



Transmitted via e-mail

September 12, 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, 2010 Financial Statement Audit of the California Beverage Container Recycling Fund and Related Accounts

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Department of Resources Recycling and Recovery's (CalRecycle) California Beverage Container Recycling Fund and related accounts for the fiscal year ended June 30, 2010.

The enclosed report is for your information and use. CalRecycle's response to the report findings are incorporated into this final report. CalRecycle agreed with our findings and we appreciate its willingness to implement corrective actions. 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. Jose Ortiz, Deputy Director, Division of Recycling, Department of Resources Recycling and Recovery
Ms. Jessica Encarnacion, Acting Chief, Office of Audits, Department of Resources Recycling and Recovery
Ms. Sarah Keck, Branch Chief, Fiscal Services Branch, Department of Resources Recycling and Recovery
Mr. Andrew Felsenstein, Chief Accounting Officer, Accounting Section, Department of Resources Recycling and Recovery
Mr. Kevin Campbell, Senior Management Auditor, Office of Audits, Department of Resources Recycling and Recovery
Mr. Clayton Haas, Assistant Director for Administration, Department of Conservation
Ms. Judy Morita-Joe, Chief of Accounting, Department of Conservation

A FINANCIAL STATEMENT AUDIT

Department of Resources Recycling and Recovery
California Beverage Container Recycling Fund
and Related Accounts

For the Fiscal Year Ended
June 30, 2010

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

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This report is also available on our website at <http://www.dof.ca.gov>

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EXECUTIVE SUMMARY

The Department of Finance, Office of State Audits and Evaluations (Finance), 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 and Statement of Revenue, Expenditures, and Changes in Fund Balance* of the California Beverage Container Recycling Fund (Fund) and related accounts for the fiscal year ended June 30, 2010.
- 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 and related accounts.

Audit Results

- The aforementioned financial statements are not fairly presented for the fiscal year ended June 30, 2010 due to a material weakness in internal control. The Accounting Section and Division of Recycling (DOR) employed separate incompatible accounting methods to record \$1.3 billion in revenue and receivable transactions. The incompatible accounting methods had a significant pervasive impact to the cash, accounts receivable, revenue, and fund balance for the Fund and related accounts. However, based on the records available, the impact to the individual accounts could not be quantified. 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. Carol 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, 2010, and the related *Statement of Revenue, Expenditures, and Changes in Fund Balance* (statutory basis) of the California Beverage Container Recycling Fund (Fund) and related accounts for the fiscal year then ended. These financial statements are the responsibility of 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 related accounts and are not intended to present the financial position of CalRecycle or the State of California as of June 30, 2010, 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.

As disclosed in Note 1F, CalRecycle's Accounting Office and Division of Recycling (DOR) employed separate incompatible accounting methods to record \$1.3 billion in revenue and receivable transactions. The incompatible accounting methods had a significant pervasive impact to the cash, accounts receivable, revenue, and fund balance for the Fund and related accounts. However, based on the records available, the impact to the individual accounts could not be quantified. See the CalRecycle Internal Control Over Fiscal Processes and Procedures audit report issued December 12, 2013 for further details.

In our opinion, because of the significance of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly the financial position of the Fund and its related accounts as of June 30, 2010, or the results of their operations for the year then ended in accordance with the basis of accounting prescribed by SAM.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Fund and related accounts as of and for the year ended June 30, 2010, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we considered to be a material weakness or significant deficiency.

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 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. 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 report on CalRecycle's Internal Control Over Fiscal Processes and Procedures, issued December 12, 2013, identified one material weakness and three significant deficiencies in internal control that impacted the Fund.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund and related accounts' financial statements as of and for the year ended June 30, 2010, 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

April 4, 2014

BALANCE SHEET
STATUTORY BASIS

**Department of Resources Recycling and Recovery
California Beverage Container Recycling Fund and Related Accounts
Balance Sheet—Statutory Basis
As of June 30, 2010**

