



Transmitted via e-mail

May 11, 2015

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

Dear Ms. Mortensen:

Final Report—Department of Resources Recycling and Recovery, Financial Statement Audit of the California Beverage Container 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 Beverage Container Recycling Fund and related accounts for the fiscal years ended June 30, 2013, 2012, and 2011.

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

Richard R. Sierra, CPA
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. Jose Ortiz, Deputy Director, Division of Recycling, Department of Resources Recycling and Recovery
Ms. Sarah Keck, Branch Chief, Fiscal Services Branch, Department of Resources Recycling and Recovery
Mr. Andrew Felsenstein, Chief Accounting Officer, Accounting Office, Department of Resources Recycling and Recovery
Ms. Josephine Urban, Branch Chief, Audits Office, Department of Resources Recycling and Recovery
Mr. Kevin Campbell, Senior Management Auditor, Audits Office, Department of Resources Recycling and Recovery

AF INANCIAL STATEMENT AUDIT

Department of Resources Recycling and Recovery
California Beverage Container Recycling Fund
and Related Accounts

For the Fiscal Years Ended
June 30, 2013, 2012, and 2011

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

MEMBERS OF THE TEAM

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Final reports are 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 (Finance), performed this audit in accordance with an interagency agreement with the Department of Resources Recycling and Recovery (CalRecycle). The objectives of our audit were to:

- Express an opinion on the *Balance Sheets and Statements of Revenue, Expenditures, and Changes in Fund Balance* of the California Beverage Container Recycling Fund (Fund) and related accounts for the fiscal years ended June 30, 2013, 2012, and 2011.
- 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 generally accepted accounting principles.
- Report on internal control and compliance weaknesses, and provide recommendations for improving controls over operations of the Fund and related accounts.

Audit Results

- The aforementioned financial statements are not fairly presented for the fiscal years ended June 30, 2013, 2012, and 2011, due to a material weakness in internal control. The Accounting Section and Division of Recycling (DOR) employed separate incompatible accounting methods to record revenue and receivable transactions. The incompatible accounting methods had a significant pervasive impact to the cash, accounts receivable, revenue, and fund balance for the Fund and related accounts. Based on the records available, the impact to the individual accounts could not be quantified. See our report on CalRecycle's Internal Control over Fiscal Processes and Procedures issued December 12, 2013 for further details.

This report is intended solely for the information and use of the Fund's management, those charged with governance, and the Legislature, 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

Ms. Caroll Mortensen, 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 Beverage Container Recycling Fund (Fund) and related accounts as administered by the Department of Resources Recycling and Recovery (CalRecycle). The financial statements comprise the Balance Sheets (statutory basis) as of June 30, 2013, 2012, and 2011, related Statements of Revenue, Expenditures, and Changes in Fund Balance for the years 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 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 adverse audit opinion.

Basis for Adverse Opinion

As disclosed in Note 1F, CalRecycle's Accounting Office and Division of Recycling (DOR) employed separate incompatible accounting methods to record revenue and receivable transactions. The incompatible accounting methods had a significant pervasive impact to the cash, accounts receivable, revenue, and fund balance for the Fund and related accounts. Based on the records available, the impact to the individual accounts could not be quantified.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section, the financial statements referred to above do not present fairly the financial position of the Fund and its related accounts as of June 30, 2013, 2012, and 2011 or the results of their operations for the years then ended in accordance with the basis of accounting prescribed by the California State Administrative Manual (SAM).

Emphasis of Matters

As described in Note 1B, these financial statements were prepared on the basis of accounting prescribed by SAM, 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 14537, and to present financial information for the Fund and related accounts 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, 2013, 2012, and 2011 or the results of operations or changes in their financial position for the years 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 February 23, 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, and 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 Fund management, those charged with governance, and the Legislature, and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

February 23, 2015

BALANCE SHEET
STATUTORY BASIS

**Department of Resources Recycling and Recovery
California Beverage Container Recycling Fund and Related Accounts
Balance Sheet—Statutory Basis
As of June 30, 2013**

| | California Beverage Container Recycling Fund (0133) | Glass Processing Fee Account (0269) | Penalty Account (0276) | Bimetal Account (0277) | PET ¹ Processing Fee Account (0278) |
|---|--|---|---------------------------|---------------------------|--|
| Assets | | | | | |
| Cash and Pooled Investments | \$ 69,117,910 | \$ 11,215,883 | \$5,329,564 | \$15,168,183 | \$ 4,976,606 |
| Receivables | 184,454,307 | 1,046,806 | 631,876 | 233,720 | 1,854,141 |
| Due From Other Funds or Appropriations | 29,721,650 | 5,424,018 | 3,218 | 9,174 | 5,106,908 |
| Due From Other Governments | 241,266 | - | - | - | - |
| Expense Advances | 17,398 | - | - | - | - |
| Prepayments to Other Funds and Appropriations | 79,143 | - | - | - | - |
| Total Assets | \$283,631,674 | \$17,686,707 | \$5,964,658 | \$15,411,077 | \$11,937,655 |
| Liabilities | | | | | |
| Accounts Payable | \$147,262,850 | \$ 3,597 | - | - | \$ 223 |
| Due to Other Funds or Appropriations | 2,230,246 | 13,084,186 | - | \$ 106,030 | 2,726,934 |
| Due to Federal Government | 563 | - | - | - | - |
| Due to Local Government | 3,268,161 | - | - | - | - |
| Due to Other Government Entities | 60,334 | - | - | - | - |
| Uncleared Collections | 629,573 | - | - | - | - |
| Total Liabilities | 153,451,727 | 13,087,783 | - | 106,030 | 2,727,157 |
| Fund Balance | | | | | |
| Reserved for Encumbrances | 21,268,185 | - | - | - | - |
| Deferred Payroll | 1,824,381 | - | - | - | - |
| Contingency Reserved for Economic Uncertainties | 107,087,381 | 4,598,924 | \$5,964,658 | 15,305,047 | 9,210,498 |
| Total Fund Balance | 130,179,947 | 4,598,924 | 5,964,658 | 15,305,047 | 9,210,498 |
| Total Liabilities and Fund Balance | \$283,631,674 | \$17,686,707 | \$5,964,658 | \$15,411,077 | \$11,937,655 |

The accompanying notes are an integral part of this statement.

