



DEPARTMENT OF  
**FINANCE**

ARNOLD SCHWARZENEGGER, GOVERNOR

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October 26, 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—Department of Resources Recycling and Recovery, Used Oil Recycling Fund Review**

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its review of the Department of Resources Recycling and Recovery's (CalRecycle) Used Oil Recycling Fund (Fund) as of June 30, 2009.

The enclosed report is for your information and use. Because there are no findings or issues requiring a response, we are issuing the report as final.

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 CalRecycle. If you have any questions regarding this report, please contact Kimberly A. Tarvin, Manager, or Rick Cervantes, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. 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  
Mr. Brian Kono, Audit Manager, Audits and Evaluations, Department of Resources Recycling and Recovery  
Ms. Sarah Keck, Accounting Administrator I (Supervisor), General Ledger Unit, Department of Resources Recycling and Recovery  
Ms. Lori Moore, Senior Accounting Officer (Supervisor), Operations Unit, Department of Resources Recycling and Recovery

FINANCIAL STATEMENT REVIEW

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Department Resources Recycling and Recovery  
California Used Oil Recycling Fund  
For the Fiscal Year Ended  
June 30, 2009

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

**MEMBERS OF THE TEAM:**

Kimberly Tarvin, CPA  
Manager

Rick Cervantes, CPA  
Supervisor

Staff  
Andrea Cortez

This report is also available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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## EXECUTIVE SUMMARY

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The Department of Finance, Office of State Audits and Evaluations (Finance), performed this review under an interagency agreement with the California Integrated Waste Management Board (Board). On January 1, 2010, the Board was abolished and transferred its duties to the Department of Resources Recycling and Recovery (CalRecycle).

### **Review objectives:**

- Conduct a review of the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance of the California Used Oil Recycling Fund (Fund), for the fiscal year ended June 30, 2009, in accordance with attestation standards established by the American Institute of Certified Public Accountants.
- Provide limited assurance that the financial statements were prepared in conformity with the accounting policies and procedures of the Fund as prescribed by the State of California, which comprise a comprehensive basis of accounting other than Generally Accepted Accounting Principles.

### **Review results:**

- Nothing came to our attention that caused us to believe that the financial statements for the year ended June 30, 2009 are not presented, in all material respects, in conformity with a comprehensive basis of accounting other than Generally Accepted Accounting Principles.

This report is intended for the information and use of CalRecycle management, those charged with governance, and the Legislature, and is not intended to be and should not be used by anyone other than these specified parties. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.



## INDEPENDENT ACCOUNTANT'S REPORT

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

We have reviewed the accompanying Balance Sheet as of June 30, 2009 and the related Statement of Revenues, Expenditures, and Changes in Fund Balance of the California Used Oil Recycling Fund (Fund) for the year then ended. These financial statements are the responsibility of the Department of Resources Recycling and Recovery's (CalRecycle) management (formerly the California Integrated Waste Management Board).

Except as discussed in the following paragraph, we conducted our review in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the financial statements. Accordingly, we do not express such an opinion.

Finance is not independent of CalRecycle, as both are 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. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

As discussed in Note 1A, the financial statements present only the Fund and are not intended to present the financial position of CalRecycle or the State of California as of June 30, 2009, or changes in their financial position for the year then ended.

Based on our review, nothing came to our attention that caused us to believe that the financial statements referred to above are not presented, in all material respects, in conformity with a comprehensive basis of accounting other than Generally Accepted Accounting Principles.

This report is intended solely for the information and use of CalRecycle management, those charged with governance, and the Legislature, and is not intended to be and should not 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:

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

July 26, 2010

# BALANCE SHEET

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**Department of Resources Recycling and Recovery  
(Formerly the California Integrated Waste Management Board)  
California Used Oil Recycling Fund  
Balance Sheet-Statutory Basis  
As of June 30, 2009**

**Assets**

Cash and Pooled Investments (Note 1E)	\$ 21,753,083
Receivables	4,001,346
Due from Other Funds (Note 2)	221,008
Due from Other Governments	5,332
Prepayments to Other Governments (Note 1I)	<u>820,670</u>
Total Assets	<u>\$ 26,801,439</u>

**Liabilities**

Accounts Payable (Note 1J)	\$ 25,817,859
Due to Other Funds (Note 2)	585,743
Due to Local Governments	68,078
Due to Other Governments	<u>2,013</u>
Total Liabilities	<u>26,473,693</u>

**Fund Balance**

Reserve for Prepaid Items (Note 1I)	820,670
Reserved for Unencumbered Balances of Continuing Appropriations (Note 3)	<u>(492,924)</u>
Total Fund Balance	<u>327,746</u>
<b>Total Liabilities and Fund Balance</b>	<u><b>\$ 26,801,439</b></u>

The notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE

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**Department of Resources Recycling and Recovery  
(Formerly the California Integrated Waste Management Board)  
California Used Oil Recycling Fund  
Statement of Revenues, Expenditures, and Changes  
in Fund Balance-Statutory Basis  
For the Fiscal Year Ended June 30, 2009**

