



Transmitted via e-mail

May 29, 2012

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

Dear Ms. Mortensen:

Final Report—Covered Electronic Waste Recycling Program Net Cost Reports Review

The Department of Resources Recycling and Recovery (CalRecycle) requested the Department of Finance, Office of State Audits and Evaluations (Finance), to review the Covered Electronic Waste (CEW) Recycling Program Net Cost Reports for the period January 1, 2011 through December 31, 2011. This letter summarizes the review results.

CalRecycle's response to this letter is attached. CalRecycle agreed with our recommendations and we appreciate its willingness to consider corrective actions to improve fiscal accountability.

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 \$6 to \$10 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 2011, 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, 2011 through December 31, 2011.

To evaluate the reliability of the self-reported data on the Net Cost Reports and related worksheets, we visited 12 approved collectors, of which 6 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. Further, the review included only the data reported on the Net Cost Reports and supporting worksheets and did not include the collector's or recycler's entire business enterprise.

Results

As reported in previous years, the Net Cost Reports and supporting worksheets are generally supported, but in many cases are not accurate. Our reviews indicate the entities continue to experience the following difficulties:

- *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. Dual entities experienced additional difficulties allocating expenses for collector versus recycler related activities. Cost allocations significantly impact the accuracy of the Net Cost Reports and related worksheets because most entities process other types of waste materials in addition to CEW, and dual entities perform both recovery and recycling activities, all of which need to be accounted for separately.
- *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	2011 Average rating
Line 13: Total Revenues for CEW Recovery	1.5
Line 14: Total Costs for CEW Recovery	1.8
Line 15: Net Costs	1.6
Line 16: Total CEW Pounds Recovered	1.3
Line 17: Net Cost Per Pound	1.5

Table 2: Average Rating for Recyclers

Form 220	2011 Average rating
Line 13: Total Revenues for CEW Recycling	1.6
Line 14: Total Costs for CEW Recycling	1.9
Line 15: Net Costs	1.7
Line 16: Total CEW Pounds Recycled	1.2
Line 17: Net Cost Per Pound	1.5

Recommendations

To improve the accuracy of the information reported on the Net Cost Reports and supporting worksheets, we continue to recommend the following:

1. **Provide additional guidance and training to approved collectors and recyclers.**
Specifically, we recommend the following:
 - Clarify instructions for each reportable item in the revised guide, titled “CalRecycle Covered Electronic Waste Payment System Net Cost Report Information” (Guide), and provide examples of allocation methodologies. Examples of allocation methodologies should include sample calculations and types of documentation to support CEW, collector, and recycler costs. The entities could retain the flexibility to use any reasonable and supported allocation methodology, even if it is not one of the methods in the Guide. Also ensure the Guide is available to all approved collectors and recyclers, and provide necessary contact information for immediate assistance.
 - Provide an updated training workshop to assist in the accurate preparation of the Net Cost Reports. The Net Cost Report forms have changed since the last training provided in 2007. Due to the various locations of the collectors and recyclers, posting the training on the internet would enhance accessibility.

2. **CalRecycle should consider closely aligning the Net Cost Report and related worksheet categories with the common general ledger account classifications.** This would simplify form completion, reduce the amount of analysis required to convert the data to the reporting categories, and result in more comparable data. Consider consulting with CalRecycle's accounting office for additional guidance.

This letter will be placed on our website. If you have any questions regarding this letter, 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. Mark E. Leary, 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. Audrey Traina, Manager, Audits Section, Audits and Program Evaluation Office, Department of Resources Recycling and Recovery
Mr. Brian Kono, Supervisor, Statewide Disbursements Section, Audits and Program Evaluation Office, Department of Resources Recycling and Recovery
Mr. Jeff Hunts, Manager, Electronic Waste Recycling Program, Department of Resources Recycling and Recovery

