



May 21, 2010

Ms. Margo Reid Brown, Director
Department of Resources Recycling and Recovery
801 K Street, MS 1901
Sacramento, CA 95814

Dear Ms. Reid Brown:

Covered Electronic Waste Recycling Program Net Cost Reports Review

The California Department of Resources Recycling and Recovery (CalRecycle) requested the Department of Finance, Office of State Audits and Evaluations (Finance), to conduct a review of the Covered Electronic Waste (CEW) Recycling Program Net Cost Reports for the period January 1, 2009 through December 31, 2009. This letter summarizes the review results.

Background

The California Electronic Recycling Act of 2003 is intended to provide free and convenient recycling services for CEW. The program is funded by a fee of \$8 to \$25 for specified electronic devices, and is collected at the time of sale by the retailer. CEW includes the following types of discarded products with a viewable screen size greater than four inches:

- Cathode ray tube devices including televisions and computer monitors
- Liquid crystal display desktop monitors, laptop computers, and televisions
- Plasma televisions

The program includes collectors and recyclers who receive funding from CalRecycle to process CEW. Specifically, the collectors recover CEW from residences, individuals, commercial businesses, institutions, government, and nonprofit entities. The recyclers dismantle the CEW into materials (plastics, glass, metals, etc.) for final disposal or sale. Dual entities are authorized to recover and recycle CEW.

During 2009, CalRecycle paid the recyclers 39 cents per pound for dismantling CEW. Of this amount, CalRecycle requires the recyclers to pay approved collectors a standard recovery rate of 16 cents per pound for CEW transferred to the recyclers. However, recyclers often pay the collectors more than the standard recovery rate to be competitive within the industry.

Scope and Methodology

The review included a validation of the information reported on the Annual CEW Net Cost Report (Form 220) and related Net Cost Worksheets for Collectors and Recyclers (Forms 220A and 220B) for the period January 1, 2009 through December 31, 2009.

To evaluate the reliability of the self-reported data on the Net Cost Reports and related worksheets, we visited 14 approved collectors, of which 7 also operate as recyclers (dual entities). At each site, we performed the following procedures:

- Interviewed key staff.
- Toured the operations.
- Reviewed a sample of supporting documents and records used to prepare the Net Cost Reports and related worksheets.
- Determined whether the CEW revenues, costs, and pounds of CEW recovered were supported by financial records and accurately reported in the Net Cost Reports and related worksheets.

To compile the results, the Net Cost Report and related worksheet information was ranked in the following three categories:

1. Reported revenue, costs, or pounds of CEW recovered are supported and reasonably accurate.
2. Reported revenue, costs, or pounds of CEW recovered are supported but may be higher or lower than actual.
3. Reported revenue, costs, or pounds of CEW recovered cannot be supported because necessary documents are not available.

This review was not considered an audit, the objective of which would be to provide an opinion on the material correctness of the Net Cost Reports and supporting worksheets. Therefore, we are not expressing such an opinion. Furthermore, the review included only the data reported on the Net Cost Reports and supporting worksheets and did not include the collector or recycler's entire business enterprise.

Results

The Net Cost Reports and supporting worksheets are generally supported, but may not always be accurate due to the following:

- *Cost Allocation*—Most entities could support the revenues earned and costs incurred, but could not provide data to support the cost allocation methodologies for CEW versus non-CEW activities or collector versus recycler activities. Cost allocations significantly impact the accuracy of the Net Cost Reports and related worksheets because most entities process both CEW and non-CEW. Additionally, dual entities perform both collector and recycler activities.
- *Net Cost Report Categories*—Entities had difficulty extracting data from their general ledger accounts to conform to the Net Cost Report and supporting worksheet categories resulting in clerical errors, miscalculations, and reporting costs in incorrect categories.

A summary of the results is provided in Tables 1 and 2. The detailed rankings for each collector and recycler by revenue and expenditure category is provided in Attachments A and B.

Table 1: Average Rating for Collectors

Form 220	Average rating
Line 13: Total Revenues for CEW Recovery	1.7
Line 14: Total Costs for CEW Recovery	1.7
Line 15: Net Costs	1.7
Line 16: Total Pounds of CEW Recovered	1.3
Line 17: Net Cost Per Pound	1.5

Table 2: Average Rating for Recyclers

Form 220	Average rating
Line 13: Total Revenues for CEW Recycling	1.3
Line 14: Total Costs for CEW Recycling	1.5
Line 15: Net Costs	1.4
Line 16: Total Pounds of CEW Recycled	1.0
Line 17: Net Cost Per Pound	1.2

Recommendations and CalRecycle's Response

To improve the accuracy of the information reported by the collectors and recyclers, we recommend the following:

1. **Provide additional cost allocation guidance and training to improve the reliability of the Net Cost Reports and supporting worksheets.** During 2009, the Guide to Net Cost Reporting, Net Cost Report, and supporting worksheet forms were revised in an effort to improve reporting accuracy. However, because entities continue to experience difficulty implementing and supporting cost allocations based on verifiable data, we recommend that the guidelines and training include examples of allocation methodologies, sample calculations, and types of documentation that would support an allocation methodology for CEW versus non-CEW costs and collector versus recycler costs. The entities could still retain the flexibility to use any allocation methodology that is reasonable and supported by verifiable data, even if it is not one of the methods presented in the guidance.

