



September 2, 2010

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

Dear Ms. Reid Brown:

**Final Report—Chevron USA, California Used Oil Recycling Fees Audit**

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of Chevron USA, Inc. (Chevron), Used Oil Recycling Fee Returns for the period April 1, 2008 through June 30, 2009.

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

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

We appreciate the assistance and cooperation of Chevron. 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. James DeClaire, Excise Tax Manager, Chevron USA, Inc.  
Ms. Olga Saegert, Audit Coordinator, Chevron USA, Inc.  
Mr. Tom Estes, Deputy Director, Administration and Finance Division, Department of  
Resources Recycling and Recovery  
Ms. Shirley Willd-Wagner, Division Chief, Financial Assistance Division, Department of  
Resources Recycling and Recovery  
Ms. Susan Villa, Branch Chief, Administration and Finance Division, Department of  
Resources Recycling and Recovery  
Ms. Sarah Keck, Accounting Administrator I (Supervisor), General Ledger Unit, Department of  
Resources Recycling and Recovery  
Mr. Brian Kono, Audit Manager, Audits and Evaluations, Department of Resources Recycling  
and Recovery

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## Chevron USA, Inc. Used Oil Recycling Fee Returns

For the Period April 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

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  
Sacramento, CA 95814  
(916) 322-2985

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# 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).

Chevron USA, Inc. (Chevron), manufactures, packages, and distributes lubricant oils and grease products for sale to commercial enterprises both domestically and internationally.

## **SCOPE**

The Department of Finance, Office of State Audits and Evaluations, conducted an audit of Chevron's Used Oil Recycling Fee Returns (Returns) submitted to CalRecycle. The audit objective was to determine whether Chevron 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 April 1, 2008 through June 30, 2009.

Chevron's wholly-owned subsidiary, Chevron Oronite, was not included in the scope of this review. Therefore, the Schedule of Reported, Audited, and Questioned Sales and Fees does not include any sales from lubricant additives from Chevron Oronite and/or any fees that may be due from those sales. Furthermore, we did not assess the efficiency or effectiveness of program operations.

Chevron 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 Chevron accurately 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 Chevron's sales subsidiary reports to determine if the quantities reported on the Return were accurate.
- Reviewed the product list of lubrication and industrial oil to determine whether all products were correctly classified and reported.
- Determined whether the quantities reported on subsidiary 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 calculate non-volume measurements.
- Confirmed that shipments designated for export were delivered to a location outside of California per the bills of lading. Also, determined that exported sales were supported by valid exemption certificates.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with Chevron's staff. The audit was conducted from September 1, 2009 through June 30, 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.

Chevron USA, Inc. (Chevron), did not accurately report the industrial and lubricating oil sales in compliance with applicable laws and regulations. See Finding 1 below. The audited sales and fees are presented in Table 1.

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

<b>Chevron USA, Inc. Used Oil Recycling Fee Returns For the Period April 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)	270,819,950	279,275,644	(8,455,694)
Industrial Oil Purchased from California Suppliers	1,889,274	1,889,274	0
Industrial Oil Exported or Sold for Export (Gallons)	136,495,033	146,513,875	(10,018,842)
<b>Total Industrial Oil Sold</b>	<b>132,435,643</b>	<b>130,872,495</b>	<b>1,563,148</b>
Gross Lubrication Oil Sold (Gallons)	66,313,603	54,966,765	11,346,838
Less: Exempt Transactions (Gallons)	39,719,190	28,372,352	11,346,838
<b>Total Lubrication Oil Sold (Gallons Subject to Fee)</b>	<b>26,594,413</b>	<b>26,594,413</b>	<b>0</b>
<b>Lubrication Oil Fees (\$0.16 per gallon)</b>	<b>\$4,255,106</b>	<b>\$4,255,106</b>	<b>\$ 0</b>

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

The errors identified in Table 1 occurred because the Return preparer mismatched the sales reports for industrial oil and lubricating oil to the fee return lines, used the incorrect report fields, or did not properly filter the data to exclude non-reportable transactions. The California Code of Regulations Title 14, Division 7, Article 2, Section 18614 (b), states that reports, notices, and applicable supporting data must be accurate and complete.

*Recommendation:* To ensure the Returns are accurate, provide training to the preparer and require a second individual to review and approve the Return prior to submission to CalRecycle.





August 10, 2010

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

Chevron USA Inc. 25-0527925

Type of Tax: **California Used Oil Recycling Fee (04/2008 – 06/2009)**

Dear Mr. David Botelho,

This letter is in response to the Draft Report for Chevron USA Inc. on California Used Oil Recycling Fee Audit for the period April 1, 2008 through June 30, 2009 received on July 27, 2010.

I have reviewed the state letter and agree with the findings. I understand that the state found two reporting deficiencies during the audit that were not tax related. The first deficiency was due to Chevron switching reported gallons between Lubricating and Industrial Oils for one of the audited month. The second issue was related to Chevron using inconsistent conversion factors for nontaxable products.

The issue of switching reported gallons was an isolated incident and it will be addressed with the state tax analyst during the Final Audit review. The second issue is more common in the return process and the state tax analyst will be informed on how to correctly calculate product conversions. Through these recommendations and our communications with the return analyst, Chevron hopes to improve its reporting process and ensure accuracy of the information.

Please send me an official Audit Report once it is finalized. If you have additional questions, you may contact me at (925) 680-3254.

Sincerely,

Original signed by:

James DeClaire  
Excise Tax Manager

Cc: Ms. Diane Eck, Excise Tax Supervisor  
Ms. Alma Ramirez, State Audit Supervisor  
Mr. Antonio Lockett