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

Company Name	AS.I. Cyber Concepts	Advanced Computer Recycling	California Electronic Asset Recovery (CEAR)	Clean Harbors Environmental Services, Inc.	Corridor Recycling	ECS Refining - Santa Clara	e-Recycling of California, Paramount Facility	eWaste Center, Inc.	Global Surplus Solutions, Inc (II)	Goodwill Industries of Orange County	Napa Recycling & Waste Services, LLC	Sonoma County Waste Management Agency	Average Rating for All Collectors
Covered Electronic Waste (CEW) ID Number	101322	100035	100194	100241	103016	100412	100376	102174	112028	100558	103893	103005	
Type	Collector	Dual	Dual	Collector	Collector	Dual	Dual	Dual	Dual	Collector	Collector	Collector	
Form 220													
L13 Total Revenues for CEW Recovery	1.0	2.0	1.0	1.0	2.0	2.0	1.0	2.0	n/a	2.0	1.0	1.0	1.5
L14 Total Costs for CEW Recovery	1.3	2.0	1.0	1.7	2.0	2.0	1.9	2.0	1.9	2.0	1.8	1.4	1.8
L15 Net Costs	1.2	2.0	1.0	1.3	2.0	2.0	1.5	2.0	1.9	2.0	1.4	1.2	1.6
L16 Total Pounds of CEW Recovered	1.0	2.0	1.0	1.0	2.0	2.0	1.0	1.0	1.0	2.0	1.0	1.0	1.3
L17 Net Cost Per Pound	1.1	2.0	1.0	1.2	2.0	2.0	1.2	1.5	1.5	2.0	1.2	1.1	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	1.0	2.0	2.0	n/a	2.0	n/a	2.0	n/a	1.0	1.6
L2 Revenue from Recovery Services (e.g. fees charged)	n/a	2.0	1.0	n/a	n/a	n/a	1.0	n/a	n/a	n/a	1.0	n/a	1.3
L3 Other Allowable Revenues	n/a	n/a	n/a	n/a	2.0	n/a	n/a	n/a	n/a	n/a	1.0	n/a	1.5
L4 Total Revenue from Recovery Activities	1.0	2.0	1.0	1.0	2.0	2.0	1.0	2.0	n/a	2.0	1.0	1.0	1.5
COSTS OF CEW RECOVERY ACTIVITIES													
Labor Costs													
L5 Direct Labor	2.0	2.0	1.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.9
Transportation Costs (e.g., fuel, registration, insurance, maintenance, & repair)													
L6 Transporting CEW to Collection Facility	1.0	2.0	1.0	2.0	n/a	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.8
L7 Transporting CEW from Collection Facility to Recycler	n/a	2.0	n/a	2.0	n/a	n/a	n/a	2.0	n/a	n/a	2.0	n/a	2.0
Other Costs (exclude any transportation costs)													
L8 Advertising, Marketing, and Public Education	1.0	2.0	1.0	n/a	2.0	2.0	1.0	2.0	n/a	n/a	2.0	2.0	1.7
L9 Supplies Used in Recovery Activities	1.0	2.0	1.0	1.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.8
L10 Payments Made in Exchange for CEW	1.0	2.0	1.0	1.0	2.0	2.0	2.0	2.0	1.0	n/a	1.0	n/a	1.5
L11 Fees Charged by Recyclers	3.0	n/a	n/a	n/a	2.0	n/a	n/a	n/a	n/a	2.0	n/a	n/a	2.3
Overhead													
L12 Depreciation	n/a	2.0	1.0	n/a	2.0	2.0	2.0	2.0	n/a	2.0	n/a	1.0	1.8
L13 Insurance (non-transportation)	1.0	2.0	1.0	n/a	2.0	2.0	2.0	2.0	2.0	2.0	n/a	1.0	1.7
L14 Debt Service	n/a	n/a	1.0	n/a	n/a	2.0	n/a	2.0	2.0	2.0	n/a	1.0	1.7
L15 Maintenance	2.0	2.0	1.0	n/a	n/a	2.0	2.0	2.0	2.0	2.0	n/a	n/a	1.9
L16 Fuel (non-transportation)	1.0	2.0	1.0	n/a	n/a	2.0	2.0	2.0	2.0	n/a	n/a	n/a	1.7
L17 Property Taxes	n/a	2.0	1.0	n/a	2.0	2.0	2.0	n/a	n/a	2.0	n/a	n/a	1.8
L18 Utilities	1.0	2.0	1.0	n/a	n/a	2.0	2.0	2.0	2.0	2.0	n/a	1.0	1.7
L19 Facilities and Equipment Rent or Lease	1.0	2.0	1.0	2.0	n/a	2.0	2.0	2.0	2.0	2.0	n/a	n/a	1.8
L20 Security	1.0	2.0	1.0	n/a	2.0	2.0	n/a	n/a	n/a	2.0	n/a	1.0	1.6
L21 Indirect Labor	2.0	2.0	1.0	n/a	2.0	2.0	2.0	2.0	2.0	2.0	n/a	1.0	1.8
L22 Other Overhead (related to CEW recovery)	1.0	2.0	1.0	n/a	n/a	2.0	n/a	2.0	n/a	n/a	n/a	1.0	1.5
L23 Additional Cost	1.0	2.0	n/a	n/a	n/a	n/a	2.0	2.0	2.0	n/a	n/a	n/a	1.8
L24 Total Cost of CEW Recovery Activities	1.3	2.0	1.0	1.7	2.0	2.0	1.9	2.0	1.9	2.0	1.8	1.4	1.8