CalRecycle's Response: This recommendation was provided by Finance last year as well and, in response, CalRecycle revised reporting worksheets, forms, and guidance documents to better capture accurate cost data. CalRecycle will continue to reevaluate the forms and guidance used in the Net Cost Report cycle and will revise as necessary. Resources to engage in a significant training effort are limited; however, CalRecycle will look for ways to provide report preparation assistance through lower cost avenues such as webinars and online training.

2. **CalRecycle should consider whether the Net Cost Report and related worksheet categories can be aligned more closely to the common general ledger account classifications.** This would simplify form completion, reduce the amount of analysis and calculations required to convert the data to the reporting categories, and result in more comparable data.

CalRecycle's Response: CalRecycle's most recent revisions to the reporting forms were aimed at soliciting specific cost data points that would provide CalRecycle information about certain recycling industry business practices, such as payments and services not required by regulation. It is understandable how breaking out certain costs could complicate the larger reporting exercise. CalRecycle will evaluate how report worksheets can better mirror general ledger classifications and accounting principles while still capturing specific cost categories that can inform future policy considerations.

In accordance with Finance's policy of increased transparency, this report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

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:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Tom Estes, Deputy Director, Administration and Finance Division, Department of Resources Recycling and Recovery
Mr. Howard Levenson, Assistant Director, Materials Management and Local Assistance Program, Department of Resources Recycling and Recovery
Ms. Shirley Wild-Wagner, Division Chief, Financial Assistance Division, Department of Resources Recycling and Recovery
Ms. Susan Villa, Branch Chief, Administration and Finance Division, Department of Resources Recycling and Recovery
Mr. Jeff Hunts, Branch Manager, Financial Assistance Division, Department of Resources Recycling and Recovery
Mr. Brian Kono, Audit Manager, Audits and Evaluations Unit, Department of Resources Recycling and Recovery