	California Beverage Container Recycling Fund (0133)	Glass Processing Fee Account (0269)	Penalty Account (0276)	Bimetal Processing Fee Account (0277)	PET Processing Fee Account (0278)
Assets					
Cash and Pooled Investments	\$ 7,502,691	\$ 23,113,235	\$ 3,592,200	\$ 11,363,099	\$ 15,519,853
Receivables	252,012,322	572,403	66,322	244,645	5,678,015
Due From Other Funds or Appropriations	95,037,069	4,135,737	4,845	15,602	4,424,969
Prepayments to Other Funds or Appropriations	263,615	-	-	-	-
Total Assets	\$ 354,815,697	\$ 27,821,375	\$ 3,663,367	\$ 11,623,346	\$ 25,622,837
Liabilities					
Accounts Payable	\$ 103,642,239	-	-	-	-
Due to Other Funds or Appropriations	5,806,410	\$ 30,176,279	-	\$ 142,872	\$ 24,493,158
Due to Other Government Entities	3,657	-	-	-	-
Total Liabilities	109,452,306	30,176,279	-	142,872	24,493,158
Fund Balance					
Reserved for Encumbrances	53,012,620	-	-	-	-
Deferred Payroll	1,389,000	-	-	-	-
Contingency Reserve for Economic Uncertainties	190,961,771	(2,354,904)	\$ 3,663,367	11,480,474	1,129,679
Total Fund Balance	245,363,391	(2,354,904)	3,663,367	11,480,474	1,129,679
Total Liabilities and Fund Balance	\$ 354,815,697	\$ 27,821,375	\$ 3,663,367	\$ 11,623,346	\$ 25,622,837

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 Beverage Container Recycling Fund and Related Accounts Statement of Revenue, Expenditures, and Changes in Fund Balance—Statutory Basis For the Fiscal Year Ended June 30, 2010

	California Beverage Container Recycling Fund (0133)	Glass Processing Fee Account (0269)	Penalty Account (0276)	Bimetal Processing Fee Account (0277)	PET Processing Fee Account (0278)
Revenue					
Beverage Container Redemption Fees	\$ 1,246,929,011	\$ 23,463,723	\$ 378,386	\$ 2,081,376	\$ 31,718,258
Interest	4,087,899	151,715	21,818	67,927	87,600
Miscellaneous	791,520	-	-	-	-
Total Revenue	1,251,808,430	23,615,438	400,204	2,149,303	31,805,858
Expenditures					
Processor Claims	971,317,783	52,082,670	-	302,402	48,268,225
Cities and Counties Program Payments	5,543,226	-	-	-	-
Curbside Program Payments	8,250,000	-	-	-	-
Grants for Recycling Market Development and Expansion	10,532,886	-	-	-	-
Handling Fees	16,828,508	-	-	-	-
Litter Abatement and Recycling Activity Grants	10,536,456	-	-	-	-
Market Development Payments for Empty Plastics	5,928,989	-	-	-	-
Public Education and Information Program Payments	177,831	-	-	-	-
Quality Incentive Payments	7,477,193	-	-	-	-
Recycling Incentive Payments	5,499,282	-	-	-	-
Recycling Receptacles	9,977,779	-	-	-	-
Administrative Support Expenditures	43,843,683	149,963	6,930	6,930	176,613
Total Expenditures	1,095,913,616	52,232,633	6,930	309,332	48,444,838
Excess (Deficiency) of Revenue Over(Under) Expenditures	155,894,814	(28,617,195)	393,274	1,839,971	(16,638,980)
Other Financing Sources (Uses)					
Operating Transfers In	37,103,000	26,135,099	-	-	17,580,178
Refunds to Reverted Appropriations	43,616	-	-	-	-
Operating Transfers Out	(183,115,277)	-	-	-	-
Total Other Financing Sources (Uses)	(145,968,661)	26,135,099	-	-	17,580,178
Net Change in Fund Balance	9,926,153	(2,482,096)	393,274	1,839,971	941,198
Fund Balance July 1, 2009 (Note 5)	235,437,238	127,192	3,270,093	9,640,503	188,481
Fund Balance June 30, 2010	\$ 245,363,391	\$ (2,354,904)	\$ 3,663,367	\$ 11,480,474	\$ 1,129,679

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

NOTES TO FINANCIAL STATEMENTS

**Department of Resources Recycling and Recovery
California Beverage Container Recycling Fund and Related Accounts
Notes to the Financial Statements—Statutory Basis
For the Fiscal Year Ended June 30, 2010**

NOTE 1 Reporting Entity and Summary of Significant Accounting Policies

A. Definition of Reporting Entity

The California Beverage Container Recycling Program (Program) was created with passage of the California Beverage Container Recycling and Litter Reduction Act of 1986 (Act). Prior to January 1, 2010, the Department of Conservation (DOC) administered the Act. Effective January 1, 2010, Chapter 21, Statutes of 2009 (Senate Bill 63), merged DOC's Division of Recycling (DOR) with the California Integrated Waste Management Board, thereby creating the Department of Resources Recycling and Recovery (CalRecycle), and shifting the administration of the Act to CalRecycle.

