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

A Financial 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

143970002/153970014

February 2015

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
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Final reports are available on our website at http://www.dof.ca.gov

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(916) 322-2985

Table of Contents

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

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)

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.

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.

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.

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.

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.

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 1I.

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:

	Adjustments		
FUND	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	907,536
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	54,513
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	19,185
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	11,980,119
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	11,552
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	5,561
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	5,566,057
Total Due From Other Funds or Appropriations	$125,988,851
Fund 0269:	
General Fund	$ 5,400,000
Surplus Money Investment Fund	8,899
Total Due From Other Funds or Appropriations	$ 5,408,899
Fund 0276:	
Surplus Money Investment Fund	$ 4,097
Total Due From Other Funds or Appropriations	$ 4,097
Fund 0277:	
Surplus Money Investment Fund	$ 12,252
Total Due From Other Funds or Appropriations	$ 12,252
Fund 0278:	
General Fund	$ 5,000,000
Surplus Money Investment Fund	1,937
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	8,261,054
Total Due From Other Funds or Appropriations	$130,928,784
Fund 0269:	
General Fund	$ 6,300,000
Surplus Money Investment Fund	10,872
Total Due From Other Funds or Appropriations	$ 6,310,872
Fund 0276:	
Surplus Money Investment Fund	$ 4,583
Total Due From Other Funds or Appropriations	$ 4,583
Fund 0277:	
Surplus Money Investment Fund	$ 14,867
Total Due From Other Funds or Appropriations	$ 14,867
Fund 0278:	
General Fund	$ 4,400,000
Surplus Money Investment Fund	8,771
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	91,752
Total Due To Other Funds or Appropriations	$ 2,230,246
Fund 0269:	
CA Beverage Container Recycling Fund (0133)	$ 13,084,186
Total Due To Other Funds or Appropriations	$ 13,084,186
Fund 0277:	
CA Beverage Container Recycling Fund (0133)	$ 106,030
Total Due To Other Funds or Appropriations	$ 106,030
Fund 0278:	
CA Beverage Container Recycling Fund (0133)	$ 2,726,934
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	153,105
Total Due To Other Funds or Appropriations	$ 433,999
Fund 0269:	
CA Beverage Container Recycling Fund (0133)	$ 11,377,471
Total Due To Other Funds or Appropriations	$ 11,377,471
Fund 0277:	
CA Beverage Container Recycling Fund (0133)	$ 52,675
Total Due To Other Funds or Appropriations	$ 52,675
Fund 0278:	
CA Beverage Container Recycling Fund (0133)	$ 1,238,311
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	480,382
Total Due To Other Funds or Appropriations	$ 753,053
Fund 0269:	
CA Beverage Container Recycling Fund (0133)	$ 12,340,507
Total Due To Other Funds or Appropriations	$ 12,340,507
Fund 0277:	
CA Beverage Container Recycling Fund (0133)	$ 51,888
Total Due To Other Funds or Appropriations	$ 51,888
Fund 0278:	
CA Beverage Container Recycling Fund (0133)	$ 7,092,520
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.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on Our Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

RESPONSE

CalRecycle

DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

1001 I STREET, SACRAMENTO, CALIFORNIA 95814 • WWW.CALRECYCLE.CA.GOV • (916) 322-4027
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.

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

DEPARTMENT OF FINANCE
EDMUND G. BROWN JR. ▪ GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Transmitted via e-mail

September 12, 2014

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, 2010 Financial Statement Audit of the California Beverage Container Recycling Fund and Related Accounts

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 year ended June 30, 2010.

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

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. Jessica Encarnacion, Acting Chief, Office of Audits, 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 Section, Department of Resources Recycling and Recovery
Mr. Kevin Campbell, Senior Management Auditor, Office of Audits, Department of Resources Recycling and Recovery
Mr. Clayton Haas, Assistant Director for Administration, Department of Conservation
Ms. Judy Morita-Joe, Chief of Accounting, Department of Conservation

A Financial Statement Audit

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

For the Fiscal Year Ended
June 30, 2010

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

133500048 April 2014

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
Manager

Jennifer Arbis
Supervisor

Staff
Andrea Cortez
Jason Craft
Amy Dieng
Minh Nguyen

This report is also 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
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985

Table of Contents

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 audit objectives were to:

- Express an opinion on the *Balance Sheet* and *Statement of Revenue, Expenditures, and Changes in Fund Balance* of the California Beverage Container Recycling Fund (Fund) and related accounts for the fiscal year ended June 30, 2010.

