



DEPARTMENT OF
FINANCE

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Transmitted via e-mail

July 23, 2013

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

Dear Ms. Mortensen:

Final Report—Total Specialties USA, Inc., California Used Oil Recycling Fees Audit

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of Total Specialties USA, Inc.'s (TOTAL) Used Oil Recycling Fee Returns for the period October 1, 2009 through June 30, 2012.

The enclosed report is for your information and use. TOTAL's response to the report observation is incorporated into this final report. TOTAL agreed with our finding and we appreciate its willingness to implement corrective action.

We appreciate the assistance and cooperation of TOTAL. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Rick Cervantes, 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. 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
Ms. Shirley Willd-Wagner, Chief, Financial Resources Management Branch, Department of Resources Recycling and Recovery
Ms. Audrey Traina, Chief, Audits Office, Department of Resources Recycling and Recovery
Ms. Sarah Keck, Chief, Fiscal Services Branch, Department of Resources Recycling and Recovery
Mr. Kevin Campbell, Senior Management Auditor, Audits Office, Department of Resources Recycling and Recovery
Mr. Robert C. Devenney, Vice President – Finance & Administration, Total Specialties USA, Inc.
Ms. Nina Malkinzon, Manager of Accounting & Reporting, Total Specialties USA, Inc.
Ms. Agnes Dziadosz, Senior Accountant, Total Specialties USA, Inc.

AUDIT REPORT

Total Specialties USA, Inc.
Used Oil Recycling Fee Returns
For the Period October 1, 2009
through June 30, 2012

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

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
Manager

Rick Cervantes, CPA
Supervisor

Staff
Muang Saeteurn

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

You can contact our office at:

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BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

The Legislature enacted the California Oil Recycling Enhancement Act (Act), sections 48600 through 48691 of the Public Resources Code, to reduce illegal disposal of used oil, recycle and reclaim used oil in order to recover valuable natural resources, and avoid damage to the environment and threats to public health. This Act gives the Department of Resources Recycling and Recovery (CalRecycle) the authority to adopt and implement a used oil recycling program, and to collect fees from oil manufacturers 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.

Total Specialties USA, Inc. (TOTAL), formerly Total Lubricants USA, Inc., is headquartered in Linden, New Jersey. TOTAL's primary business is the development, manufacturing, and marketing of lubrication products. The business is organized into three segments that supply lubricants to glass bottle manufacturers, lubricants to the marine industry, and specialty lubricants to a wide variety of industries, including food and metalworking.¹

SCOPE

The Department of Finance, Office of State Audits and Evaluations, conducted an audit of TOTAL's Used Oil Recycling Fee Returns (Returns) submitted to CalRecycle. The audit objective was to determine whether TOTAL 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 October 1, 2009 through June 30, 2012. In order to design adequate procedures to conduct our audit, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

TOTAL is responsible for ensuring accurate reporting of the 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 the used oil recycling fees and oil sales were accurately reported in accordance with the terms and conditions of the Act, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the internal controls related to the recording, classification, reporting of sales transactions, and preparation of the Returns.
- Obtained a limited understanding of the system used to account for oil sales.

¹ Excerpts from Total Specialties, USA website.

- Reviewed oil sales and fee reports to determine if the oil quantities and fees reported on the Returns were accurate and complete.
- Reviewed the product category list of lubrication and industrial oil to determine whether all products were correctly classified and reported.
- Determined whether the quantities on reports for industrial and lubrication oil were supported by sales orders, invoices, and other relevant documents.
- Determined whether the correct conversion factor was used to convert non-volume measurements.
- Determined whether export sales were delivered to a location outside California.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with staff.

TOTAL did not accurately report the industrial and lubricating oil sales and exports in compliance with applicable laws and regulations for the period October 1, 2009 through June 30, 2012, as presented below.

Table 1: Schedule of Industrial Oil Sales¹

Total Specialties USA, Inc.			
For the Period October 1, 2009 through June 30, 2012			
Categories	Reported Sales (Gallons)	Audited Sales (Gallons)	Audit Adjustment (Gallons)
Total Industrial Oil Sold	0	103,346	103,346
Industrial Oil Exported or Sold for Export	0	8,067	8,067

Table 2: Schedule of Lubricating Oil Sales and Fees

Total Specialties USA, Inc.			
For the Period October 1, 2009 through June 30, 2012			
Categories	Reported Sales (Gallons)	Audited Sales (Gallons)	Audit Adjustment (Gallons)
Total Lubricating Oil Sold	749,214	6,596,089	5,846,875
Other Exemptions	0	5,859,383	5,859,383
Lubricating Oil Subject to the Fee	749,214	736,706	12,508
Overpaid Fees²			\$2,529

¹ No fees are assessed on industrial oil.

² (7,227 gallons at .16 per gallon) + (5,281 gallons at .26 per gallon) = \$1,156 + \$1,373 = \$2,529.

Finding 1: Inaccurate Reporting of Industrial and Lubricating Oil Sales

TOTAL prepared the Returns from the General Ledger Account Balance report instead of its sales reports resulting in the following discrepancies:

Industrial Oil

TOTAL did not report any of its industrial oil sold or industrial oil exported or sold for export as displayed in Table 1.

Lubricating Oil

TOTAL did not report its exported marine oil sales, gallons purchased with fees paid to another vendor, and other exported lubricating oil sales. Further, TOTAL did not maintain the exemption certificates for exported lubricating oil sales. However, alternative documentation indicated that the lubricating oil was shipped to a location outside of California. Additionally, other errors resulted in an overpayment of \$2,529. See Table 2 for the reported and audited sales, exempt transactions, and fees.

California Public Resources Code, section 48671, states that oil manufacturers who sell lubricating or industrial oil in the state shall report to CalRecycle the amount of lubricating or industrial oil sold each month. Section 48616 defines industrial oil and section 48618 defines lubricating oil. The California Code of Regulations, Title 14, section 18626, states that an exemption certificate which is not issued in a timely manner is not retroactive, and will not relieve the seller of the responsibility for the fee.

Recommendations:

- A. Ensure all industrial and lubricating oil sales, including exempt transactions, are accurately reflected in future Returns.
- B. Timely obtain and retain exemption certificates to support exempted sales.
- C. Communicate with CalRecycle to determine the final disposition of the overpaid fees.



July 16th, 2013

Total Specialties USA, Inc.
5 North Stiles Street
Linden, NJ 07036

To: The California Department of Finance, Office of State Auditors and Evaluations

Re: TSUSA -Recycling Fees Audit for the period October 1, 2009 through June 30, 2012.

Total Specialties USA, Inc. agrees with the draft report results and will comply with the filing requirements.

Sincerely,

Original signed by

Agnes Dziadosz, Senior Accountant