**Review of Net Cost Reports
Summary of Rankings
Collectors**

Company Name	A.S.I. Cyber Concepts	California Electronic Asset Recovery (CEAR)	ECS Refining	Electronic Recyclers International, Inc. (ERI)	E-Recycling of California, Paramount Facility	E-World Recyclers, LLC	Goodwill Industries of Southern California	GreenCitizen, Inc.	Onsite Electronics Recycling, LLC (Stockton)	Renew Computers	City of Santa Cruz	Tri-Valley Recycling, Inc.	Waste Management Collection & Recycling, Inc. (Moreno Valley)	Waste Tire Products (WTP) Research and Development	Average Rating for All Collectors
Covered Electronic Waste (CEW) ID Number	101322	100194	100412	102788	100376	105337	100571	100582	104531	100888	101936	106178	101628	101162	
Type	Collector	Dual	Dual	Dual	Dual	Dual	Collector	Collector	Dual	Collector	Collector	Collector	Collector	Dual	
Form 220															
L12 Handle Covered Electronic Waste (CEW) Y/N	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
L13 Total Revenues for CEW Recovery	1.0	1.0	n/a	2.0	1.0	n/a	1.0	2.0	2.0	1.5	2.0	2.0	3.0	n/a	1.7
L14 Total Costs for CEW Recovery	1.8	1.1	2.1	1.5	1.6	1.0	1.3	2.2	1.9	1.3	2.0	2.0	3.0	1.3	1.7
L15 Net Costs	1.4	1.0	2.1	1.7	1.3	1.0	1.1	2.1	1.9	1.4	2.0	2.0	3.0	1.3	1.7
L16 Total Pounds of CEW Recovered	1.0	1.0	1.0	1.0	1.0	1.0	1.0	2.0	1.0	1.0	1.0	2.0	3.0	1.0	1.3
L17 Net Cost Per Pound	1.2	1.0	1.5	1.4	1.2	1.0	1.1	2.0	1.5	1.2	1.5	2.0	3.0	1.2	1.5
Form 220A															
REVENUE FROM CEW RECOVERY ACTIVITIES															
L1 Revenue from Recyclers (in excess of Payment Rate: \$0.16)	1.0	n/a	n/a	2.0	n/a	n/a	1.0	2.0	n/a	2.0	2.0	2.0	n/a	n/a	1.7
L2 Revenue from Recovery Services (e.g. fees charged)	n/a	1.0	n/a	2.0	1.0	n/a	n/a	2.0	n/a	1.0	n/a	n/a	3.0	n/a	1.7
L3 Other Allowable Revenues	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.0	n/a	n/a	n/a	n/a	n/a	2.0
L4 Total Revenue from Recovery Activities	1.0	1.0	n/a	2.0	1.0	n/a	1.0	2.0	2.0	1.5	2.0	2.0	3.0	n/a	1.7
COSTS OF CEW RECOVERY ACTIVITIES															
Labor Costs															
L5 Direct Labor	2.0	1.0	2.0	2.0	1.0	1.0	1.0	2.0	2.0	2.0	2.0	2.0	3.0	1.0	1.7
Transportation Costs (e.g., fuel, registration, insurance, maintenance, & repair)															
L6 Transporting CEW to Collection Facility	2.0	2.0	2.0	2.0	2.0	1.0	1.0	2.0	n/a	1.0	2.0	2.0	3.0	1.0	1.8
L7 Transporting CEW from Collection Facility to Recycler	n/a	n/a	n/a	2.0	n/a	n/a	n/a	n/a	2.0	n/a	n/a	n/a	3.0	n/a	2.3
Other Costs (exclude any transportation costs)															
L8 Advertising, Marketing, and Public Education	1.0	1.0	2.0	1.0	1.0	1.0	1.0	2.0	2.0	1.0	2.0	2.0	n/a	1.0	1.4
L9 Supplies Used in Recovery Activities	2.0	1.0	2.0	2.0	n/a	1.0	n/a	2.0	2.0	1.0	2.0	n/a	n/a	2.0	1.7
L10 Payments Made in Exchange for CEW	1.0	n/a	n/a	2.0	n/a	1.0	n/a	n/a	2.0	n/a	n/a	2.0	n/a	n/a	1.6
L11 Fees Charged by Recyclers	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.0	n/a	n/a	n/a	n/a	n/a	n/a	3.0
Overhead															
L12 Depreciation	n/a	2.0	2.0	n/a	2.0	1.0	2.0	2.0	1.0	n/a	n/a	2.0	n/a	n/a	1.8
L13 Insurance (non-transportation)	2.0	1.0	2.0	1.0	2.0	1.0	2.0	2.0	2.0	1.0	n/a	2.0	n/a	n/a	1.6
L14 Debt Service	n/a	1.0	2.0	2.0	n/a	1.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.5
L15 Maintenance	n/a	1.0	2.0	n/a	2.0	1.0	1.0	2.0	2.0	1.0	n/a	2.0	n/a	n/a	1.6
L16 Fuel (non-transportation)	n/a	1.0	2.0	n/a	2.0	1.0	1.0	2.0	2.0	n/a	2.0	2.0	n/a	n/a	1.7
L17 Property Taxes	n/a	1.0	2.0	2.0	n/a	1.0	n/a	3.0	n/a	n/a	n/a	n/a	n/a	n/a	1.8
L18 Utilities	2.0	1.0	2.0	1.0	n/a	1.0	1.0	2.0	2.0	2.0	n/a	2.0	n/a	n/a	1.6
L19 Facilities and Equipment Rent or Lease	2.0	1.0	2.0	1.0	n/a	1.0	1.0	2.0	2.0	1.0	2.0	2.0	n/a	n/a	1.5
L20 Security	n/a	1.0	2.0	1.0	n/a	1.0	n/a	n/a	n/a	n/a	n/a	2.0	n/a	n/a	1.4
L21 Indirect Labor	n/a	1.0	3.0	1.0	1.0	1.0	1.0	2.0	2.0	2.0	2.0	2.0	n/a	n/a	1.6
L22 Other Overhead (related to CEW recovery)	2.0	1.0	2.0	1.0	n/a	1.0	2.0	n/a	2.0	n/a	n/a	2.0	n/a	n/a	1.6
L23 Additional Cost	2.0	n/a	n/a	n/a	n/a	n/a	1.0	n/a	2.0	n/a	n/a	2.0	n/a	n/a	1.8
L24 Total Cost of CEW Recovery Activities	1.8	1.1	2.1	1.5	1.6	1.0	1.3	2.2	1.9	1.3	2.0	2.0	3.0	1.3	1.7
L26 Capital Expenditures	n/a	1.0	n/a	n/a	n/a	n/a	n/a	n/a	2.0	n/a	n/a	n/a	n/a	n/a	1.5

Rating Definitions:

- 1 = Supported & Reasonably Accurate
- 2 = Supported high/low
- 3 = Unsupported
- n/a=Entity reported zero in this category