¹ Polyethylene Terephthalate (PET)

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE—STATUTORY BASIS

Department of Resources Recycling and Recovery California Beverage Container Recycling Fund and Related Accounts Statement of Revenue, Expenditures, and Changes in Fund Balance—Statutory Basis For the Fiscal Year Ended June 30, 2013

| | California Beverage Container Recycling Fund (0133) | Glass Processing Fee Account (0269) | Penalty Account (0276) | Bimetal Processing Fee Account (0277) | PET Processing Fee Account (0278) |
|---|--|---|------------------------------|---|--|
| Revenue | | | | | |
| Fees | \$1,173,860,725 | \$ 7,032,969 | - | \$ 1,627,233 | \$ 5,493,383 |
| Interest | 894,495 | 32,181 | \$ 14,851 | 42,801 | 11,832 |
| Miscellaneous Revenue | 14,478 | - | - | - | - |
| Penalties | 119,737 | - | 764,621 | - | - |
| Total Revenue | 1,174,889,435 | 7,065,150 | 779,472 | 1,670,034 | 5,505,215 |
| Expenditures | | | | | |
| Processor Claims | 1,058,095,744 | 58,480,804 | - | 345,100 | 9,813,955 |
| Cities and Counties Program Payments | 10,500,000 | - | - | - | - |
| Curbside Program Payments | 14,997,659 | - | - | - | - |
| Grants for Recycling Market Development and Expansion | 3,188,196 | - | - | - | - |
| Handling Fees | 40,143,658 | - | - | - | - |
| Litter Abatement and Recycling Activity Grants | 18,493,528 | - | - | - | - |
| Market Development Payments for Empty Plastics | 19,188,523 | - | - | - | - |
| Quality Incentive Payments | 9,688,982 | - | - | - | - |
| Recycling Incentive Payments | - | - | - | - | - |
| Recycling Receptacles | 1,525,932 | - | - | - | - |
| Administrative Support Expenditures | 42,245,871 | 332,613 | \$1,882 | 3,723 | 228,653 |
| Total Expenditures | 1,218,068,093 | 58,813,417 | 1,882 | 348,823 | 10,042,608 |
| Revenues Over(Under) Expenditures | (43,178,658) | (51,748,267) | 777,590 | 1,321,211 | (4,537,393) |
| Other Financing Sources (Uses) | | | | | |
| Operating Transfers In | 16,400,000 | 58,972,234 | - | - | 8,458,136 |
| Refunds to Reverted Appropriations | - | - | - | - | - |
| Operating Transfers Out | (75,680,370) | - | - | - | - |
| Total Other Financing Sources (Uses) | (59,280,370) | 58,972,234 | - | - | 8,458,136 |
| Net Change in Fund Balance | (102,459,028) | 7,223,967 | 777,590 | 1,321,211 | 3,920,743 |
| Fund Balance July 1, 2012 | 232,638,975 | (2,625,043) | 5,187,068 | 13,983,836 | 5,289,755 |
| Fund Balance June 30, 2013 | \$ 130,179,947 | \$ 4,598,924 | \$5,964,658 | \$15,305,047 | \$ 9,210,498 |

The accompanying notes are an integral part of this statement.

BALANCE SHEET
STATUTORY BASIS

**Department of Resources Recycling and Recovery
California Beverage Container Recycling Fund and Related Accounts
Balance Sheet—Statutory Basis
As of June 30, 2012**

| | California Beverage Container Recycling Fund (0133) | Glass Processing Fee Account (0269) | Penalty Account (0276) | Bimetal Account (0277) | PET Processing Fee Account (0278) |
|---|--|---|---------------------------|---------------------------|---|
| Assets | | | | | |
| Cash and Pooled Investments | \$ 39,595,562 | \$ 2,358,901 | \$ 4,650,971 | \$ 13,843,039 | \$ 867,779 |
| Receivables | 251,182,725 | 984,628 | 532,000 | 181,220 | 658,350 |
| Due From Other Funds or Appropriations | 125,988,851 | 5,408,899 | 4,097 | 12,252 | 5,001,937 |
| Expense Advances | 1,344 | - | - | - | - |
| Prepayments to Other Funds and Appropriations | 1,127,258 | - | - | - | - |
| Total Assets | \$417,895,740 | \$ 8,752,428 | \$5,187,068 | \$ 14,036,511 | \$6,528,066 |
| Liabilities | | | | | |
| Accounts Payable | \$180,126,229 | - | - | - | - |
| Due to Other Funds or Appropriations | 433,999 | \$11,377,471 | - | \$ 52,675 | \$1,238,311 |
| Due to Local Government | 1,511,084 | - | - | - | - |
| Due to Other Government Entities | 158,760 | - | - | - | - |
| Uncleared Collections | 3,026,693 | - | - | - | - |
| Total Liabilities | 185,256,765 | 11,377,471 | - | 52,675 | 1,238,311 |
| Fund Balance | | | | | |
| Reserved for Encumbrances | 25,699,078 | - | - | - | - |
| Deferred Payroll | 1,654,337 | - | - | - | - |
| Contingency Reserved for Economic Uncertainties | 205,285,560 | (2,625,043) | \$5,187,068 | 13,983,836 | 5,289,755 |
| Total Fund Balance | 232,638,975 | (2,625,043) | 5,187,068 | 13,983,836 | 5,289,755 |
| Total Liabilities and Fund Balance | \$417,895,740 | \$ 8,752,428 | \$5,187,068 | \$14,036,511 | \$6,528,066 |

The accompanying notes are an integral part of this statement.

