



Transmitted via e-mail

April 20, 2016

Mr. Scott Smithline, Director
Department of Resources Recycling and Recovery
1001 I Street, MS 25A
Sacramento, CA 95814

Dear Mr. Smithline:

Final Report—Department of Resources Recycling and Recovery, 2014 Financial Statement Audit of the California 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 Recovery's (CalRecycle) California Used Oil Recycling Fund for the year ended June 30, 2014.

The enclosed report is for your information and use. CalRecycle's response to the report finding is 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:

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations

Enclosure

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. Sarah Keck, Chief Financial Officer, Fiscal Services Branch, Department of Resources Recycling and Recovery
Ms. Josephine Urban, Branch Chief, Audits Office, Department of Resources Recycling and Recovery
Ms. Jane Hayes, Chief Accounting Officer, Accounting Section, Department of Resources Recycling and Recovery

A F INANCIAL S TATEMENT A UDIT

Department of Resources Recycling and Recovery
California Used Oil Recycling Fund
For the Fiscal Year Ended
June 30, 2014

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

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
Manager

Jennifer Arbis
Supervisor

Staff
Heenesh Patel

This report is also 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, performed an audit of the California Used Oil Recycling Fund (Fund) administered by the Department of Resources Recycling and Recovery (CalRecycle) in accordance with Public Resources Code 48657. The objectives of our audit were to:

- Express an opinion on the *Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balance* of the Fund for the fiscal year ended June 30, 2014.
- Verify that the financial statements were prepared on the basis of accounting prescribed by the California State Administrative Manual which is a basis of accounting other than accounting principles generally accepted in the United States of America.
- Report on internal control and compliance weaknesses, and provide recommendations for improving controls over Fund operations.

Audit Results

- The aforementioned financial statements are fairly presented for the fiscal year ended June 30, 2014 in accordance with a statutory basis of accounting.
- We identified a significant deficiency in internal control over financial reporting related to significant estimates, which we have included in our report dated December 11, 2015 on our consideration of CalRecycle's internal control over financial reporting and compliance and other matters.

This report is intended solely for the information and use of the Fund's management, 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.



INDEPENDENT AUDITOR'S REPORT

Mr. Scott Smithline, Director
Department of Resources Recycling and Recovery
1001 I Street, MS 25A
Sacramento, CA 95814

We have audited the accompanying financial statements (statutory basis) of the governmental activities of the California Used Oil Recycling Fund (Fund) as administered by the Department of Resources Recycling and Recovery (CalRecycle). The financial statements comprise the balance sheet (statutory basis) as of June 30, 2014, related Statement of Revenue, Expenditures, and Changes in Fund Balance for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with a statutory basis of accounting described in Note 1B. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The Department of Finance (Finance) and CalRecycle are both 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. Under *Government Auditing Standards*, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented sufficient safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Fund as of June 30, 2014, and the respective changes in financial position for the year then ended, in accordance with a statutory basis of accounting described in Note 1B.

Emphasis of Matter

As described in Note 1B, these financial statements were prepared on the basis of accounting prescribed by the California State Administrative Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of Public Resources Code section 48657, and to present financial information for the Fund only. Also as discussed in Note 1B, the financial statements are not intended to present the financial position of CalRecycle or the State of California as of June 30, 2014 or the results of operations or changes in their financial position for the year then ended.

Our opinion is not modified with respect to these matters.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2015 on our consideration of CalRecycle's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CalRecycle's internal control over financial reporting and compliance.

Restriction on Use

Our report is intended solely for the information and use of the Fund's management 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:

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations

December 11, 2015

BALANCE SHEET
STATUTORY BASIS

**Department of Resources Recycling and Recovery
California Used Oil Recycling Fund
Balance Sheet—Statutory Basis
As of June 30, 2014**

Assets	
Cash and Pooled Investments	\$ 24,307,253
Receivables	6,436,352
Due From Other Funds or Appropriations	<u>301,465</u>
Total Assets	<u>\$ 31,045,070</u>
Liabilities	
Accounts Payable	\$ 3,050,323
Due To Other Funds or Appropriations	<u>855,347</u>
Total Liabilities	<u>\$ 3,905,670</u>
Fund Balance	
Deferred Payroll	\$ 259,117
Reserved for Encumbrances	7,113,173
Contingency Reserve for Economic Uncertainties	<u>19,767,110</u>
Total Fund Balance	<u>\$ 27,139,400</u>
Total Liabilities and Fund Balance	<u>\$ 31,045,070</u>

The notes to the financial statements are an integral part of this statement.