Pursuant to the Act, the legislative intent of the Program is as follows:

- Reach a statewide recycling goal of 80 percent for each container type
- Reduce the beverage container component of litter in the state
- Make redemption and recycling convenient to consumers
- Create and maintain a marketplace where it is profitable to establish sufficient recycling centers and locations to provide consumers with convenient recycling opportunities

The Act requires beverage distributors to make redemption payments and beverage manufacturers to pay processing fees based on the number of beverage containers sold in the state. Redemption payment revenues are used to pay processor claims for the refund value of the beverage containers purchased from recyclers in the state and the related administrative support costs and program activities identified in the Act as follows:

- Handling fee payments to supermarket site recycling centers
- Curbside program payments to curbside recycling program operators
- Litter abatement and recycling activity grants
- Payments to cities and counties for beverage container recycling and litter abatement activities
- Recycling and litter reduction program payments in the form of grants
- Public education and information program payments
- Quality incentive payments for empty beverage containers
- Market development grants

- Recycling incentive payments
- Market development payments for empty plastic beverage containers

Processing Fee revenues are used to pay recyclers as “processing payments” to cover their recycling costs.

B. Basis of Presentation—Fund Accounting

The financial statements are presented in accordance with State of California laws and accounting procedures. The Fund and related accounts are classified as Other Governmental Cost Funds, which are used to account for revenues restricted by law for specified purposes. Special revenue funds account for the proceeds of a specific revenue source that is legally restricted to expenditures for specified purposes. The Program’s activities are accounted for in five separate special revenue funds in the State Treasury as follows:

- California Beverage Container Recycling Fund (Fund 0133)
- Glass Processing Fee Account, Beverage Container Recycling Fund (Fund 0269)
- Bimetal Processing Fee Account, Beverage Container Recycling Fund (Fund 0277)
- Plastic Processing Fee Account, Beverage Container Recycling Fund (Fund 0278)
- Penalty Account, Beverage Container Recycling Fund (Fund 0276)

Fund 133 is a shared fund between CalRecycle, DOC, California Conservation Corps (CCC), and Air Resources Board (ARB). The related accounts are not shared funds. All funds were administered by DOC through December 31, 2009 and by CalRecycle as of January 1, 2010. The financial statements present information of the financial activities of the Program funds only, and do not represent all of the financial activities of CalRecycle, DOC, CCC, ARB, or the State of California as of June 30, 2010.

C. Measurement Focus and Basis of Accounting

The governmental fund financial statements are 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 6).

The Fund and related accounts follow 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 \$53 million at year-end are excluded from liabilities and expenditures, and are established as a reserve for encumbrances against the fund balance.

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 and related accounts participate 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 the 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 amortized cost and fair value are not material, no adjustment for this has been made in the financial statements.

For shared funds, deposits in SMIF are not recorded in any one department's accounting records. Rather, they are recorded in the Fund's accounting records by the State Controller's Office (SCO). Therefore, the Cash and Pooled Investments line item includes adjustments to each fund to present the fund balances in SMIF as listed in the SCO Fund Reconciliation Report at June 30, 2010. See Table 1 below for the adjustments.

Table 1: Schedule of SMIF Adjustments

Fund	Adjustments
Fund 133	\$ 7,502,000
Fund 269	23,113,000
Fund 276	3,592,000
Fund 277	11,363,000
Fund 278	15,519,000

F. Revenue

Revenue consists of redemption payments and processing fees imposed on the sale or transfer of beverage containers, other than a refillable beverage container in the state or imported into the state, interest income earned on funds deposited in SMIF, penalties, and unclaimed checks escheated to the issuing fund. Accrual of revenue occurs for transactions that transpired 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.

CalRecycle discovered during the course of the departmental merge that the Accounting Section and DOR have adopted separate incompatible accounting methods to record the Beverage Container Recycling Program revenue and receivable transactions. CalRecycle's Accounting Section recognized revenue earned by the fund and fiscal period that applied to the receipts collected.