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE—STATUTORY BASIS

Department of Resources Recycling and Recovery California Beverage Container Recycling Fund and Related Accounts Statement of Revenue, Expenditures, and Changes in Fund Balance—Statutory Basis For the Fiscal Year Ended June 30, 2012

| | California Beverage Container Recycling Fund (0133) | Glass Processing Fee Account (0269) | Penalty Account (0276) | Bimetal Processing Fee Account (0277) | PET Processing Fee Account (0278) |
|---|--|---|------------------------------|---|--|
| Revenue | | | | | |
| Fees | \$1,135,878,608 | \$ 6,741,456 | - | \$ 1,720,796 | \$ 7,076,908 |
| Interest | 18,019,363 | 21,062 | \$ 16,040 | 48,893 | 12,785 |
| Miscellaneous Revenue | 49,162 | - | - | - | - |
| Penalties | 190,191 | - | (202,649) | - | - |
| Total Revenue | 1,154,137,324 | 6,762,518 | (186,609) | 1,769,689 | 7,089,693 |
| Expenditures | | | | | |
| Processor Claims | 1,029,873,963 | 57,772,885 | - | 394,517 | 21,847,307 |
| Cities and Counties Program Payments | 10,500,000 | - | - | - | - |
| Curbside Program Payments | 12,863,385 | - | - | - | - |
| Grants for Recycling Market Development and Expansion | 4,427,242 | - | - | - | - |
| Handling Fees | 38,493,410 | - | - | - | - |
| Litter Abatement and Recycling Activity Grants | 23,287,556 | - | - | - | - |
| Market Development Payments for Empty Plastics | 18,153,021 | - | - | - | - |
| Public Education and Information Program Payments | - | - | - | - | - |
| Quality Incentive Payments | 9,872,373 | - | - | - | - |
| Recycling Incentive Payments | - | - | - | - | - |
| Recycling Receptacles | 4,274,405 | - | - | - | - |
| Administrative Support Expenditures | 42,118,574 | 125,072 | 2,296 | 1,868 | 156,841 |
| Total Expenditures | 1,193,863,929 | 57,897,957 | 2,296 | 396,385 | 22,004,148 |
| Revenues Over(Under) Expenditures | (39,726,605) | (51,135,439) | (188,905) | 1,373,304 | (14,914,455) |
| Other Financing Sources (Uses) | | | | | |
| Operating Transfers In | 110,300,000 | 48,222,049 | - | - | 15,343,459 |
| Refunds to Reverted Appropriations | - | - | - | - | - |
| Operating Transfers Out | (63,565,508) | - | - | - | - |
| Total Other Financing Sources (Uses) | 46,734,492 | 48,222,049 | - | - | 15,343,459 |
| Net Change in Fund Balance | 7,007,887 | (2,913,390) | (188,905) | 1,373,304 | 429,004 |
| Fund Balance July 1, 2011 | 225,631,088 | 288,347 | 5,375,973 | 12,610,532 | 4,860,751 |
| Fund Balance June 30, 2012 | \$ 232,638,975 | \$ (2,625,043) | \$5,187,068 | \$13,983,836 | \$ 5,289,755 |

The accompanying notes are an integral part of this statement.

BALANCE SHEET
STATUTORY BASIS

**Department of Resources Recycling and Recovery
California Beverage Container Recycling Fund and Related Accounts
Balance Sheet—Statutory Basis
As of June 30, 2011**

| | California Beverage Container Recycling Fund (0133) | Glass Processing Fee Account (0269) | Penalty Account (0276) | Bimetal Account (0277) | PET Processing Fee Account (0278) |
|---|--|---|---------------------------|---------------------------|---|
| Assets | | | | | |
| Cash and Pooled Investments | \$ 3,514,276 | \$ 5,642,506 | \$3,866,101 | \$12,497,553 | \$ 5,885,523 |
| Receivables | 247,520,045 | 675,476 | 1,505,289 | 150,000 | 1,658,977 |
| Due From Other Funds or Appropriations | 130,928,784 | 6,310,872 | 4,583 | 14,867 | 4,408,771 |
| Expense Advances | 4,540 | - | - | - | - |
| Prepayments to Other Funds and Appropriations | 467,699 | - | - | - | - |
| Total Assets | \$382,435,344 | \$ 12,628,854 | \$5,375,973 | \$12,662,420 | \$11,953,271 |
| Liabilities | | | | | |
| Accounts Payable | \$145,040,009 | - | - | - | - |
| Due to Other Funds or Appropriations | 753,053 | \$ 12,340,507 | - | \$ 51,888 | \$ 7,092,520 |
| Due to Local Government | 10,822,913 | - | - | - | - |
| Due to Other Government Entities | 148,679 | - | - | - | - |
| Uncleared Collections | 39,602 | - | - | - | - |
| Total Liabilities | 156,804,256 | 12,340,507 | - | 51,888 | 7,092,520 |
| Fund Balance | | | | | |
| Reserved for Encumbrances | 39,321,225 | - | - | - | - |
| Deferred Payroll | 1,682,815 | - | - | - | - |
| Contingency Reserved for Economic Uncertainties | 184,627,048 | 288,347 | \$5,375,973 | 12,610,532 | 4,860,751 |
| Total Fund Balance | 225,631,088 | 288,347 | 5,375,973 | 12,610,532 | 4,860,751 |
| Total Liabilities and Fund Balance | \$382,435,344 | \$ 12,628,854 | \$5,375,973 | \$12,662,420 | \$11,953,271 |

The accompanying notes are an integral part of this statement.