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 Name	Advanced Computer Recycling	California Electronic Asset Recovery (CEAR)	ECS Refining Santa Clara	e-Recycling of California, Paramount Facility	eWaste Center, Inc.	Global Surplus Solutions, Inc (II)	Average Rating for All Recyclers
Covered Electronic Waste (CEW) ID Number	100035	100194	100412	100376	102174	112028	
Type	Dual	Dual	Dual	Dual	Dual	Dual	
Form 220							
L13 Total Revenues for CEW Recycling	2.0	1.0	2.0	1.5	2.0	1.0	1.6
L14 Total Costs for CEW Recycling	2.0	1.9	2.0	1.8	1.9	1.9	1.9
L15 Net Costs	2.0	1.5	2.0	1.6	1.9	1.4	1.7
L16 Total Pounds of CEW Recycled	2.0	1.0	1.0	1.0	1.0	1.0	1.2
L17 Net Cost Per Pound	2.0	1.2	1.5	1.3	1.5	1.2	1.5
Form 220B							
REVENUE FROM CEW RECYCLING ACTIVITIES							
L1 Revenue from the Sale of CEW Residual Commodities	2.0	1.0	2.0	2.0	2.0	1.0	1.7
L2 Revenue from the Sale of CEW Components	2.0	n/a	n/a	n/a	n/a	n/a	2.0
L3 Revenue from Fees Charged	n/a	1.0	2.0	1.0	n/a	n/a	1.3
L4 Other Allowable Revenues	n/a	n/a	n/a	n/a	n/a	n/a	n/a
L5 Total Revenue from Recycling Activities	2.0	1.0	2.0	1.5	2.0	1.0	1.6
COSTS FROM CEW RECYCLING ACTIVITIES							
Labor Costs							
L6 Direct Labor	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Transportation Costs (e.g., fuel, registration, insurance, maintenance, & repair)							
L7 Transporting CEW from Collector to Recycler	n/a	2.0	2.0	2.0	2.0	2.0	2.0
L8 Transporting Residuals to Market/Disposal Facility	2.0	2.0	2.0	2.0	1.0	1.0	1.7
L9 Other Allowable Transportation	n/a	2.0	n/a	n/a	n/a	n/a	2.0
Other Costs (exclude any transportation costs)							
L10 Advertising, Marketing, and Public Education	2.0	2.0	2.0	1.0	2.0	n/a	1.8
L11 Supplies Used in Recycling Activities	2.0	2.0	2.0	2.0	2.0	2.0	2.0
L12 CRT Glass Management	2.0	2.0	2.0	1.0	1.0	2.0	1.7
Overhead							
L13 Depreciation	2.0	2.0	2.0	2.0	2.0	n/a	2.0
L14 Insurance (non-transportation)	2.0	2.0	2.0	2.0	2.0	2.0	2.0
L15 Debt Service	n/a	2.0	2.0	1.0	2.0	2.0	1.8
L16 Maintenance	2.0	2.0	2.0	2.0	2.0	2.0	2.0
L17 Fuel (non-transportation)	2.0	2.0	2.0	2.0	2.0	2.0	2.0
L18 Property Taxes	2.0	2.0	2.0	2.0	n/a	n/a	2.0
L19 Utilities	2.0	2.0	2.0	2.0	2.0	2.0	2.0
L20 Facilities and Equipment Rent or Lease	2.0	2.0	2.0	2.0	2.0	2.0	2.0
L21 Security	2.0	2.0	2.0	n/a	2.0	n/a	2.0
L22 Indirect Labor	2.0	2.0	2.0	1.0	2.0	2.0	1.8
L23 Other Overhead (related to CEW Recycling)	2.0	2.0	2.0	2.0	2.0	n/a	2.0
L24 Additional Cost	2.0	1.0	n/a	2.0	2.0	2.0	1.8
L25 Cost to Purchase CEWs in excess of Recovery Rate	2.0	1.0	2.0	2.0	2.0	1.0	1.7
L26 Total Cost of CEW Recycling Activity	2.0	1.9	2.0	1.8	1.9	1.9	1.9

Rating Definitions:

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



DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

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May 22, 2011

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

Re: Covered Electronic Waste Recycling Program Net Cost Reports Review

Dear Mr. Botelho:

As Director of the California Department of Resources Recycling and Recovery (CalRecycle), I appreciate the opportunity to respond to the Department of Finance (DOF) Management Letter regarding the 2012 review of Net Cost Reports submitted by participants in the Covered Electronic Waste (CEW) Recycling Program for reporting year 2011. CalRecycle accepts the conclusions of the review summarized in the Management Letter, and takes the included recommendations under advisement.

