



Transmitted via e-mail

March 10, 2011

Mr. Mark E. Leary, Acting Director  
Department of Resources Recycling and Recovery  
801 K Street, MS 1901  
Sacramento, CA 95814

Dear Mr. Leary:

**Final Report—Safety-Kleen Oil Recovery Company, California Used Oil Recycling Fees Audit**

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of Safety-Kleen Oil Recovery Company's (Safety-Kleen) Used Oil Recycling Fee Returns for the period July 1, 2008 through June 30, 2009.

The enclosed report is for your information and use. Safety-Kleen's response to the report finding is incorporated into this final report. Safety-Kleen agreed with our finding and we appreciate its willingness to implement corrective actions. The finding in our report is intended to assist management in improving the accuracy of its reporting.

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.

We appreciate the assistance and cooperation of Safety-Kleen. 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. Tom Estes, Deputy Director, Administration, Finance and Information Technology  
Division, Department of Resources Recycling and Recovery  
Ms. Shirley Willd-Wagner, Branch Chief, Financial Resources Management Branch,  
Department of Resources Recycling and Recovery  
Ms. Susan Villa, Branch Chief, Fiscal Services Branch, Department of Resources Recycling  
and Recovery  
Ms. Sarah Keck, Accounting Administrator, Fiscal Services Branch, Department of  
Resources Recycling and Recovery  
Mr. Jason Marshall, Deputy Director, Audits and Data Analysis Division, Department of  
Resources Recycling and Recovery  
Mr. Brian Kono, Audit Manager, Audits Branch, Department of Resources Recycling and  
Recovery  
Ms. Doris Chia, Director, Oil Accounting, Safety-Kleen Oil Recovery Company  
Ms. Rita Campbell, Audit Supervisor, Breslau, Safety-Kleen Canada, Inc.  
Mr. Bill Ross, Vice President, Environmental Health & Safety, Safety-Kleen Canada, Inc.

# AN OIL RECYCLING FEE AUDIT

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## Safety-Kleen Oil Recovery Company Used Oil Recycling Fee Returns

For the Period July 1, 2008  
through June 30, 2009

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

**MEMBERS OF THE TEAM**

Kimberly Tarvin, CPA  
Manager

Alma Ramirez, CPA  
Supervisor

Staff  
Alice Yip

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  
300 Capitol Mall, Suite 801  
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# TABLE OF CONTENTS

---

An Oil Recycling Fee Audit .....	1
Results.....	3
Response.....	5

# AN OIL RECYCLING FEE AUDIT

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## **BACKGROUND**

The Legislature enacted the California Oil Recycling Enhancement Act (Act), sections 48600 through 48691 of the Public Resources Code, to reduce illegal disposal of used oil, recycle and reclaim used oil in order to recover valuable natural resources, and avoid damage to the environment and threats to public health. This Act gives the California Integrated Waste Management Board (Board) the authority to adopt and implement a used oil recycling program, and to collect fees from oil manufacturers at a rate of 16 cents for each gallon of lubricating oil sold, transferred, or used in California. These fees support the California Used Oil Recycling Fund from which various state and local programs are operated. These programs help promote local efforts to recycle used oil before harmful environmental impacts can occur. On January 1, 2010, the Board was abolished and its duties were transferred to the new Department of Resources Recycling and Recovery (CalRecycle).

Safety-Kleen Oil Recovery Company (Safety-Kleen) is headquartered in Breslau, Canada. Safety-Kleen lubricating oil and packaging facilities are located in Breslau, Canada, Hammond Indiana, and other sites in the United States. Safety-Kleen provides services such as collecting and recycling oil, providing industrial cleaning, and handling industrial waste. In addition, their products include cleaning equipment, antifreeze and coolant, windshield cleaner, and re-refined oil products.

## **SCOPE**

The Department of Finance, Office of State Audits and Evaluations, conducted an audit of Safety-Kleen's Used Oil Recycling Fee Returns (Returns) submitted to CalRecycle. The audit objective was to determine whether Safety-Kleen accurately reported the industrial and lubricating oil sold, transferred, or used in California, and remitted the proper fees in accordance with the terms and conditions of the Act for the period July 1, 2008 through June 30, 2009. We did not assess the efficiency or effectiveness of program operations.

Safety-Kleen is responsible for ensuring accurate reporting of the used oil recycling fees and oil sales and ensuring compliance with applicable laws and regulations. CalRecycle is responsible for evaluating the efficiency and effectiveness of the program operations.

## METHODOLOGY

To determine whether Safety-Kleen 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 an understanding of the system used to account for oil sales.
- Reviewed Safety-Kleen's oil sales and fee reports to determine if the quantities reported on the Return were accurate.
- Reviewed the product category list of lubricating and industrial oil to determine whether all products were correctly classified and reported.
- Determined whether the quantities reported for lubricating were supported by sales orders, invoices, and other relevant documents.
- Determined reportable quantities of industrial oil based on reports and other supporting documents.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with Safety-Kleen's staff. The audit was conducted from April 2010 to October 2010.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and recommendations.

Safety-Kleen Oil Recovery Company (Safety-Kleen) did not accurately report the sales for lubricating oil and industrial oil in compliance with applicable laws and regulations. See Finding 1 for details. The audited sales and fees are presented in Table 1.