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE—STATUTORY BASIS

Department of Resources Recycling and Recovery California Beverage Container Recycling Fund and Related Accounts Statement of Revenue, Expenditures, and Changes in Fund Balance—Statutory Basis For the Fiscal Year Ended June 30, 2011

| | California Beverage Container Recycling Fund (0133) | Glass Processing Fee Account (0269) | Penalty Account (0276) | Bimetal Processing Fee Account (0277) | PET Processing Fee Account (0278) |
|---|--|---|------------------------------|---|--|
| Revenue | | | | | |
| Fees | \$1,132,189,552 | \$ 5,527,790 | - | \$ 1,311,809 | \$ 19,924,370 |
| Interest | 21,404,502 | 25,174 | \$ 18,168 | 58,143 | 28,317 |
| Miscellaneous Revenue | 514,955 | - | - | - | - |
| Penalty Assessments | 538,805 | - | 1,694,012 | - | - |
| Total Revenue | 1,154,647,814 | 5,552,964 | 1,712,180 | 1,369,952 | 19,952,687 |
| Expenditures | | | | | |
| Processor Claims | 1,045,730,267 | 56,339,864 | - | 239,892 | 49,068,569 |
| Cities and Counties Program Payments | 10,500,000 | - | - | - | - |
| Curbside Program Payments | 15,000,000 | - | - | - | - |
| Grants for Recycling Market Development and Expansion | 4,107,274 | - | - | - | - |
| Handling Fees | 46,454,208 | - | - | - | - |
| Litter Abatement and Recycling Activity Grants | 19,849,594 | - | - | - | - |
| Market Development Payments for Empty Plastics | 8,423,130 | - | - | - | - |
| Public Education and Information Program Payments | 16,883 | - | - | - | - |
| Quality Incentive Payments | 9,126,806 | - | - | - | - |
| Recycling Receptacles | 5,154,529 | - | - | - | - |
| Administrative Support Expenditures | 42,844,958 | 257,821 | 3 | 2 | 107,649 |
| Total Expenditures | 1,207,207,649 | 56,597,685 | 3 | 239,894 | 49,176,218 |
| Revenues Over(Under) Expenditures | (52,559,835) | (51,044,721) | 1,712,177 | 1,130,058 | (29,223,531) |
| Other Financing Sources (Uses) | | | | | |
| Operating Transfers In | 119,470,000 | 53,687,972 | - | - | 32,954,496 |
| Refunds to Reverted Appropriations | - | - | 428 | - | 107 |
| Operating Transfers Out | (86,642,468) | - | - | - | - |
| Total Other Financing Sources (Uses) | 32,827,532 | 53,687,972 | 428 | - | 32,954,603 |
| Net Change in Fund Balance | (19,732,303) | 2,643,251 | 1,712,605 | 1,130,058 | 3,731,072 |
| Fund Balance July 1, 2010 | 245,363,391 | (2,354,904) | 3,663,368 | 11,480,474 | 1,129,679 |
| Fund Balance June 30, 2011 | \$225,631,088 | \$ 288,347 | \$5,375,973 | \$12,610,532 | \$ 4,860,751 |

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

**Department of Resources Recycling and Recovery
California Beverage Container Recycling Fund and Related Accounts
Notes to the Financial Statements—Statutory Basis
For the Fiscal Years Ended June 30, 2013, June 30, 2012, and June 30, 2011**

NOTE 1 Summary of Significant Accounting Policies

A. Definition of Reporting Entity

The California Department of Resources Recycling and Recovery (CalRecycle) brings together the state's recycling and waste management programs. Through landmark initiatives, such as the Integrated Waste Management Act and the Beverage Container Recycling and Litter Reduction Act, California works toward a society that uses less, recycles more, and takes resource conservation to higher levels.

The California Beverage Container Recycling Program (Program) is comprised of the California Beverage Container Recycling Fund (Fund) and related accounts. The Fund is administered by CalRecycle and is shared with the Department of Conservation (DOC), the California Conservation Corps (CCC), and Air Resources Board (ARB). The Program was created with passage of the California Beverage Container Recycling and Litter Reduction Act of 1986 (Act). Chapter 21, Statutes of 2009 (Senate Bill 63), places the administration of the Act with CalRecycle.

Pursuant to the Act, the legislative intent is to:

- Reach a statewide recycling goal of 80 percent for each container type
- Reduce the beverage container component of litter in the state
- Make redemption and recycling convenient to consumers
- Create and maintain a marketplace where it is profitable to establish sufficient recycling centers and locations to provide consumers with convenient recycling opportunities

The Act requires beverage distributors to make redemption payments and beverage manufacturers to pay processing fees based on the number of beverage containers sold in the state. Redemption payment revenues are used to pay processor claims for the refund value of the beverage containers purchased from recyclers in the state and the related administrative support costs and program activities as identified in the Act as follows:

- Handling fee payments to supermarket site recycling centers
- Curbside program payments to curbside recycling program operators

- Litter abatement and recycling activity grants
- Payments to cities and counties for beverage container recycling and litter abatement activities
- Recycling and litter reduction program grants
- Public education and information program payments
- Quality Incentive payments for empty beverage containers
- Market Development grants
- Recycling Incentive Payments
- Market Development payments for empty plastic beverage containers

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). The presentation of the financial statements differs from GAAP primarily in the categorization of the fund balances. According to Governmental Accounting Standards Board Statement Number 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*, the fund balances of the Fund and related accounts would be classified under GAAP as “restricted” due to enabling legislation. However, fund balances in these statements are presented in “reserve” categories according to their specified purposes. Details of these fund balance categories are described further in Note 11.