- Verify that the financial statements were prepared in conformity with accounting principles prescribed by the State Administrative Manual, which comprise a comprehensive 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 year ended June 30, 2010 due to a material weakness in internal control. The Accounting Section and Division of Recycling (DOR) employed separate incompatible accounting methods to record $1.3 billion in 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. However, 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 these 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 *Balance Sheet* (statutory basis) as of June 30, 2010, and the related *Statement of Revenue, Expenditures, and Changes in Fund Balance* (statutory basis) of the California Beverage Container Recycling Fund (Fund) and related accounts for the fiscal year then ended. These financial statements are the responsibility of Department of Resources Recycling and Recovery's (CalRecycle) management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In connection with our audit, there are certain disclosures required by *Government Auditing Standards*. The Department of Finance (Finance) is not independent of the audited entity, 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 1B, the financial statements present only the Fund and related accounts and are not intended to present the financial position of CalRecycle or the State of California as of June 30, 2010, or the results of operations or changes in their financial position for the year then ended.

As described in Note 1C, these financial statements were prepared in conformity with the accounting practices prescribed by the State Administrative Manual (SAM), which is a comprehensive basis of accounting other than generally accepted accounting principles.

As disclosed in Note 1F, CalRecycle's Accounting Office and Division of Recycling (DOR) employed separate incompatible accounting methods to record $1.3 billion in 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. However, based on the records available, the impact to the individual accounts could not be quantified. See the CalRecycle Internal Control Over Fiscal Processes and Procedures audit report issued December 12, 2013 for further details.

In our opinion, because of the significance of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly the financial position of the Fund and its related accounts as of June 30, 2010, or the results of their operations for the year then ended in accordance with the basis of accounting prescribed by SAM.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Fund and related accounts as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered CalRecycle's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we considered to be a material weakness or significant deficiency.

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 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. 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.

Our report on CalRecycle's Internal Control Over Fiscal Processes and Procedures, issued December 12, 2013, identified one material weakness and three significant deficiencies in internal control that impacted the Fund.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund and related accounts' financial statements as of and for the year ended June 30, 2010, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, 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.*

This 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

April 4, 2014

Department of Resources Recycling and Recovery
California Beverage Container Recycling Fund and Related Accounts
Balance Sheet—Statutory Basis
As of June 30, 2010

	California Beverage Container Recycling Fund (0133)	Glass Processing Fee Account (0269)	Penalty Account (0276)	Bimetal Processing Fee Account (0277)	PET Processing Fee Account (0278)
Assets					
Cash and Pooled Investments	$ 7,502,691	$ 23,113,235	$ 3,592,200	$ 11,363,099	$ 15,519,853
Receivables	252,012,322	572,403	66,322	244,645	5,678,015
Due From Other Funds or Appropriations	95,037,069	4,135,737	4,845	15,602	4,424,969
Prepayments to Other Funds or Appropriations	263,615	-	-	-	-
Total Assets	**$ 354,815,697**	**$ 27,821,375**	**$ 3,663,367**	**$ 11,623,346**	**$ 25,622,837**
Liabilities					
Accounts Payable	$ 103,642,239	-	-	-	-
Due to Other Funds or Appropriations	5,806,410	$ 30,176,279	-	$ 142,872	$ 24,493,158
Due to Other Government Entities	3,657	-	-	-	-
Total Liabilities	**109,452,306**	**30,176,279**	**-**	**142,872**	**24,493,158**
Fund Balance					
Reserved for Encumbrances	53,012,620	-	-	-	-
Deferred Payroll	1,389,000	-	-	-	-
Contingency Reserve for Economic Uncertainties	190,961,771	(2,354,904)	$ 3,663,367	11,480,474	1,129,679
Total Fund Balance	**245,363,391**	**(2,354,904)**	**3,663,367**	**11,480,474**	**1,129,679**
Total Liabilities and Fund Balance	**$ 354,815,697**	**$ 27,821,375**	**$ 3,663,367**	**$ 11,623,346**	**$ 25,622,837**

The accompanying notes are an integral part of the financial statements.