**Revenue**

Fees	\$ 14,903,468
Interest	539,754
Miscellaneous Revenue	<u>13,534</u>
Total Revenue	15,456,756

**Expenditures**

Incentive Payments	3,662,269
External Consultant and Professional Services	(193,526)
Inter-Departmental Consultant and Professional Services	595,897
Local Government Grants	10,749,238
Administrative Support (Note 4)	<u>4,167,176</u>
Total Expenditures	<u>18,981,054</u>

**Excess of Expenditures Over Revenue** (3,524,298)

**Other Financing Uses**

Operating Transfer-Out (Note 5)	(266,000)
Prior Period Adjustment	(81,843)
Fund Balance Adjustment (Note 6)	(23,749,690)
Adjustment for Deposits in SMIF (Note 1E)	<u>21,747,000</u>

**Net Change in Fund Balance** (5,874,831)

**Fund Balance Beginning of Year** 6,202,577

**Fund Balance End of Year** \$ 327,746

The notes are an integral part of the financial statements.

# NOTES TO FINANCIAL STATEMENTS

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**Department of Resources Recycling and Recovery  
(Formerly the California Integrated Waste Management Board)  
California Used Oil Recycling Fund  
Notes to the Financial Statements-Statutory Basis  
For the Fiscal Year Ended June 30, 2009**

**NOTE 1 Summary of Significant Accounting Policies**

A. Definition of Reporting Entity

The California Used Oil Recycling Fund (Fund) was created with passage of the California Used Oil Recycling Enhancement Act of 1991 (Act). State law places administration of the Act with the Department of Resources Recycling and Recovery (CalRecycle).

Pursuant to the Act, every oil manufacturer who sells, or offers to sell, lubricating or industrial oil in California shall report the amount of lubricating or industrial oil sold or transferred in the state. In addition, all used oil haulers are required to report to CalRecycle the amount of used oil transported, the location to which it is transported, and the source of the used oil. Further, each used oil recycling facility is required to report to CalRecycle the amount of used oil received and the amount of recycled oil produced. Amounts received by CalRecycle as fees from oil manufacturers are deposited into the Fund.

The Act authorizes CalRecycle to pay a recycling incentive to certified used oil collection centers, registered industrial generators, and registered curbside collection programs for used lubricating oil collected from the public, or generated by certified used oil collection centers or industrial generators, and transported to qualifying used oil recycling facilities. In addition, CalRecycle can pay a recycling incentive to an electric utility for used oil consumed by the utility for electrical generation.

The Act stipulates that all monies deposited in the Fund shall be used to pay recycling incentives, to pay the necessary costs to administer the program, to provide a reserve for contingencies, and to make available block grants for the implementation of local used oil collection programs.

Pursuant to the Act, the balance of monies deposited in the Fund remaining after the payment of all expenditures, except as noted above, shall be available to CalRecycle for specified uses. The Act limits the use of the remaining balance to expenditures for the development and implementation of an information and education program for the promotion of alternatives to the illegal disposal of used oil, for certain types of grants and loans, and to fund the disposal of used oil that is contaminated by excessive hazardous materials and collected by a certified used oil collection center.

CalRecycle administers the Used Oil Recycling Fund which is shared between CalRecycle, the Department of Toxic Substances Control (DTSC), the California Environmental Protection Agency (Cal/EPA), and the Office of Environmental Health Hazard Assessment (OEHHA). The Legislature makes appropriations to DTSC, Cal/EPA, and OEHHA from the Fund for used oil-recycling activities administered by those agencies. The financial statements present information of the financial activities of the Fund only, and do not represent all of the financial activities of CalRecycle, DTSC, Cal/EPA, or OEHHA, or of the State of California as of June 30, 2009.

#### B. Basis of Presentation—Fund Accounting

The accompanying financial statements present the financial position of the Fund as of June 30, 2009 and the results of operations and changes in fund balance for the year then ended. These financial statements have been prepared in compliance with State of California laws and accounting procedures. In accordance with the State of California's fund classification, the Fund is classified as a Governmental/Other Governmental Cost Fund for financial reporting purposes.

#### C. Basis of Accounting

The Fund follows the statutory basis of accounting prescribed by the California State Administrative Manual (SAM) and California Government Code, which comprise a comprehensive basis of accounting other than generally accepted accounting principles. 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 or encumbered.

#### D. Budget and Budgetary Control

The accounting policies of CalRecycle conform to SAM and are based on the state's budgetary provisions. Program funds are continuously appropriated without regard to fiscal year. Management is responsible for exercising budgetary control to ensure available amounts are not overspent. In addition, the State Controller's Office is responsible for statewide appropriation control and does not allow expenditures in excess of authorized appropriations.