**Table 1: Schedule of Reported, Audited, and Questioned Sales and Fees**

<b>Safety-Kleen Oil Recovery Company Used Oil Recycling Fee Returns For the Period July 1, 2008 through June 30, 2009</b>			
<b>Categories</b>	<b>Reported Sales and Fees</b>	<b>Audited Sales and Fees</b>	<b>Over/ (Under) Reported</b>
Industrial Oil Sold (Gallons)	0	197,470	(197,470)
Lubricating Oil Sold (Gallons)	0	379,656	(379,656)
Total Gallons of Lubricating Oil Purchased Outside of California for use within California	379,656	0	379,656
Less: Exempt Transactions (Gallons)	0	0	0
Total Lubricating Oil Sold (Gallons Subject to Fee)	379,656	379,656	0
Lubricating Oil Fees (\$0.16 per gallon)	\$ 60,745	\$ 60,745	\$ 0

**FINDING 1 Lubricating and Industrial Oil Sales Inaccurately Reported**

Safety-Kleen did not accurately report lubricating and industrial oil sales to California on its Returns in accordance with the California Oil Recycling Enhancement Act, Public Resources Code section 48671. Specifically, lubricating oil sales were reported on the incorrect line as Total Gallons of Lubricating Oil Purchased Outside of California for use within California instead of Total Gallons of Lubricating Oil sold. Additionally, Safety-Kleen did not report industrial oil sales to California. These omissions result in inaccurate reports to the California Legislature by CalRecycle.

Recommendation: Develop policies and procedures to ensure lubricating and industrial oil sold or transferred to California and all related exemptions are accurately included in the Returns.





January 27, 2011

Mr. David Botelho, CPA  
Chief, Office of State Audits and Evaluations  
California Department of Finance  
300 Capitol Mall, Suite 801  
Sacramento, CA USA 95814

RE: SAFETY-KLEEN COMMENTS ON THE DRAFT DEPARTMENT OF FINANCE  
AUDIT REPORT DATED JANUARY 14, 2011 ON USED OIL RECYCLING FEES

Dear Mr. Botelho:

Safety-Kleen Oil Recovery Company ("Safety-Kleen") would like to thank you for sending us the Draft Audit Report prepared by your Department concerning the Used Oil Recycling Fee Returns submitted by Safety-Kleen to CalRecycle, and the associated fees paid by Safety-Kleen to the State of California, for the time period spanning July 1, 2008 through June 30, 2009. We believe that the Draft Audit Report is, in general, accurate.

We believe that it is important to note that the Draft Audit Report found that Safety-Kleen paid the appropriate (accurate) amount of fees due to the State of California in accordance with the California Oil Recycling Enhancement Act (PRC §48671). However, the Draft Audit Report also finds that Safety-Kleen reported "Lubricating Oil Sold (Gallons)" on the wrong line of the Used Oil Recycling Fee Returns submitted by Safety-Kleen to CalRecycle and also that Safety-Kleen did not report "Industrial Oil Sold (Gallons)" on this form even though there is no fee associated with these industrial oil gallons. These issues were discussed with Department of Finance Auditor Alice Yip during her on-site audit visit which occurred the week of April 5<sup>th</sup>, 2010 at Safety-Kleen's facility in E. Chicago, Indiana. The information provided by Auditor Yip allowed Safety-Kleen to submit accurate Used Oil Recycling Fee Returns starting with Quarter 1, 2010.

In summary, all fees remitted by Safety-Kleen to the State of California in accordance with the California Oil Recycling Enhancement Act during the time period covered by this Draft Audit Report (i.e., July 1, 2008 through June 30, 2009) matched the audited sales and fees determined by the Office of State Audits and Evaluations during this audit. The fees remitted by Safety-Kleen during Quarters 3 and 4 of 2009, and all subsequent fees reported on the Used Oil Recycling Fee Returns and the associated fees remitted by Safety-Kleen during Quarter 1

SAFETY-KLEEN OIL RECOVERY COMPANY  
300 Woolwich Street South, Breslau, ON Canada N0E 1M0

Mr. David Botelho, CPA  
Chief, Office of State Audits and Evaluations  
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January 27, 2011  
Page No. 2

through Quarter 4 2010 were both accurate and complete. As such, we believe that the recommendation put forth by the Department of Finance on page #4 of the Draft Audit Report has been met (i.e., that Safety-Kleen has "*develop(ed) policies and procedures to ensure lubricating and industrial oil sold or transferred to California and all related exemptions are accurately included in the Returns.*").

We appreciate the opportunity to review this Draft Audit Report and to the diligent efforts put forth by the auditors who participated in this audit. Please do not hesitate to contact me should you have any questions or require any additional information. Thank you.

Sincerely,

Original signed by:

Doris Chia  
Director, Oil Accounting  
Safety-Kleen Oil Recovery Company  
[Doris.Chia@safety-kleen.com](mailto:Doris.Chia@safety-kleen.com)  
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cc: Ms. Kimberly Tarvin, Manager, Office of State Audits and Evaluations, Sacramento, CA  
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Mr. Bill Ross, Vice President of EHS, Plano, TX