Whereas, DOR, using the first-in, first-out method, applied receipts to the oldest participant liability regardless of fund or fiscal year. As a result, the California State Accounting and Reporting System (CALSTARS) records cannot be supported by or reconciled to the subsidiary system records in the Division of Recycling Integrated Information System (DORIIS).

G. Accounts Receivable

Receivable balances for the funds primarily consist of beverage container redemption fees and processing fees. Other receivable balances include, but are not limited to, penalties and interest.

H. Accounts Payable

The fiscal year 2009-10 financial statements included a change in accounting practice regarding liability accruals. Prior year financial statements distinguished liability accruals between governmental and non-governmental vendors, whereas the 2009-10 liability accruals of both vendor types were classified as Accounts Payable.

The Accounts Payable balance of \$103.6 million includes, but is not limited to, refund values, processing fees, administrative fees and handling fees to vendors, various grants and incentive payments, and administrative costs. Payable amounts are only accounted for in Fund 133.

I. 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, 2010 has been categorized as follows:

- *Deferred Payroll:* Amounts represent the amount of June 2010 payroll expenditures deferred to July 2010 for all state departments paid through the uniform payroll system per Control Section 12.45 of the Budget Act of 2010. June 2010 payroll expenditures will be realized in July 2010.
- *Reserved for Encumbrances:* Amounts represent a portion of fund balance segregated for expected expenditures.
- *Contingency Reserve for Economic Uncertainties:* Amounts represent the un-appropriated balances of the Fund and related accounts as of June 30 available for appropriation the following year.

NOTE 2 Cash and Pooled Investments

The Cash and Pooled Investments balance was increased to reflect adjustments totaling \$49.5 million. This includes a prior period correction of \$32 million, as discussed in Note 5, and a loan disbursement correction of \$17.5 million.

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

NOTE 3 Accounts Receivable

A summary of receivables at June 30, 2010 by fund and type is provided below:

Table 1: Accounts Receivable	
Fund 0133:	
Beverage Container Redemption Fees - CRV	\$ 251,871,807
Miscellaneous Revenue	121,699
Penalty Assessments	15,020
Escheat of Unclaimed Checks, Warrants, Bonds & Coupons	2,005
Abatements	<u>1,791</u>
<i>Total Fund 0133 Receivables</i>	<u>\$ 252,012,322</u>
Fund 0269:	
Beverage Container Redemption Fees – Processing Fees	<u>\$ 572,403</u>
<i>Total Fund 0269 Receivables</i>	<u>\$ 572,403</u>
Fund 0276:	
Penalty Assessments	<u>\$ 66,322</u>
<i>Total Fund 0276 Receivables</i>	<u>\$ 66,322</u>
Fund 0277:	
Beverage Container Redemption Fees – Processing Fees	<u>\$ 244,645</u>
<i>Total Fund 0277 Receivables</i>	<u>\$ 244,645</u>
Fund 0278:	
Beverage Container Redemption Fees – Processing Fees	<u>\$ 5,678,015</u>
<i>Total Fund 0278 Receivables</i>	<u>\$ 5,678,015</u>

NOTE 4 Due To/From Other Funds or Appropriations

SCO requires departments to identify the intergovernmental receivable and payable balances that represent amounts due from other state funds or appropriations to the Fund and amounts due from the Fund to other state funds.

The ending balances of Due To/From Other Funds or Appropriations accounts are displayed below:

Table 2: Due From Other Funds or Appropriations	
Fund 0133:	
Deferred Payroll	\$ 1,389,000
General Fund	37,293,273
Glass Processing Fee Account (0269)	30,176,280
Bimetal Processing Fee Account (0277)	142,872
PET Processing Fee Account (0278)	24,493,158
Various Other Funds or Appropriations	<u>1,542,486</u>
<i>Total Due From Other Funds or Appropriations</i>	<u>\$ 95,037,069</u>