S STATEMENT OF **R** REVENUE, **E** EXPENDITURES, AND
C CHANGES IN **F** FUND **B** BALANCE—**S** STATUTORY **B** 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, 2014

Revenue	
Fees	\$ 26,601,810
Interest	56,331
Escheatment	<u>4,956</u>
Total Revenue	<u>26,663,097</u>
Expenditures	
Used Oil Incentive Payments	4,628,962
Used Oil Grants and Subventions (Local Assistance)	10,985,964
Used Oil Grants and Subventions (State Operations)	1,166,792
Administrative Support	<u>5,557,341</u>
Total Expenditures	<u>22,339,059</u>
Net Change in Fund Balance	<u>\$ 4,324,038</u>
Fund Balance, July 1, 2013	<u>22,815,362</u>
Fund Balance, June 30, 2014	<u>\$ 27,139,400</u>

The notes to the financial statements are an integral part of this statement.

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, 2014**

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). The Fund is administered by the California Department of Resources Recycling and Recovery (CalRecycle) and is shared with the Office of Environmental Health Hazard Assessment (OEHHA), and the Department of Toxic Substances Control (DTSC).

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, 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), 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. Per Statute, the fee paid by manufacturers for new lubricating oil sold in California was set at \$0.26 per gallon through December 31, 2013 and decreased to \$0.24 per gallon on and after January 1, 2014.

B. Basis of Presentation—Fund Accounting

The financial statements are presented in accordance with state laws and state accounting procedures prescribed by the California State Administrative Manual (SAM), which is a basis of accounting other than generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB). The presentation of the financial statements differs from GAAP primarily in the categorization of the fund balances. According to GASB Statement No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*, the fund balance of the Fund would be classified under GAAP as “restricted” due to enabling legislation. The Fund balance in these statements, however, is presented in “reserve” categories according to their specified purposes. Details of these fund balance categories are described further in Note 11.

The Fund is classified as Other Governmental Cost Funds, which are used to account for revenues restricted by law for specified purposes.

Fund 100 is a shared fund between CalRecycle, OEHHA, and DTSC. The Legislature makes appropriations to OEHHA and DTSC 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 the State of California as of June 30, 2014.

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 4).

The Fund and related accounts follow the modified accrual basis of accounting. 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 at year-end are excluded from liabilities and expenditures, and are established as reserve for encumbrances against the fund balance. Encumbrances totaled \$7.1 million at year-end. OPP grant

prepayments are encumbrance accrual estimates for the current grant cycles that are expected to be liquidated in the coming fiscal year. The OPP prepayments of \$8.6 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 not related to administrative support 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 are 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 is not material, no adjustment for this has been made in the financial statements.

Deposits in SMIF are recorded in the accounting records as overseen by SCO. As the fund administrator of the Fund and related accounts, CalRecycle made the appropriate entries to record the ending balances of Deposits in SMIF to be in agreement with SCO per the reconciliation requirements in SAM. Therefore, the Cash and Pooled Investments line item includes a balance of \$24,307,000 of Deposits in SMIF as recorded in the SCO Fund Reconciliation Report dated June 30, 2014.

F. Revenue

Revenue consists of oil recycling fees imposed on the sale or transfer of lubricating oil and re-refined 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. Estimates for oil fee returns are billed receivables calculated by averaging fee returns from prior quarters and outstanding fees expected to be received in the final quarter of the current fiscal year, and are included as current year revenue. The amount of estimated accounts receivable included in the presentation of revenue is 24 percent. Estimates for used oil incentive claims are an accrual of prior year revenue refunds for claims not yet processed as of June 30, 2014 and are calculated by averaging prior year data. Oil fee refunds pending final review, expected to be

issued for the current fiscal year are also included as accounts payable. The payables balance represents a reduction in current year revenue and the amount of estimated accounts payable included in the presentation of expenditures is 13 percent.

G. Accounts Receivable

Receivable balances primarily consist of oil fee returns. Other receivables include, but are not limited to, penalties, interest, and deferred receivables.

H. Accounts Payable

Payable balances amounting to \$3 million include, but are not limited to, used oil incentive payments and local collection programs, oil fee refunds, re-refining incentive payments, and administrative costs.

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, 2014 has been categorized as follows:

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

NOTE 2 Investments

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

NOTE 3 Due To/Due 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.

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

Table 1: Due To Other Funds or Appropriations	
Fund Name	Amount
CA Beverage Container Recycling Fund	\$ 495,405
Hazard Waste Control Account	68,699
General Fund	14,113
Various Other Funds or Appropriations	277,130
Total Due To Other Funds or Appropriations	\$ 855,347

Table 2: Due From Other Funds or Appropriations	
Fund Name	Amount
General Fund	\$ 10,988
Deferred Payroll	259,117
Surplus Money Investment Fund	13,052
Architectural Paint Stewardship Account	18,308
Total Due From Other Funds or Appropriations	\$ 301,465

NOTE 4 Interfund Balances

As of June 30, 2014, Interfund Loans Receivable totaled \$5,000,000. A schedule of Interfund Loan balances is shown in the table below.

