



Transmitted via e-mail

March 7, 2012

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

Dear Ms. Mortensen:

**Final Report—International Petroleum Products & Additives Company, Inc., California
Used Oil Recycling Fees Audit**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the International Petroleum Products & Additives Company, Inc.'s (IPAC) Used Oil Recycling Fee Returns for the period July 1, 2009 through June 30, 2010.

The enclosed report is for your information and use. Because there were no audit findings or issues requiring a response, we are issuing the report as final. This report will be placed on our website.

We appreciate the assistance and cooperation of IPAC. 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. Mark E. Leary, Chief Deputy Director, Department of Resources Recycling and Recovery
Mr. Tom Estes, Deputy Director, Administration, Finance and Information Technology Division, Department of Resources Recycling and Recovery
Ms. Shirley Willd-Wagner, Chief, Financial Resources Management Branch, Department of Resources Recycling and Recovery
Ms. Sarah Keck, Manager, Fiscal Services Branch, Department of Resources Recycling and Recovery
Ms. Audrey Traina, Chief, Office of Audits, Department of Resources Recycling and Recovery
Mr. Kevin Campbell, Senior Management Auditor, Program Evaluation Office, Department of Resources Recycling and Recovery
Mr. Brian Kono, Manager, Statewide Disbursements Section, Office of Audits, Department of Resources Recycling and Recovery
Mr. Brian Cereghino, Chief Executive Officer, International Petroleum Products & Additives Company, Inc.
Mr. Bob Netter, Chief Financial Officer, International Petroleum Products & Additives Company, Inc.
Mr. Neil Olsen, Operations Manager, International Petroleum Products & Additives Company, Inc.
Ms. Debra Lynch, Customer Service Representative, International Petroleum Products & Additives Company, Inc.

AUDIT REPORT

International Petroleum Products
& Additives Company, Inc.
Used Oil Recycling Fee Returns
For the Period July 1, 2009
through June 30, 2010

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

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
Manager

Alma Ramirez, CPA
Supervisor

Staff
Muang Saeteurn

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

BACKGROUND, SCOPE, AND METHODOLOGY

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 gave 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 every gallon of lubricating oil sold, transferred, or used in California. Chapter 353, Statutes of 2009 (SB 546), increased the lubricating oil fee to 26 cents per gallon through December 31, 2013 and provided for a lower rate of 12 cents per gallon on finished lubricant oil containing at least 70% rerefined base lubricant. The fees are remitted to the California Used Oil Recycling Fund, which provides funding for various state and local programs promoting the recycling of used oil to prevent harmful impacts on the environment. On January 1, 2010, the Board was abolished and its duties were transferred to the new Department of Resources Recycling and Recovery (CalRecycle).¹

International Petroleum & Additives Company, Inc.'s (IPAC) primary line of business is the production and sales of various additives. The blending of lubricating and industrial oil products sold by IPAC is contracted to another company. IPAC's major customers are oil and automotive industries, as well as government and original equipment manufacturers.²

SCOPE

The Department of Finance, Office of State Audits and Evaluations, conducted an audit of IPAC's Used Oil Recycling Fee Returns (Returns) submitted to CalRecycle. The audit objective was to determine whether IPAC 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 July 1, 2009 through June 30, 2010.

IPAC is responsible for ensuring accurate reporting of the oil recycling fees and oil sales, and ensuring compliance with applicable laws and regulations. The schedule presented in the Results section provides information on finished oil product sales only, and does not include sales of additives, as these are not within the scope of this audit.

¹ Excerpts from www.CalRecycle.ca.gov.

² Excerpts from www.ipac-inc.com.

METHODOLOGY

To determine whether IPAC 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 a limited understanding of the system used to account for oil sales.
- Determined whether the oil quantities and fees reported on the Returns were supported by oil sales and fee reports.
- Reviewed the product category list of lubrication, industrial, and rerefined oil, and determined whether products were correctly classified and reported.
- Determined whether the quantities on reports for industrial, lubrication, and rerefined oil were supported by sales orders, invoices, and other relevant documents.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with IPAC's staff. The audit was conducted from July 2011 through February 2012.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

RESULTS

Based on the audit procedures performed, IPAC accurately reported the industrial, lubricating and rerefined oil sales in compliance with applicable laws and regulations. The reported sales and fees are presented in Table 1.

Table 1: Schedule of Reported Oil Sales & Fees

International Petroleum & Additives Company, Inc. Used Oil Recycling Fee Returns For the Period July 1, 2009 through June 30, 2010		
Categories	Reported Sales (Gallons)	Reported Fees
Industrial Oil	202,160	N/A ¹
Lubricating Oil (16 cents per gallon)	319,110	\$ 51,058
Rerefined Oil (12 cents per gallon)	259,889	\$ 31,187

¹ No fees are assessed on industrial oil.