#### E. Cash and Pooled Investments

Cash in excess of current needs is deposited in the state's centralized treasury system, which combines the balances of state agencies into a single bank account to simplify cash management. The Surplus Money Investment Fund (SMIF) is managed by the Pooled Money Investment Board (PMIB). State statutes, bond resolutions, and investment policy resolutions allow the state to invest in government securities, certificates of deposit, banker's acceptances, commercial paper, corporate bonds, mortgage loans and notes, other debt securities, repurchase agreements, equity securities, real estate, investment agreements, mutual funds, and other investments. The reported amount represents an equity share in the balance of the investment pool. Because there are no individually owned investments, the deposits in SMIF are not reported by type of investment.

Shared funds, such as this Fund, as explained in Note 1A, do not record the deposits in SMIF. Therefore, the Cash and Pooled Investments and Fund balance includes an adjustment of \$21,747,000 to present the Fund's balance in SMIF as listed in the State Controller's Office Fund Reconciliation Report at June 30, 2009.

#### F. Revenues Susceptible to Accrual

Proceeds received by the Fund from both fees and investment income are susceptible to accrual. Revenues are accrued if the underlying transaction has occurred 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.

#### G. Compensated Absences

Liability for vested and unpaid vacation and annual leave is reported as a long-term liability on the government-wide financial statements. It is anticipated that compensated absences will generally not be used in excess of a normal year's accumulation. Unused sick leave balances are not included in compensated absences because they do not vest to employees. For further information, refer to the State of California Comprehensive Annual Financial Report.

#### H. Retirement Plan

Regular employees of CalRecycle are members of the California Public Employees' Retirement System (CalPERS), which is a defined benefit contributory retirement plan. Retirement contributions by employees are set by statute as a percentage of payroll (Tier I employees), or are zero (Tier II employees). Retirement contributions are actuarially determined under a program where total contributions plus CalPERS' investment earnings will provide the necessary funds to pay retirement benefits when incurred. The employer contributions are included in the cost of personal services. For further information, refer to the State of California Comprehensive Annual Financial Report, and to the CalPERS Comprehensive Annual Financial Report.

I. Prepaid Items

Payments made to local governments for services that will benefit periods beyond June 30, 2009, are recorded as prepaid items. The prepaid items balance of \$820,670 includes prepaid amounts for UBG13, and UBG14 grant cycles. A portion of the fund balance equal to the prepaid items has been reserved to indicate that it is not available for appropriation.

J. Accounts Payable

Accounts payable includes encumbrances of \$23,666,824.

**NOTE 2 Due to/from Other Funds**

The Due from Other Funds account represents the amounts due from other state funds to the Fund; the Due to Other Funds account represents the amounts due from the Fund to other state funds.

The balances of Due from Other Funds and Due to Other Funds include the following:

<u>Due from Other Funds:</u>	
Surplus Money Investment Fund	\$ 84,848
Hazard Waste Control Account	135,748
Motor Vehicle Account	412
Total Due from Other Funds	<u>\$ 221,008</u>
 <u>Due to Other Funds:</u>	
Integrated Waste Management Account	\$ 570,705
Hazard Waste Control Account	308
General Fund	14,730
Total Due to Other Funds	<u>\$ 585,743</u>

**NOTE 3 Fund Balance**

Reserved for Unencumbered Balances of Continuing Appropriations represents the Fund's resources currently available for future spending. For the fiscal year ended June 30, 2009, CalRecycle's prepayments exceeded the available fund balance. In accordance with the Public Resources Code, sections 48650 through 48657 (amended by Senate Bill 546 of 2009) the fee rates increased and incentive rates changed as of January 1, 2010.

**NOTE 4 Administrative Support Expenditures**

Administrative support expenditures include the following:

Salaries	\$ 1,920,823
Staff Benefits	790,791
General	29,830
Printing	60,793
Communication	32,356
Postage	834
Insurance	28
Travel	48,747
Training	8,860
Facilities Operations	294,717
Departmental Services	805,273
Data Processing	49,744
Central Administrative Services	112,169
Equipment	10,731
Other	1,480
Total Administrative Support	<u>\$ 4,167,176</u>

**NOTE 5 Operating 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. CalRecycle, pursuant to paragraph (2)(A) of subdivision (c) of section 48100 of the Public Resources Code, and as authorized by the Legislature in the Budget Act of 2008-09, executed an Operating Transfer of \$266,000 to the Farm and Ranch Solid Waste Cleanup and Abatement Account.

**NOTE 6 Fund Balance Adjustment**

In accordance with SAM sections 10403 and 10464, shared funds do not show the cash balance in the State Treasury. Instead, the net remittances or disbursements from the particular fund in the State Treasury are shown. At the end of the fiscal year, the net remittance and net disbursement balances are applied to the fund balance. The net remittances and disbursements as of June 30, 2009 for each agency were as follows:

CalRecycle	\$ 24,614,514
DTSC	(303,290)
Cal/EPA	(30,467)
OEHHA	<u>(531,067)</u>
Total	<u>\$23,749,690</u>