muang Saeteurn

Final reports are 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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(916) 322-2985

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# BACKGROUND, SCOPE AND METHODOLOGY

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## 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 for each gallon of lubricating oil sold, transferred, or used in California. These fees support the California Used Oil Recycling Fund from which various state and local programs are operated. These programs help promote local efforts to recycle used oil before harmful environmental impacts can occur.

ExxonMobil Oil Corporation (ExxonMobil) is the world's largest publicly traded international oil and gas company and the world's largest refiner and marketer of petroleum products. Currently, ExxonMobil operates facilities or markets products in most of the world's countries and explores for oil and natural gas on six continents.<sup>1</sup>

## SCOPE

The Department of Finance, Office of State Audits and Evaluations, conducted an audit of ExxonMobil's Used Oil Recycling Fee Returns (Returns) submitted to CalRecycle. The audit objective was to determine whether ExxonMobil accurately reported the industrial and 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, 2009 through September 30, 2012. 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.

ExxonMobil 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.

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<sup>1</sup> Excerpts from [http://www.exxonmobil.com/Corporate/about\\_who.aspx](http://www.exxonmobil.com/Corporate/about_who.aspx)

## **METHODOLOGY**

To determine whether ExxonMobil 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.
- 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 industrial and 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.
- Determined whether export sales were delivered to a location outside California.

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 ExxonMobil's staff.

ExxonMobil did not accurately report the industrial and lubricating oil sales in compliance with applicable laws and regulations for the period July 1, 2009 through September 30, 2012, as presented below.

**Table 1: Schedule of Industrial Oil Sales<sup>1</sup>**

ExxonMobil Oil Corporation For the Period July 1, 2009 through September 30, 2012			
Categories	Reported Sales (Gallons)	Audited Sales (Gallons)	Adjustment Over/(Under) (Gallons)
Total Industrial Oil Sold	12,981,391	9,521,691	3,459,700
Industrial Oil Exported or Sold for Export	1,250,763	1,228,352	22,411

**Table 2: Schedule of Lubricating Oil Sales and Fees**

ExxonMobil Oil Corporation For the Period July 1, 2009 through September 30, 2012			
Categories	Reported Sales (Gallons)	Audited Sales (Gallons)	Adjustment Over/(Under) (Gallons)
Total Lubricating Oil Sold	82,191,479	82,173,023	18,456
Other Exemptions	45,924,296	45,896,538	27,758
Lubricating Oil Subject to the Fee	36,267,183	36,276,485	(9,302)
<b>Total Fees Due (16 cents per gallon)<sup>2</sup></b>			<b>\$1,488</b>

<sup>1</sup> No fees are assessed on industrial oil.

<sup>2</sup> The over reported exemption gallons occurred in 2009 when the fee was 16 cents per gallon.

## **Finding 1: Inaccurate Reporting of Industrial and Lubricating Oil Sales**

As noted in Tables 1 and 2, ExxonMobil over reported its industrial and lubricating oil sales and exempt transactions due to errors in its information system. A review of ExxonMobil's Returns, detailed sales reports, and other supporting documents identified the following errors:

- 3,459,700 gallons of non-industrial oil were incorrectly reported as industrial oil. Included in this adjustment is 22,411 gallons of industrial oil exported or sold for export.
- Lubricating oil sold was overstated by 18,456 gallons. Specifically, 44,827 gallons of exported industrial oil was incorrectly reported as lubricating oil and 26,371 gallons of lubricating oil was incorrectly reported as industrial oil resulting in a net overstatement of 18,456 gallons (44,827 - 26,371) of lubricating oil.
- 27,758 gallons of lubricating oil sold were incorrectly reported as lubricating oil exemptions. These transactions were not supported by exemption certificates.

California Public Resources Code, section 48671, states that oil manufacturers who sell industrial or lubricating oil in the state shall report to CalRecycle the amount of industrial or lubricating oil sold each month. Section 48616 defines industrial oil and section 48618 defines lubricating oil. The California 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.

### **Recommendations:**

- A. Remit \$1,488 to CalRecycle.
- B. Accurately report the oil sales on the Returns by ensuring that industrial and lubricating oil sales are accurately captured in supporting detailed reports.
- C. Timely obtain and retain exemption certificates to support exempted sales.



**Exxon Mobil Corporation**

Indirect Tax Division  
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**Robert W. Tidwell**

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May 1, 2013

Mr. David Botelho  
California Department of Finance  
Office of State Audits and Evaluations  
915 L Street  
Sacramento, California 95814-3706

Re: Endorsement of Draft Audit Report  
California Oil Recycling Fee Audit, July 2009 to September 2012  
ExxonMobil Oil Corporation (EMOC)

Mr. Botelho:

The audit findings and recommendations reflected in the draft audit report are what were presented to ExxonMobil during the field audit process and ending conference by the Auditors. ExxonMobil is in agreement with this report.

Sincerely,

Original Signed By

R. W. Tidwell