



September 24, 2009

Mr. Mark Leary, Executive Director
California Integrated Waste Management Board
1001 I Street, MS-1
P.O. Box 4025
Sacramento, CA 95812-4025

Dear Mr. Leary:

Final Report—Petroblend, Inc., California Used Oil Recycling Fees

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of Petroblend, Inc.'s Used Oil Recycling Fee Returns for the period July 1, 2007 through June 30, 2008.

The enclosed report is for your information and use. Petroblend's response to the report finding and our evaluation of the response are incorporated into this final report.

In accordance with Finance's policy of increased transparency, the final 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. 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: Mr. Roy Hill, Sr., President, Petroblend, Inc.
Mr. Roy Hill, Jr., Vice President, Petroblend, Inc.
Ms. Sarah Keck, Accounting Administrator, Administration and Finance Division, California Integrated Waste Management Board
Ms. Shirley Willd-Wagner, Manager, Financial Assistance Division, California Integrated Waste Management Board
Ms. Susan Villa, Branch Manager, Administration and Finance Division, California Integrated Waste Management Board
Mr. Carl Coaxum, Associate Management Auditor, Audit and Evaluation Unit, California Integrated Waste Management Board

AN OIL RECYCLING FEE AUDIT

Petroblend, Inc.
Used Oil Recycling Fee Returns
For the Period July 1, 2007
through June 30, 2008

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

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
Manager

Alma Ramirez, CPA
Supervisor

Staff
Steve Backlund

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

You can contact our office at:

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AN OIL RECYCLING FEE AUDIT

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, and to recycle and reclaim used oil in order to recover valuable natural resources, and to 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.

Petroblend, Inc. (Petroblend), located in Los Angeles, California, manufactures, packages, and distributes lubricant oils and grease products for sale to commercial enterprises.

SCOPE

The Department of Finance, Office of State Audits and Evaluations, conducted an audit of Petroblend's Used Oil Recycling Fee Returns submitted to the Board. The objective of the audit was to determine whether Petroblend accurately reported the industrial and lubricating oil sold, transferred, or used in California, and remitted to the Board the proper fees in accordance with the terms and conditions of the Act, for the period July 1, 2007 through June 30, 2008.

Because of Petroblend's poor recordkeeping and non-responsiveness to requested sales data and records, we were unable to obtain sufficient evidence on the accuracy of the California Oil Recycling Fees and Oil sales as reported on the Oil Fee Returns for the year ended June 30, 2008. See the Finding in the Results section of the audit report for specific procedures that could not be performed.

Petroblend is responsible for ensuring accurate reporting of the used oil recycling fees and oil sales and compliance with applicable laws and regulations. The Board is responsible for evaluating the efficiency and effectiveness of the program operations.

METHODOLOGY

To determine whether Petroblend reported the used oil recycling fees and oil sales in accordance with the terms and conditions of the Act, we performed (or attempted to perform) the following procedures:

- Interviewed key personnel.
- Obtained an understanding of the internal controls related to the preparation of the California Used Oil Recycling Fee Returns (Returns).
- Obtained an understanding of the accounting system.

- Traced the gallons of industrial and lubrication oil sold in California reported on the Return to internal reports.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with Petroblend's staff. The audit was conducted from April 2009 through August 2009.

Except for the limitations discussed in the preceding section, 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

Petroblend's reported sales and fees are not auditable due to the lack of adequate supporting documentation. The reported sales are presented in Table 1.

Table 1: Schedule of Reported Oil Sales and Fees

Petroblend, Inc. Used Oil Recycling Fee Returns For the Period July 1, 2007 through June 30, 2008	
Categories	Reported Sales and Fees
Industrial Oil Sold (Gallons)	83,350
Industrial Oil Exported or Sold for Export (Gallons). Included in Industrial Oil sold in the line above.	0
Gross Lubrication Oil Sold (Gallons)	145,726
Less: Exempt Transactions (Gallons)	0
Total Lubrication Oil Sold (Gallons Subject to Fee)	145,726
Lubrication Oil Fees (\$0.16 per gallon)	\$ 23,316

FINDING: Petroblend Did Not Maintain and/or Provide Adequate Records to Support Its Reported California Oil Recycling Act Fees

Petroblend did not maintain adequate sales and accounting records to support the oil sales and oil recycling fees reported on the fee returns. Further, Petroblend was unresponsive to repeated requests for documentation. Failure to maintain and provide adequate records could result in actions by the Board.

Specifically, Petroblend did not maintain the following records as part of its normal business operations:

- Accounting records: Cash receipts books or register showing receipt amounts, dates, and payors.
- Sales records: Client purchase orders, sales orders, bills of lading or manifests signed by the receiving party.
- Inventory records including product conversion tables.

Additionally, we requested the following records which were not provided to us:

- Master list of customers with address and phone numbers.
- Internal production reports including customer name, sales date, sales quantity and price.

Due to the lack of required documentation, the following essential audit procedures could not be performed:

- Review the customer master list to determine completeness in reporting California sales.
- Review the product list of lubrication and industrial oil to determine completeness in reporting California sales.
- Review the product conversion table and determine correctness of factors used to calculate sales.
- Trace the reported gallons of industrial and lubrication oil sold in California to sales and accounting records (e.g. purchase orders, sales orders, bills of lading, receipts, etc.) and other relevant documents.
- Determine whether the general ledger reconciled with the sales and fees reported.

Section 18613, Chapter 8, Article 2, Title 14 of the California Code of Regulations, provides that Oil Manufacturers must maintain records for at least four years. This Section also provides that the type of records that must be maintained include books of account maintained by the average prudent business person engaged in the same activity, together with all bills, receipts, invoices, manifests, and any other documents of original entry supporting the entries in the books of account. Any Automatic Data Processing (ADP) system must have built into its program a method of producing visible and legible records which will provide the necessary information to determine compliance with the requirements of this Chapter.

Recommendation: Maintain adequate records in compliance with Board regulations. The Board will determine the appropriate actions to ensure compliance, including potential referrals to other regulatory and taxing authorities.

Petroblend

Department of Finance
Office of State Audits and Evaluations
Capital Mall, Suite 801
Sacramento, Ca. 95814

Dear Mr. Botelho CPA

In response to the audit results of the California Recycling Fee returns, Petroblend offers the following explanation:

1. Petroblend feels it maintained proper accounting records to report it's Motor Oil Fees.
2. Sales records were kept despite the audit results. Maybe Petroblend could have been more accurate.
3. Inventories are hard to accurately keep due to the fact that Petroblend's inventories are hard to maintain because of limited tank capacity.
4. Petroblend does not have master list of vendors as Petroblend buys from whomever has the best price.
5. Petroblend admits the record keeping needs to be improved and will work to improve it.
6. Also, I want to add that the audit took place at the most inopportune time as Petroblend office lease expired and some of the documents were packed.

Sincerely,
Roy A. Hill

Original signed by: Roy A. Hill

EVALUATION OF RESPONSE

The Department of Finance, Office of State Audits and Evaluations (Finance), reviewed Petroblend's response to the draft report. Our evaluation of the response follows:

Petroblend disagrees with the reported finding and asserts that it maintained proper accounting records. However, Petroblend agrees that its record keeping needs improvement. Furthermore, Petroblend did not provide the records indicated in the audit report. Therefore, the finding remains as originally stated in the audit report.