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

The Program’s activities are accounted for in five separate special funds in the State Treasury:

- California Beverage Container Recycling Fund (Fund 0133)
- Glass Processing Fee Account, Beverage Container Recycling Fund (Fund 0269)
- Bimetal Processing Fee Account, Beverage Container Recycling Fund (Fund 0277)
- Plastic Processing Fee Account, Beverage Container Recycling Fund (Fund 0278)
- Penalty Account, Beverage Container Recycling Fund (Fund 0276)

Fund 0133 is a shared fund between CalRecycle, DOC, CCC, and ARB. The related accounts are not shared funds. The financial statements present information of the financial activities of the Program funds only, and do not represent all of the financial activities of CalRecycle, DOC, CCC, ARB, or the State of California for the years ended June 30, 2013, 2012, and 2011.

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 5).

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. Encumbrance balances outstanding at year end were as follows:

June 30, 2013 – \$21.3 million
 June 30, 2012 – \$25.7 million
 June 30, 2011 – \$39.3 million

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. These program funds include Cities and Counties Program Payments, Curbside Program Payments, Grants for Recycling Market Development and Expansion, Handling Fees, Litter Abatement and Recycling Activity Grants, Market Development Payments for Empty Plastics, Processor Claims, Public Education and Information Program Payments, Quality Incentive Payments, and Recycling Receptacles. 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 is 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.

For shared funds, deposits in SMIF are not recorded in any one department's accounting records. Rather, they are recorded in the Fund's accounting records as overseen by the SCO. Therefore, the Cash and Pooled Investments line item includes the following adjustments to each fund to present the fund balances in SMIF as listed in the SCO Fund Reconciliation Report as follows:

| FUND | Adjustments | | |
|-------------|---------------|---------------|---------------|
| | June 30, 2011 | June 30, 2012 | June 30, 2013 |
| 0133 | \$ 86,000 | \$ 6,142,000 | \$ 68,149,000 |
| 0269 | 5,642,000 | 2,257,000 | 11,215,000 |
| 0276 | 3,866,000 | 4,641,000 | 5,329,000 |
| 0277 | 12,497,000 | 13,824,000 | 15,167,000 |
| 0278 | 5,883,000 | 720,000 | 4,976,000 |

F. Revenue

Revenue consists of redemption payments and processing fees imposed on the sale or transfer of beverage containers eligible for the California Redemption Value, interest income earned on funds deposited in SMIF, penalties, and unclaimed checks escheated to the issuing fund. Accrual of revenue occurs for transactions that transpired 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.

During the audit period, CalRecycle discovered that the Accounting Section and DOR adopted separate incompatible accounting methods to record the Beverage Container Recycling Program revenue and receivable transactions. CalRecycle's Accounting Section recognized revenue earned by the fund and fiscal period that applied to the receipts collected. Whereas DOR, using the first-in, first-out method, applied receipts to the oldest participant liability regardless of fund or fiscal year. As a result, the California State Accounting and Reporting System (CALSTARS) records cannot be supported by or reconciled to the subsidiary system records in the Division of Recycling Integrated Information System (DORIIS).

Since CalRecycle is committed to providing the highest degree of administrative and fiscal responsibility, the Department charged its Accounting Office with ensuring consistency and compliance with SAM. To this end, staff have been physically relocated and reassigned, along with the applicable financial records, into the centralized Accounting Office as of March 1, 2014. Moving forward, the Accounting Office will be reconciling the transactions between the two recordkeeping systems to bring previous DORIIS postings in agreement with the official book of record.

G. Accounts Receivable

Receivable balances for the funds primarily consist of beverage container redemption fees and processing fees. Other receivable balances include, but are not limited to, penalties and interest.

H. Accounts Payable

The Accounts Payable balance includes, but is not limited to, refund values, processing fees, administrative fees and handling fees to vendors, various grants and 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 for each year 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 and related accounts 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 Accounts Receivable

A summary of receivables at June 30 of each year by fund and type is provided below:

| Table 1a: Accounts Receivable, June 30, 2013 | |
|--|----------------|
| Fund 0133: | |
| Beverage Container Redemption Fees – California Redemption Value (CRV) | \$183,546,771 |
| Abatements | <u>907,536</u> |
| Total Fund 0133 Receivables | \$184,454,307 |
| Fund 0269: | |
| Beverage Container Redemption Fees – Processing Fees | \$ 1,046,806 |
| Total Fund 0269 Receivables | \$ 1,046,806 |
| Fund 0276: | |
| Penalty Assessments | \$ 631,876 |
| Total Fund 0276 Receivables | \$ 631,876 |
| Fund 0277: | |
| Beverage Container Redemption Fees – Processing Fees | \$ 233,720 |
| Total Fund 0277 Receivables | \$ 233,720 |
| Fund 0278: | |
| Beverage Container Redemption Fees – Processing Fees | \$ 1,854,141 |
| Total Fund 0278 Receivables | \$ 1,854,141 |
| Table 1b: Accounts Receivable, June 30, 2012 | |
| Fund 0133: | |
| Beverage Container Redemption Fees - CRV | \$251,128,212 |
| Abatements | <u>54,513</u> |
| Total Fund 0133 Receivables | \$251,182,725 |
| Fund 0269: | |
| Beverage Container Redemption Fees – Processing Fees | \$ 984,628 |
| Total Fund 0269 Receivables | \$ 984,628 |
| Fund 0276: | |
| Penalty Assessments | \$ 532,000 |
| Total Fund 0276 Receivables | \$ 532,000 |
| Fund 0277: | |
| Beverage Container Redemption Fees – Processing Fees | \$ 181,220 |
| Total Fund 0277 Receivables | \$ 181,220 |
| Fund 0278: | |
| Beverage Container Redemption Fees – Processing Fees | \$ 658,350 |
| Total Fund 0278 Receivables | \$ 658,350 |

| Table 1c: Accounts Receivable, June 30, 2011 | |
|--|---------------|
| Fund 0133: | |
| Beverage Container Redemption Fees - CRV | \$247,500,860 |
| Abatements | <u>19,185</u> |
| Total Fund 0133 Receivables | \$247,520,045 |
| Fund 0269: | |
| Beverage Container Redemption Fees – Processing Fees | \$ 675,476 |
| Total Fund 0269 Receivables | \$ 675,476 |
| Fund 0276: | |
| Penalty Assessments | \$ 1,505,289 |
| Total Fund 0276 Receivables | \$ 1,505,289 |
| Fund 0277: | |
| Beverage Container Redemption Fees – Processing Fees | \$ 150,000 |
| Total Fund 0277 Receivables | \$ 150,000 |
| Fund 0278: | |
| Beverage Container Redemption Fees – Processing Fees | \$ 1,658,977 |
| Total Fund 0278 Receivables | \$ 1,658,977 |

NOTE 4 Due From/To Other Funds or Appropriations

SCO requires departments to identify the intergovernmental receivable and payable balances that represents amounts due from other state funds or appropriations to the Fund and amounts due from the Fund to other state funds.

