



Transmitted via e-mail

July 31, 2012

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

Dear Ms. Mortensen:

Final Report—The Jankovich Company, California Used Oil Recycling Fee Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of The Jankovich Company's (Jankovich) Used Oil Recycling Fee Returns for the period July 1, 2010 through June 30, 2011.

Jankovich's response to the report observations are incorporated into this final report. Jankovich agreed with our observations and we appreciate its willingness to implement corrective actions. This report will be placed on our website.

We appreciate the assistance and cooperation of Jankovich. 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. Mark E. Leary, 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, Branch Chief, Financial Resources Management Branch, Department of Resources Recycling and Recovery
Ms. Sarah Keck, Chief Accounting Officer, Accounting Section, Fiscal Services Branch, Department of Resources Recycling and Recovery
Mr. Brian Kono, Manager, Statewide Disbursements Section, Office of Audits, Department of Resources Recycling and Recovery
Mr. Tom Jankovich, President, The Jankovich Company
Ms. Shelley Imhoff, Controller, The Jankovich Company

AUDIT REPORT

The Jankovich Company
Used Oil Recycling Fee Returns
For the Period July 1, 2010
through June 30, 2011

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

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
Manager

Alma Ramirez, CPA
Supervisor

Staff
Muang Saeteurn

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

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985

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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 (or 12 cents if rerefined) 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.¹

The Jankovich Company (Jankovich) was founded in 1933 and is based in San Pedro, California. Jankovich engages in transporting fuels and lubricants; provides aviation fuels for commercial and private aircrafts; and provides lubricants to automotive dealerships, quick lube centers, and trucking service centers.²

SCOPE

The Department of Finance, Office of State Audits and Evaluations, conducted an audit of Jankovich's Used Oil Recycling Fee Returns (Returns) submitted to CalRecycle. The audit objective was to determine whether Jankovich accurately reported the industrial, lubricating, and rerefined 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, 2010 through June 30, 2011. Jankovich is responsible for ensuring accurate reporting of the oil recycling fees and oil sales, and ensuring compliance with applicable laws and regulations.

METHODOLOGY

To determine whether Jankovich 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 Jankovich's 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 lubrication and industrial 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.

¹ Excerpts from www.CalRecycle.ca.gov.

² Excerpts from <http://investing.businessweek.com>.

- Determined whether the correct conversion factor was used to convert non-volume measurements.
- Verified exempt sales were valid and supported by appropriate documentation.

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 Jankovich's staff.

Based on the audit, Jankovich did not accurately report the lubricating, rerefined, and industrial oil sales in compliance with applicable laws and regulations as described in Finding 1 below. The reported and audited sales and fees are presented in Tables 1 through 3.

Table 1: Schedule of Lubricating Oil Sales

The Jankovich Company For the Period July 1, 2010 through June 30, 2011			
Categories	Reported Sales (Gallons)	Audited Sales (Gallons)	Difference
Total Lubricating Oil Sold	8,220,352	8,512,268	(291,916)
Exemptions	4,570,899	4,621,330	50,431
Fee Assessable Gallons	3,649,453	3,890,938	(241,485)
Total Lubricating Oil Fees Due (26 cents per gallon)			\$62,786

Table 2: Schedule of Rerefined Oil Sales

The Jankovich Company For the Period July 1, 2010 through June 30, 2011			
Categories	Reported Sales (Gallons)	Audited Sales (Gallons)	Difference
Total Rerefined Oil Sold	5,988	7,624	(1,636)
Rerefined Oil Purchased, fee-paid	2,139	2,139	0
Total Fee Assessable Rerefined Oil	3,849	5,485	(1,636)
Total Rerefined Oil Fees Due (12 cents per gallon)			\$196

Table 3: Schedule of Industrial¹ Oil Sales

The Jankovich Company For the Period July 1, 2010 through June 30, 2011			
Categories	Reported Sales (Gallons)	Audited Sales (Gallons)	Difference
Total Industrial Oil Sold	75,283	429,258	(353,975)
Industrial Oil Exported or Sold for Export	4,125	124,001	(119,876)

¹ No fees are assessed on industrial oil.

Finding 1: Inaccurate Reporting Resulting in Underpayment of \$62,982

Jankovich did not accurately prepare the fee returns (Returns) based on complete and accurate sales reports. As a result, Jankovich underreported the fees, oil sales, and exempt transactions as follows:

- Lubricating Oil—\$62,786 underpaid fees resulting from an understatement of 291,916 gallons of lubricating oil sold subject to the fee and 50,431 gallons of lubricating oil exempt from the fee.
- Rerefined Oil—\$196 underpaid fees resulting from 1,636 unreported gallons of rerefined oil sold.
- Industrial Oil—353,975 unreported gallons of industrial oil sold and 119,876 unreported gallons of industrial oil exported.

California Public Resources Code, section 48761, 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. Inaccurate reporting could result in over or underpaid fees in future Returns.

Recommendation: Remit the fees due to CalRecycle and ensure future Returns are prepared in accordance with the California Public Resources Code.



THE JANKOVICH COMPANY

Via email

July 18, 2012

David Botelho, CPA
Chief, Office of State Audits and Evaluations
915 L St.
Sacramento, CA 95814-3706

Re: Response to Audit Report of The Jankovich Company
Used Oil Recycling Fee Returns

Dear Mr. Botelho,

Upon review of the Audit report of the Office of State Audits and Evaluations, we concur with the findings and agree to pay to CalRecycle the fees due.

Additionally, we have subsequently amended our reporting procedures to correctly reflect the amount of lubricating and industrial oil sold each month.

ORIGINAL SIGNED BY

Tom J. Jankovich
President