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, 2010

	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					
Beverage Container Redemption Fees	$ 1,246,929,011	$ 23,463,723	$ 378,386	$ 2,081,376	$ 31,718,258
Interest	4,087,899	151,715	21,818	67,927	87,600
Miscellaneous	791,520	-	-	-	-
Total Revenue	**1,251,808,430**	**23,615,438**	**400,204**	**2,149,303**	**31,805,858**
Expenditures					
Processor Claims	971,317,783	52,082,670	-	302,402	48,268,225
Cities and Counties Program Payments	5,543,226	-	-	-	-
Curbside Program Payments	8,250,000	-	-	-	-
Grants for Recycling Market Development and Expansion	10,532,886	-	-	-	-
Handling Fees	16,828,508	-	-	-	-
Litter Abatement and Recycling Activity Grants	10,536,456	-	-	-	-
Market Development Payments for Empty Plastics	5,928,989	-	-	-	-
Public Education and Information Program Payments	177,831	-	-	-	-
Quality Incentive Payments	7,477,193	-	-	-	-
Recycling Incentive Payments	5,499,282	-	-	-	-
Recycling Receptacles	9,977,779	-	-	-	-
Administrative Support Expenditures	43,843,683	149,963	6,930	6,930	176,613
Total Expenditures	**1,095,913,616**	**52,232,633**	**6,930**	**309,332**	**48,444,838**
Excess (Deficiency) of Revenue Over(Under) Expenditures	**155,894,814**	**(28,617,195)**	**393,274**	**1,839,971**	**(16,638,980)**
Other Financing Sources (Uses)					
Operating Transfers In	37,103,000	26,135,099	-	-	17,580,178
Refunds to Reverted Appropriations	43,616	-	-	-	-
Operating Transfers Out	(183,115,277)	-	-	-	-
Total Other Financing Sources (Uses)	**(145,968,661)**	**26,135,099**	**-**	**-**	**17,580,178**
Net Change in Fund Balance	**9,926,153**	**(2,482,096)**	**393,274**	**1,839,971**	**941,198**
Fund Balance July 1, 2009 (Note 5)	**235,437,238**	**127,192**	**3,270,093**	**9,640,503**	**188,481**
Fund Balance June 30, 2010	**$ 245,363,391**	**$ (2,354,904)**	**$ 3,663,367**	**$ 11,480,474**	**$ 1,129,679**

The accompanying notes are an integral part of the 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 Year Ended June 30, 2010

NOTE 1 Reporting Entity and Summary of Significant Accounting Policies

A. Definition of Reporting Entity

The California Beverage Container Recycling Program (Program) was created with passage of the California Beverage Container Recycling and Litter Reduction Act of 1986 (Act). Prior to January 1, 2010, the Department of Conservation (DOC) administered the Act. Effective January 1, 2010, Chapter 21, Statutes of 2009 (Senate Bill 63), merged DOC's Division of Recycling (DOR) with the California Integrated Waste Management Board, thereby creating the Department of Resources Recycling and Recovery (CalRecycle), and shifting the administration of the Act to CalRecycle.

Pursuant to the Act, the legislative intent of the Program is as follows:

- 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 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 payments in the form of 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

Processing Fee revenues are used to pay recyclers as "processing payments" to cover their recycling costs.

B. Basis of Presentation—Fund Accounting

The financial statements are presented in accordance with State of California laws and accounting procedures. 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. Special revenue funds account for the proceeds of a specific revenue source that is legally restricted to expenditures for specified purposes. The Program's activities are accounted for in five separate special revenue funds in the State Treasury as follows:

- 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 133 is a shared fund between CalRecycle, DOC, California Conservation Corps (CCC), and Air Resources Board (ARB). The related accounts are not shared funds. All funds were administered by DOC through December 31, 2009 and by CalRecycle as of January 1, 2010. 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 as of June 30, 2010.