The ending balances of Due From/To Other Funds or Appropriations accounts are displayed below:

| Table 2a: Due From Other Funds or Appropriations, June 30, 2013 | |
|--|-------------------|
| Fund 0133: | |
| Deferred Payroll | \$ 1,824,381 |
| Glass Processing Fee Account (0269) | 13,084,186 |
| Bimetal Processing Fee Account (0277) | 106,029 |
| PET Processing Fee Account (0278) | 2,726,935 |
| Various Other Funds or Appropriations | <u>11,980,119</u> |
| Total Due From Other Funds or Appropriations | \$ 29,721,650 |
| Fund 0269: | |
| General Fund | \$ 5,400,000 |
| California (CA) Beverage Container Recycling Fund (0133) | 12,466 |
| Surplus Money Investment Fund | <u>11,552</u> |
| Total Due From Other Funds or Appropriations | \$ 5,424,018 |
| Fund 0276: | |
| Surplus Money Investment Fund | \$ 3,218 |
| Total Due From Other Funds or Appropriations | \$ 3,218 |
| Fund 0277: | |
| Surplus Money Investment Fund | \$ 9,174 |
| Total Due From Other Funds or Appropriations | \$ 9,174 |
| Fund 0278: | |
| General Fund | \$ 5,100,000 |
| CA Beverage Container Recycling Fund (0133) | 1,347 |
| Surplus Money Investment Fund | <u>5,561</u> |
| Total Due From Other Funds or Appropriations | \$ 5,106,908 |

| Table 2b: Due From Other Funds or Appropriations, June 30, 2012 | |
|--|------------------|
| Fund 0133: | |
| Deferred Payroll | \$ 1,654,337 |
| General Fund | 106,100,000 |
| Glass Processing Fee Account (0269) | 11,377,471 |
| Bimetal Processing Fee Account (0277) | 52,675 |
| PET ¹ Processing Fee Account (0278) | 1,238,311 |
| Various Other Funds or Appropriations | <u>5,566,057</u> |
| Total Due From Other Funds or Appropriations | \$125,988,851 |
| Fund 0269: | |
| General Fund | \$ 5,400,000 |
| Surplus Money Investment Fund | <u>8,899</u> |
| Total Due From Other Funds or Appropriations | \$ 5,408,899 |
| Fund 0276: | |
| Surplus Money Investment Fund | \$ <u>4,097</u> |
| Total Due From Other Funds or Appropriations | \$ 4,097 |
| Fund 0277: | |
| Surplus Money Investment Fund | \$ <u>12,252</u> |
| Total Due From Other Funds or Appropriations | \$ 12,252 |
| Fund 0278: | |
| General Fund | \$ 5,000,000 |
| Surplus Money Investment Fund | <u>1,937</u> |
| Total Due From Other Funds or Appropriations | \$ 5,001,937 |
| Table 2c: Due From Other Funds or Appropriations, June 30, 2011 | |
| Fund 0133: | |
| Deferred Payroll | \$ 1,682,815 |
| General Fund | 101,500,000 |
| Glass Processing Fee Account (0269) | 12,340,506 |
| Bimetal Processing Fee Account (0277) | 51,888 |
| PET Processing Fee Account (0278) | 7,092,521 |
| Various Other Funds or Appropriations | <u>8,261,054</u> |
| Total Due From Other Funds or Appropriations | \$130,928,784 |
| Fund 0269: | |
| General Fund | \$ 6,300,000 |
| Surplus Money Investment Fund | <u>10,872</u> |
| Total Due From Other Funds or Appropriations | \$ 6,310,872 |
| Fund 0276: | |
| Surplus Money Investment Fund | \$ <u>4,583</u> |
| Total Due From Other Funds or Appropriations | \$ 4,583 |
| Fund 0277: | |
| Surplus Money Investment Fund | \$ <u>14,867</u> |
| Total Due From Other Funds or Appropriations | \$ 14,867 |
| Fund 0278: | |
| General Fund | \$ 4,400,000 |
| Surplus Money Investment Fund | <u>8,771</u> |
| Total Due From Other Funds or Appropriations | \$ 4,408,771 |

¹ Polyethylene Terephthalate (PET)