Table 2: Due From Other Funds or Appropriations (Continued)	
Fund 0269:	
General Fund	\$ 4,100,000
Surplus Money Investment Fund	<u>35,737</u>
Total Due From Other Funds or Appropriations	\$ 4,135,737
Fund 0276:	
Surplus Money Investment Fund	<u>\$ 4,845</u>
Total Due From Other Funds or Appropriations	\$ 4,845
Fund 0277:	
Surplus Money Investment Fund	<u>\$ 15,602</u>
Total Due From Other Funds or Appropriations	\$ 15,602
Fund 0278:	
General Fund	\$ 4,400,000
Surplus Money Investment Fund	<u>24,969</u>
Total Due From Other Funds or Appropriations	\$ 4,424,969
Table 3: Due To Other Funds or Appropriations	
Fund 0133:	
Integrated Waste Management Account	\$ 4,725,675
Department of Justice	469,756
California Environmental Protection Agency	194,477
California Conservation Corp	80,720
Victim Compensation Appeals Board	43,330
General Fund	14,139
Various Other Funds or Appropriations	<u>278,313</u>
Total Due To Other Funds or Appropriations	\$ 5,806,410
Fund 0269:	
CA Beverage Container Recycling Fund (0133)	<u>\$ 30,176,279</u>
Total Due To Other Funds or Appropriations	\$ 30,176,279
Fund 0277:	
CA Beverage Container Recycling Fund (0133)	<u>\$ 142,872</u>
Total Due To Other Funds or Appropriations	\$ 142,872
Fund 0278:	
CA Beverage Container Recycling Fund (0133)	<u>\$ 24,493,158</u>
Total Due To Other Funds or Appropriations	\$ 24,493,158

NOTE 5 Opening Fund Balance

The July 1, 2009 Fund balance reported in the CALSTARS financial reports was increased to reflect a prior period adjustment of \$32 million. This correction is related to the Cash and Pooled Investments balance adjustment discussed in Note 2.

NOTE 6 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 the Budget Act of 2009, a loan of \$99.4 million (loan number 249) was transferred out of the Fund to the General Fund. The repayment shall be made so as to ensure that the programs supported by the Fund are not adversely affected by the loan, but no later than June 30, 2015.
- Pursuant to the Budget Act of 2009, a loan of \$35 million (loan number 263) was transferred out of the Fund to the Air Pollution Control Fund. The loan shall be fully repaid from revenues established by the State Air Resources Board pursuant to the California Global Warming Solutions Act of 2006 (Division 25.5 (commencing with section 38500) of the Health and Safety Code). The loan shall be repaid by the earliest feasible date. At least one-third of the loan shall be repaid on or before June 30, 2012, and the full amount shall be repaid on or before June 30, 2014. The loan shall be repaid with interest at the rate earned by the Pooled Money Investment Account at the time of the transfer.
- Executive Order No. E 09/10-50, pursuant to Item 3480-001-0001, Budget Act of 2009, Provision 1, authorized a loan in the amount of \$5 million (loan number 264), which was transferred out of the Fund to the General Fund. Full repayment is due by June 30, 2014.
- Pursuant to the Budget Act of 1995, Chapter 624, CalRecycle shall expend the amount necessary to pay the processing payment established pursuant to PRC section 14575. Transfers to the PET Processing Fee Account amounted to \$17.6 million. Transfers to the Glass Processing Fee Account amounted to \$26.1 million.

Operating Transfers In represents the following item:

- Pursuant to the Budget Act of 2009, a loan of \$8.25 million (loan number 252) was transferred to the Fund from the Renewable Fuel and Vehicle Technology Fund. The loan shall be fully repaid from revenues of the Fund. The loan shall be repaid by the earliest feasible date, and the full amount shall be repaid on or before June 30, 2013. The loan shall be repaid with interest at the rate earned by the Pooled Money Investment Account at the time of the transfer.
- The General Fund made loan repayments to the Fund in the amount of \$28.9 million pursuant to Budget Acts of 2002 and 2003.

As of June 30, 2010, Interfund Loans Receivable and Interfund Loans Payable amounted to \$496,847,000 and \$8,250,000, respectively. A schedule of long-term Interfund Loan balances is shown in the table on the following page:

Table 4: Interfund Loans Receivable				
Fund	Fund/Loan Number	Beginning Balance as of 7/1/2009	Ending Balance as of 6/30/2010	Repayment Date
0133	0001/042	\$ 188,000,000	\$ 160,147,000	6/30/2013 ¹
	0001/081	98,300,000	98,300,000	6/30/2015
	0001/245	2,000,000	1,000,000	6/30/2012 ¹
	0001/249	0	99,400,000	6/30/2015
	0001/264	0	5,000,000	6/30/2014
	0115/241	32,000,000	32,000,000	6/30/2013 ¹
	0115/263	0	35,000,000	6/30/2014
0269	0001/082	39,000,000	39,000,000	6/30/2014
0278	0001/083	27,000,000	27,000,000	6/30/2014
Total		\$ 386,300,000	\$ 496,847,000	

Table 5: Interfund Loans Payable				
Fund	Fund/Loan Number	Beginning Balance as of 7/1/2009	Ending Balance as of 6/30/2010	Repayment Date
0133	3117/252	\$ 0	\$ 8,250,000	6/30/2013 ¹
Total		\$ 0	\$ 8,250,000	

¹ Full repayment of the loan was made on or before the due date.