Table 3: Interfund Loans Receivable				
Fund	Fund/Loan Number	Beginning Balance as of 7/1/2013	Ending Balance as of 6/30/2014	Repayment Date
100	0001/1341	\$ 2,500,000	\$ 2,500,000	6/30/2017
100	0001/1348	2,500,000	2,500,000	6/30/2017
Total Interfund Loans Receivable		\$ 5,000,000	\$ 5,000,000	

NOTE 5 Significant Effects of Subsequent Events

In March 2014, during a fee payer audit, Wal-Mart notified CalRecycle they had overpaid approximately \$6.2 million in lubricating oil fees due to a unit calculation error in their system. CalRecycle extended the audit to incorporate the validation of the claim, which is still pending. If a refund is warranted, it will impact fiscal years 2011-12 through 2013-14. Because the claim validation audit is pending, a contingent liability (Report 22) was included in the 2013-14 and 2014-15 year-end financial reports; however, the amount is not reflected in the financial statements.

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Mr. Scott Smithline, Director
Department of Resources Recycling and Recovery
1001 I Street, MS 25A
Sacramento, CA 95814

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of the California Used Oil Recycling Fund (Fund) as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Fund's financial statements and have issued our report thereon dated December 11, 2015.

The Department of Finance (Finance) and the Department of Resources Recycling and Recovery (CalRecycle) are both 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. Under *Government Auditing Standards*, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented sufficient safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered CalRecycle's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. 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.

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 material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, we identified one significant deficiency in internal control described below.

Finding 15-01: Undetected Calculation Error of a Significant Estimate

Condition: A \$6.4 million misstatement was not detected and corrected prior to submission of the financial statements to the State Controller's Office (SCO). Specifically, CalRecycle miscalculated the Oil Payment Program (OPP) prepayment liquidations by applying 100 percent instead of 90 percent to the OPP Cycle 3 prepayment balance and 80 percent instead of 25 percent to the OPP Cycle 4 prepayment balance. This error was corrected in the financial statements referenced in the first paragraph of this report.

Criteria: The California State Administrative Manual section 20050 requires that each state agency maintain effective systems of internal control to minimize fraud, errors, abuse, and waste of government funds. This includes an effective system of internal review to provide reasonable assurance of the accuracy and reliability of accounting data and production of timely and accurate financial reports.

Cause: CalRecycle did not perform a supervisory review on the OPP liquidation estimates.

Effect: The Prepayments to Other Governments and the Reserve for Prepaid Items submitted to SCO were understated by \$6.4 million.

Recommendation: Perform a supervisory review of the OPP prepayment liquidation calculation to identify any errors prior to recording the accrual in the accounting system.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CalRecycle's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Original signed by:

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluation

December 11, 2015

**DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY**

1001 I STREET, SACRAMENTO, CALIFORNIA 95814 • WWW.CALRECYCLE.CA.GOV • (916) 322-4027
P.O. BOX 4025, SACRAMENTO, CALIFORNIA 95812

March 28, 2016

Ms. Cheryl McKormick
Assistant Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814

Dear Ms. McKormick:

Thank you for the opportunity to review and comment on the March 7, 2016 Financial Statement Draft Audit Report for the Used Oil Recycling Fund for the fiscal year ended June 30, 2014. The Department of Resources Recycling and Recovery (CalRecycle) concurs with the results of the audit, and have addressed the following finding:

Finding 15-01: Undetected Calculation Error of a Significant Estimate**Condition:**

A \$6.4 million misstatement was not detected and corrected prior to submission of the financial statements to the State Controller's Office (SCO). Specifically, CalRecycle miscalculated the Oil Payment Program (OPP) prepayment liquidations by applying 100 percent instead of 90 percent to the OPP Cycle 3 prepayment balance and 80 percent instead of 25 percent to the OPP Cycle 4 prepayment balance. This error was corrected in the financial statements referenced in the first paragraph of this report.

Recommendation:

Perform a supervisory review of the OPP prepayment liquidation calculation to identify any errors prior to recording the accrual in the accounting system.

CalRecycle Response:

CalRecycle agrees with the finding and will modify procedures accordingly. A correction was made to the accounting system at the time of discovery. This error had no effect on fund balance or the financial position of the program. However, it did understate the general ledger balances in "Prepayments" and "Reserve for Prepaid items" in report 7, Year End General Ledger Report. To prevent potential errors in the future, CalRecycle has outlined the following procedure:

For the purposes of year end accruals for the OPP advances, the OPP Program lead will apply an estimated percentage of advance liquidation, based on input from the jurisdictions. The package



will be forwarded to the OPP program supervisor for first level review and validation. Upon review and approval, the Fiscal Process Oversight branch within the program will review and approve the final document that will be forwarded to Accounting. The accounting office will validate calculations against what program has defined for each cycle.

CalRecycle is committed to implementing the recommendations noted in the audit report and will ensure that processes are periodically evaluated to ensure compliance with applicable requirements. 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:

Scott Smithline
Director