| Table 3a: Due To Other Funds or Appropriations, June 30, 2013 | |
|--|----------------------|
| Fund 0133: | |
| General Fund (0001) | \$ 353,646 |
| Collins-Dugan CA Conservation Corps Reimbursement Account (0318) | 570,980 |
| Alternative & Renewable Fuel & Vehicle Technology Fund (3117) | 247,003 |
| Legal Services Revolving Fund (9731) | 116,673 |
| FI\$Cal Internal Services Fund (9737) | 850,192 |
| Various Other Funds or Appropriations | <u>91,752</u> |
| Total Due To Other Funds or Appropriations | \$ 2,230,246 |
| Fund 0269: | |
| CA Beverage Container Recycling Fund (0133) | <u>\$ 13,084,186</u> |
| Total Due To Other Funds or Appropriations | \$ 13,084,186 |
| Fund 0277: | |
| CA Beverage Container Recycling Fund (0133) | <u>\$ 106,030</u> |
| Total Due To Other Funds or Appropriations | \$ 106,030 |
| Fund 0278: | |
| CA Beverage Container Recycling Fund (0133) | <u>\$ 2,726,934</u> |
| Total Due To Other Funds or Appropriations | \$ 2,726,934 |
| Table 3b: Due To Other Funds or Appropriations, June 30, 2012 | |
| Fund 0133: | |
| General Fund (0001) | \$ 280,894 |
| Various Other Funds or Appropriations | <u>153,105</u> |
| Total Due To Other Funds or Appropriations | \$ 433,999 |
| Fund 0269: | |
| CA Beverage Container Recycling Fund (0133) | <u>\$ 11,377,471</u> |
| Total Due To Other Funds or Appropriations | \$ 11,377,471 |
| Fund 0277: | |
| CA Beverage Container Recycling Fund (0133) | <u>\$ 52,675</u> |
| Total Due To Other Funds or Appropriations | \$ 52,675 |
| Fund 0278: | |
| CA Beverage Container Recycling Fund (0133) | <u>\$ 1,238,311</u> |
| Total Due To Other Funds or Appropriations | \$ 1,238,311 |
| Table 3c: Due To Other Funds or Appropriations, June 30, 2011 | |
| Fund 0133: | |
| General Fund (0001) | \$ 173,545 |
| Integrated Waste Management Account (0387) | 99,126 |
| Various Other Funds or Appropriations | <u>480,382</u> |
| Total Due To Other Funds or Appropriations | \$ 753,053 |
| Fund 0269: | |
| CA Beverage Container Recycling Fund (0133) | <u>\$ 12,340,507</u> |
| Total Due To Other Funds or Appropriations | \$ 12,340,507 |
| Fund 0277: | |
| CA Beverage Container Recycling Fund (0133) | <u>\$ 51,888</u> |
| Total Due To Other Funds or Appropriations | \$ 51,888 |
| Fund 0278: | |
| CA Beverage Container Recycling Fund (0133) | <u>\$ 7,092,520</u> |
| Total Due To Other Funds or Appropriations | \$ 7,092,520 |

NOTE 5 Interfund Balances and Transfers

Legally authorized transfers between state funds occurring during the current period are reported as Operating Transfers and are accounted for as reductions or increases in residual equity.

Operating Transfers Out represents the following items:

- Pursuant to the Budget Act of 1995, Chapter 624, CalRecycle shall expend the amount necessary to pay the processing payment established pursuant to Public Resources Code, section 14575.
 - Transfers Out of the Fund to the PET Processing Fee Account as follows:
 - 2012-13 - \$8.5 million
 - 2011-12 - \$15.3 million
 - 2010-11 - \$33 million
 - Transfers Out of the Fund to the Glass Processing Fee Account as follows:
 - 2012-13 - \$59 million
 - 2011-12 - \$48.2 million
 - 2010-11 - \$53.7 million
- Pursuant to the Budget Act of 2009, a loan of \$8.25 million (loan number 252) was transferred into the Fund from the Renewable Fuel and Vehicle Technology Fund. The Fund fully repaid the loan during 2011-12 per Executive Order Number E 12/13-88. (See Table 5 below.)

Operating Transfers In represents the following items:

2012-13

- The Air Pollution Control Fund made loan repayments to the Fund in the amount of \$16.4 million pursuant to Budget Acts of 2008 and 2009.

2011-12

- The General Fund made loan repayments to the Fund in the amount of \$89 million pursuant to Budget Acts of 2002, 2003, 2006, and 2008.
- The Air Pollution Control Fund made loan repayments to the Fund in the amount of \$21.3 million pursuant to Budget Acts of 2008 and 2009.

2010-11

- The General Fund made loan repayments to the Fund in the amount of \$98.2 million pursuant to the Budget Act of 2002.
- The Air Pollution Control Fund made loan repayments to the Fund in the amount of \$21.3 million pursuant to Budget Acts of 2008 and 2009.

As of June 30, 2013, Interfund Loans Receivable amounted to \$250.7 million. A schedule of long-term Interfund Loan balances is presented in the following tables:

| Table 4: Interfund Loans Receivable | | | | |
|--|-------------------------|---|---------------------------------------|-----------------------|
| Fund | Fund/Loan Number | Beginning Balance as of 7/1/2010 | Ending Balance as of 6/30/2013 | Repayment Date |
| 0133 | 0001/042 | \$160,147,000 | \$ 0 | 6/30/2013* |
| | 0001/081 | 98,300,000 | 72,277,000 | 6/30/2015 |
| | 0001/245 | 1,000,000 | 0 | 6/30/2011* |
| | 0001/249 | 99,400,000 | 99,400,000 | 6/30/2015 |
| | 0001/264 | 5,000,000 | 5,000,000 | 6/30/2014 |
| | 0115/241 | 32,000,000 | 0 | 6/30/2013* |
| | 0115/263 | 35,000,000 | 8,000,000 | 6/30/2014** |
| 0269 | 0001/082 | 39,000,000 | 39,000,000 | 6/30/2014 |
| 0278 | 0001/083 | 27,000,000 | 27,000,000 | 6/30/2014 |
| Total Interfund Loans Receivable | | \$496,847,000 | \$ 250,677,000 | |

| Table 5: Interfund Loans Payable | | | | |
|---|-------------------------|---|---------------------------------------|-----------------------|
| Fund | Fund/Loan Number | Beginning Balance as of 7/1/2010 | Ending Balance as of 6/30/2013 | Repayment Date |
| 0133 | 3117/252 | \$ 8,250,000 | \$ 0 | 6/30/2013* |
| Total Interfund Loans Payable | | \$ 8,250,000 | \$ 0 | |

*Full repayment of the loan has been made on or before the due date.