**Review of Net Cost Reports
Summary of Rankings
Recyclers**

Company	California Electronic Asset Recovery (CEAR)	ECS Refining	Electronic Recyclers International (ERI, LLC)	E-Recycling of California, Paramount Facility	E-World Recyclers, LLC	Onsite Electronics Recycling, LLC (Stockton)	Waste Tire Products (WTP) Research and Development	Average Rating for All Recyclers
Covered Electronic Waste (CEW) ID Number	100194	100412	102788	100376	105337	104531	101162	
Type	Dual	Dual	Dual	Dual	Dual	Dual	Dual	
Form 220								
L12 Handle Covered Electronic Waste (CEW) Y/N	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
L13 Total Revenues for CEW Recycling	1.0	1.0	1.0	1.0	1.0	2.0	2.0	1.3
L14 Total Costs for CEW Recycling	1.1	2.0	1.4	1.5	1.0	1.9	1.6	1.5
L15 Net Costs	1.0	1.5	1.2	1.2	1.0	2.0	1.8	1.4
L16 Total Pounds of CEW Recycled	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
L17 Net Cost Per Pound	1.0	1.3	1.1	1.1	1.0	1.5	1.4	1.2
Form 220B								
REVENUE FROM CEW RECYCLING ACTIVITIES								
L1 Revenue from the Sale of CEW Residual Commodities	1.0	1.0	1.0	1.0	1.0	1.0	2.0	1.1
L2 Revenue from the Sale of CEW Components	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
L3 Revenue from Fees Charged	1.0	n/a	n/a	1.0	n/a	3.0	n/a	1.7
L4 Other Allowable Revenues	n/a	n/a	n/a	n/a	n/a	2.0	n/a	2.0
L5 Total Revenue from Recycling Activities	1.0	1.0	1.0	1.0	1.0	2.0	2.0	1.3
COSTS FROM CEW RECYCLING ACTIVITIES								
Labor Costs								
L6 Direct Labor	1.0	2.0	2.0	1.0	1.0	2.0	2.0	1.6
Transportation Costs (e.g., fuel, registration, insurance, maintenance, & repair)								
L7 Transporting CEW from Collector to Recycler	1.0	2.0	2.0	1.0	1.0	2.0	n/a	1.5
L8 Transporting Residuals to Market/Disposal Facility	1.0	2.0	1.0	2.0	1.0	2.0	2.0	1.6
L9 Other Allowable Transportation	1.0	n/a	1.0	n/a	n/a	n/a	n/a	1.0
Other Costs (exclude any transportation costs)								
L10 Advertising, Marketing, and Public Education	1.0	2.0	1.0	1.0	1.0	2.0	n/a	1.3
L11 Supplies Used in Recycling Activities	1.0	2.0	2.0	2.0	1.0	2.0	1.0	1.6
L12 CRT Glass Management	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Overhead								
L13 Depreciation	2.0	2.0	1.0	2.0	1.0	2.0	n/a	1.7
L14 Insurance (non-transportation)	1.0	2.0	1.0	2.0	1.0	2.0	1.0	1.4
L15 Debt Service	1.0	2.0	2.0	2.0	1.0	n/a	n/a	1.6
L16 Maintenance	1.0	2.0	1.0	2.0	1.0	2.0	2.0	1.6
L17 Fuel (non-transportation)	1.0	2.0	n/a	2.0	1.0	2.0	2.0	1.7
L18 Property Taxes	1.0	2.0	2.0	1.0	1.0	n/a	2.0	1.5
L19 Utilities	1.0	2.0	1.0	1.0	1.0	2.0	2.0	1.4
L20 Facilities and Equipment Rent or Lease	1.0	2.0	2.0	1.0	1.0	2.0	2.0	1.6
L21 Security	1.0	2.0	1.0	n/a	1.0	2.0	n/a	1.4
L22 Indirect Labor	1.0	3.0	1.0	1.0	1.0	2.0	n/a	1.5
L23 Other Overhead (related to CEW Recycling)	1.0	2.0	1.0	2.0	1.0	2.0	n/a	1.5
L24 Additional Cost	1.0	n/a	1.0	n/a	n/a	2.0	n/a	1.3
L25 Cost to Purchase CEWs in excess of Recovery Rate	1.0	2.0	2.0	1.0	1.0	2.0	1.0	1.4
L26 Total Cost of CEW Recycling Activity	1.1	2.0	1.4	1.5	1.0	1.9	1.6	1.5
L28 Capital Expenditures	1.0	1.0	1.0	n/a	n/a	2.0	n/a	1.3

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- 2 = Supported high/low**
- 3 = Unsupported**
- n/a=Entity reported zero in this category**