For several years now, CalRecycle has retained the services of DOF to assess the validity of cost and revenue data contained in the Net Cost Reports. This data is a key consideration during CalRecycle's biennial determination of payment rates in the CEW recycling payment system. This year's review was timely, as CalRecycle must make a determination on payments rates by July 1, 2012.

The 2012 Net Cost Report evaluation, which reviewed cost data submitted by a selected subset of program participants reflecting activities conducted in 2011, continues to indicate that the accuracy of information submitted is less than optimal. Net cost data submitted by both collectors and recyclers continues to suffer from misallocations and inconsistencies relative to the cost and revenue documentation examined in the field by DOF. This finding raises questions about the long term utility of the Net Cost Report as a primary means of assessing industry costs, at least as currently designed.

Also looming as a potentially complicating factor is the question of whether and how to expand the CEW recycling payment system beyond the single recovery and recycling rates that have been used since the program's inception. Approximately 99% by weight of all CEW processed through the program has been cathode ray tube (CRT) devices. However, with an increasing proportion of video displays based on liquid crystal or plasma technologies now entering the waste stream, each with their own set of costs and values, industry stakeholders are advocating for differential recycling payment rates to reflect these varied economics. Current statute authorizes CalRecycle to set recycling payment rates sufficient "*...to cover the average net cost for an electronic waste recycler to receive, process, and recycle each major category...*" of CEW (PRC 42478).

Modifying the Net Cost Report format to facilitate the capture of additional data on the management of non-CRT devices is within the authority of CalRecycle. However, as evidenced by the difficulty of securing reasonably accurate cost data under the current limited breadth of reporting, expanding the scope of reporting will impose additional burdens on program participants and test the resources of CalRecycle.



With an eye towards improving data quality, even in the face of increasing data complexity, all options should remain in consideration as CalRecycle prepares for the next round of reports, which will be due March 1, 2013. Near term improvements can and will be pursued, as best able, but serious thought must be given to substantially altering the existing reporting approach. This could entail rulemaking and imposing additional costs on CEW system participants to improve their accounting capabilities, or could require additional resource allocations at the program level to conduct or contract for first-hand assessments of industry operating costs. In an era of limited appropriations, none of this will be easy.

The following are CalRecycle's responses to the specific recommendations in DOF's letter report:

With regard to Recommendation 1 -- Provide additional guidance and training to approved collectors and recyclers. In response to a similar recommendation last year, CalRecycle revised reporting worksheets, forms, guidance documents, and reporting options to better capture accurate cost data. CalRecycle refined an online reporting capability allowing for more consistent entry of cost and revenue calculations directly into program data systems. CalRecycle will continue to reevaluate the forms and guidance used in the Net Cost Report cycle, including incorporating more reporting assistance directly into the online interface and ensuring that guidance documents are readily available online and on-demand. Resources to engage in a significant training effort remain limited; however, CalRecycle will look for ways to provide report preparation assistance through lower cost avenues such as webinars.

With regard to Recommendation 2 -- CalRecycle should consider closely aligning the Net Cost Report and related worksheet categories with the common general ledger account classifications. CalRecycle's efforts to refine its reporting worksheets have attempted to balance simplicity with an interest in extracting certain cost details. As noted, there is a near-future need to secure cost data relating to the management of several additional different CEW categories. How this goal can be achieved while also pursuing DOF's recommendation, and whether current common ledger account classifications allow for such parsing, will require exploration. In light of possible complications created by a continuing quest for detail, CalRecycle may evaluate the merits of securing specific cost information through separate means to simply complement more general information gained through the Net Cost Report worksheet categories.

The ongoing workload of the CEW recycling payment system has consumed all available program staffing and any redirection to address matters such as reporting guidance, or more fundamental issues such as regulatory revisions, may come at the expense of timely review of payment claims and cause hardship on participating recyclers. However, CalRecycle is well aware of the need to secure quality data upon which to consider any future program adjustments and will continue to take the necessary steps toward that goal.

We greatly appreciate DOF's continuing service in evaluating the validity of the Net Cost Report data and the alacrity in completing this year's effort. If you have any questions, please feel free to contact me directly at 322-4032, or Jeff Hunts, Manager of the Electronic Waste Recycling Waste Program, at 341-6603.

Sincerely,

Original signed by:

Caroll Mortensen
Director