NOTE 7 Subsequent Event

An amount of \$2.1 million is due from a recycling center that is the subject of bankruptcy proceedings. It is not possible to determine the ultimate outcome of the proceeding at this time. Therefore, this amount is classified as a contingent receivable.

**DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY**

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July 31, 2014

Mr. Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Sierra:

Thank you for the opportunity to review and comment on the June 30, 2014 2010 Financial Statement Draft Audit Report for the California Beverage Container Recycling Fund. The Department of Resources Recycling and Recovery (CalRecycle) concurs with the results. Our efforts to implement corrective action for those items referenced in the Internal Control Over Fiscal Processes and Procedures audit report, issued December 12, 2013, are noted below:

Recommendation A: Consult with Department of Finance's Fiscal Systems and Consulting Unit (FSCU) to implement department wide uniform accounting procedures that are consistent with State accounting practices and requirements.

CalRecycle consulted with FSCU regarding department-wide uniform accounting procedures that are consistent with State accounting practices and requirements. An internal evaluation of CalRecycle's processes concluded that the duties related to recording revenue and accounts receivables transactions should be transferred to CalRecycle's Accounting Section from the Division of Recycling. This transition took effect on March 1, 2014.

Recommendation B: Develop DORIIS receivables and revenue reports, with point-in-time historical documentation maintained, that identify the receivables and revenue in accordance with State accounting policies.

The Accounting Section and the DORIIS Support Unit, along with consultation from Maximus system designers and analysts, are in the process of developing reports that will aide in capturing point-in-time receipt applications and any changes to applications after the initial application. These reports, available approximately August 2014, will allow the Accounting Section to reconcile transactions posted in DORIIS with what is reported in CALSTARS.

Recommendation C: Record and reconcile the receivables accounts in CALSTARS and DORIIS monthly and at year-end.



Mr. Richard R. Sierra

July 31, 2014

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In March of 2014, a plan of action was developed and implemented to record and reconcile the accounts receivables in CALSTARS and DORIIS after the revenue and accounts receivable functions transitioned to the Accounting Section. This included establishing new procedures to properly record receipts that complies with the State Administrative Manual.

The Accounting Section found that the coding structure in DORIIS included dated or inaccurate coding that caused some transactions to erroneously post in CALSTARS. CalRecycle has fixed much of the coding and a request to fix the remaining coding is in process. Lastly, many transactions posted in DORIIS included incorrect financial coding. These internal findings require extensive research and resolution by staff. Upon completion of this analysis, the Accounting Section will go back and reconcile the relevant past fiscal years using the proper methodologies. It is expected that any resulting adjustments will be minor in the context of the fund.

Recommendation D: Research and resolve DORIIS unapplied receipts. Verify overpayments are accurately recorded in CALSTARS.

The DORIIS Support Unit and Accounting Section have worked together to develop a database that will assist Accounting staff to query DORIIS transactions that have open balances, receipts with unapplied amounts, and cases referred to the Legal Office. This database also will report on overpayments which will give the Accounting Office the ability to reconcile and ensure they are accurately recorded in CALSTARS. These reports are currently being tested and should be completed within the next few months.

Recommendation E: Transfer the DOR receivables write-off responsibility to the Accounting Section. The Accounting Section is responsible for fiscal accountability of write offs for the department and its existing collections process complies with State requirements.

The responsibilities of DOR accounts receivable write-offs shifted to the Accounting Section during the transition mentioned in response to Recommendation A.

As detailed above CalRecycle is committed to implementing the recommendations noted in the audit report and will ensure processes are periodically evaluated to ensure compliance with applicable requirements. To date, CalRecycle has not discovered any items related to the audit findings noted that would suggest a material discrepancy. Upon request we will make available any of the policies, procedures, reports or other documents mentioned above. Thank you for the opportunity to respond to the Draft Audit Report. Should you have any questions or concerns regarding our response, please contact Kevin Campbell at (916) 445-3356.

Sincerely,

Original signed by:

Ken DaRosa
Chief Deputy Director