**Amended by Budget Act of 2013, Item 3900-401 – loan to be repaid by Cost of Implementation Account, Air Pollution Control Fund (Fund 3237).

NOTE 6 Significant Effects of Subsequent Events

- A. For fiscal years 2011-12 and 2012-13, a contingent receivable of \$44 million was accrued and expected to be received for an outstanding legal action. A court decision on June 4, 2014 ordered the involved parties to pay \$18.7 million in civil penalties and \$32.7 million in restitution plus interest. The involved parties have filed an appeal of this court decision, in which a judgment is estimated to be made in April 2015. The applicable amount will continue to be reported as a contingent receivable until the appeal is resolved.
- B. On February 11, 2015, CalRecycle was awarded \$1.8 million in restitution plus interest resulting from an investigation by the Department of Justice. Because the matter was ongoing as of June 30, 2013, no contingency was recognized in the financial statements as of that date. As of February 18, 2015, \$844,603 was received. The remaining \$955,397 will be recorded as an account receivable.

I NDEPENDENT A UDITOR'S R EPORT
O N I NTERNAL C ONTROL O VER F INANCIAL R EPORTING
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B ASED O N O UR A UDIT O F F INANCIAL S TATEMENTS
P ERFORMED I N A CCORDANCE W ITH
G OVERNMENT A UDITING S TANDARDS

Ms. Caroll Mortensen, 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 Beverage Container Recycling Fund (Fund) and related accounts as of and for the years ended June 30, 2013, 2012, and 2011, and the related notes to the financial statements, which collectively comprise the Fund's financial statements and have issued our report thereon dated February 23, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department of Resources Recycling and Recovery's (CalRecycle) 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. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. We communicated these deficiencies to CalRecycle in a separate report titled CalRecycle's Internal Control over Fiscal Processes and Procedures, issued on December 12, 2013. These deficiencies remained uncorrected throughout the audit period.

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:

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

February 23, 2015

**DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY**

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P.O. BOX 4025, SACRAMENTO, CALIFORNIA 95812

April 24, 2015

Mr. Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Sierra:

Thank you for the opportunity to review and comment on the April 7, 2015 Financial Statement Draft Audit Report for the California Beverage Container Recycling Fund for the fiscal years 2011, 2012 and 2013. The Department of Resources Recycling and Recovery (CalRecycle) concurs with the results. Our efforts to implement corrective action for those items, also referenced previously in the Internal Control Over Fiscal Processes and Procedures audit report, issued December 12, 2013, are noted below:

Recommendation A: Consult with Department of Finance's Fiscal Systems and Consulting Unit (FSCU) to implement department wide uniform accounting procedures that are consistent with State accounting practices and requirements.

CalRecycle consulted with FSCU regarding department wide uniform accounting procedures that are consistent with State accounting practices and requirements. An internal evaluation of CalRecycle's processes concluded that the duties related to recording revenue and accounts receivables transactions should be transferred to CalRecycle's Accounting Section from the Division of Recycling. This transition took effect on March 1, 2014.

Recommendation B: Develop DORIIS receivables and revenue reports, with point-in-time historical documentation maintained, that identify the receivables and revenue in accordance with State accounting policies.

The Accounting Section, the DORIIS Support Unit, and a team of designers and analysts from the contracted system administrator Maximus, continue their process of developing reports that will aide in capturing point-in-time receipts, any changes to payment applications after the initial posting. Maximus, with input from the Accounting Section and the DORIIS



Support Unit, is currently researching and developing an approach of improved implementation of DORIIS' general ledger module that could adequately provide the point-in-time documentation needed for system reconciliations. General Ledger Implementation demonstrations are scheduled through April 30, 2015. Since much of the functionality is new and untested within the DORIIS environment, it is possible issues will be encountered during setup or testing that requires an Oracle patch or other solution, therefore, an anticipated availability date of the functionality has yet to be determined. However, as a temporary workaround, the DORIIS Support Unit and Accounting Section have developed a database that extracts information out of DORIIS to meet immediate reporting/research needs until the functionality is built into the DORIIS system.

Recommendation C: Record and reconcile the receivables accounts in CALSTARS and DORIIS monthly and at year end.

In March of 2014, a plan of action was developed and implemented to record and reconcile the accounts receivables in CALSTARS and DORIIS after the revenue and accounts receivable functions transitioned to the Accounting Section. This included establishing new procedures to properly record receipts that comply with the State Administrative Manual.

The Accounting Section found that DORIIS included dated or inaccurate coding that caused some transactions to post in CALSTARS incorrectly. CalRecycle has fixed the coding and resolved the incorrect transactions. The Accounting Section is currently analyzing the receipt postings between both systems to complete the necessary reconciliation. It is expected that any resulting adjustments will be minor in the context of the fund overall, and as such do not pose a significant risk.

Recommendation D: Research and resolve DORIIS unapplied receipts. Verify overpayments are accurately recorded in CALSTARS.

The DORIIS Support Unit and Accounting Section developed a database to query DORIIS transactions that have open balances, receipts with unapplied amounts, and cases referred to the Legal Office. This database also reports on overpayments that will give the Accounting Office the ability to reconcile and ensure they are accurately recorded in CALSTARS until the reporting functionality is available in DORIIS, as discussed in Recommendation B above.

Mr. Richard R. Sierra
April 16, 2015
Page 3

Recommendation E: Transfer the Division of Recycling (DOR) receivables write-off responsibility to the Accounting Section. The Accounting Section is responsible for fiscal accountability of write offs for the department and its existing collections process complies with State requirements.

The responsibilities of DOR accounts receivable write-offs shifted to the Accounting Section during the transition mentioned in the previous response to Recommendation A.

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. To date, CalRecycle has not discovered any items related to the audit findings noted that would suggest a material discrepancy. Upon request we will make available any of the policies, procedures, reports or other documents mentioned above. 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:

Caroll Mortensen
Director