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 6).

The Fund and related accounts follow a statutory basis of accounting prescribed by the California State Administrative Manual (SAM), 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. Encumbrances of $53 million at year-end are excluded from liabilities and expenditures, and are established as a reserve for encumbrances against the fund balance.

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 (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 are 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 by the State Controller's Office (SCO). Therefore, the Cash and Pooled Investments line item includes adjustments to each fund to present the fund balances in SMIF as listed in the SCO Fund Reconciliation Report at June 30, 2010. See Table 1 below for the adjustments.

Table 1: Schedule of SMIF Adjustments

Fund	Adjustments
Fund 133	$ 7,502,000
Fund 269	23,113,000
Fund 276	3,592,000
Fund 277	11,363,000
Fund 278	15,519,000

F. Revenue

Revenue consists of redemption payments and processing fees imposed on the sale or transfer of beverage containers, other than a refillable beverage container in the state or imported into the state, 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.

CalRecycle discovered during the course of the departmental merge that the Accounting Section and DOR have 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).

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 fiscal year 2009-10 financial statements included a change in accounting practice regarding liability accruals. Prior year financial statements distinguished liability accruals between governmental and non-governmental vendors, whereas the 2009-10 liability accruals of both vendor types were classified as Accounts Payable.

The Accounts Payable balance of $103.6 million 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. Payable amounts are only accounted for in Fund 133.

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, 2010 has been categorized as follows:

- *Deferred Payroll*: Amounts represent the amount of June 2010 payroll expenditures deferred to July 2010 for all state departments paid through the uniform payroll system per Control Section 12.45 of the Budget Act of 2010. June 2010 payroll expenditures will be realized in July 2010.
- *Reserved for Encumbrances:* Amounts represent a portion of fund balance segregated for expected expenditures.
- *Contingency Reserve for Economic Uncertainties:* Amounts represent the un-appropriated balances of the Fund and related accounts as of June 30 available for appropriation the following year.

NOTE 2 Cash and Pooled Investments

The Cash and Pooled Investments balance was increased to reflect adjustments totaling $49.5 million. This includes a prior period correction of $32 million, as discussed in Note 5, and a loan disbursement correction of $17.5 million.

For disclosures related to investment policy and investment risk categories, see the State of California Comprehensive Annual Financial Report.

NOTE 3 Accounts Receivable

A summary of receivables at June 30, 2010 by fund and type is provided below:

Table 1: Accounts Receivable	
Fund 0133:	
Beverage Container Redemption Fees - CRV	$ 251,871,807
Miscellaneous Revenue	121,699
Penalty Assessments	15,020
Escheat of Unclaimed Checks, Warrants, Bonds & Coupons	2,005
Abatements	1,791
Total Fund 0133 Receivables	$ 252,012,322
Fund 0269:	
Beverage Container Redemption Fees – Processing Fees	$ 572,403
Total Fund 0269 Receivables	$ 572,403
Fund 0276:	
Penalty Assessments	$ 66,322
Total Fund 0276 Receivables	$ 66,322
Fund 0277:	
Beverage Container Redemption Fees – Processing Fees	$ 244,645
Total Fund 0277 Receivables	$ 244,645
Fund 0278:	
Beverage Container Redemption Fees – Processing Fees	$ 5,678,015
Total Fund 0278 Receivables	$ 5,678,015

NOTE 4 Due To/From Other Funds or Appropriations

SCO requires departments to identify the intergovernmental receivable and payable balances that represent 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 To/From Other Funds or Appropriations accounts are displayed below:

Table 2: Due From Other Funds or Appropriations	
Fund 0133:	
Deferred Payroll	$ 1,389,000
General Fund	37,293,273
Glass Processing Fee Account (0269)	30,176,280
Bimetal Processing Fee Account (0277)	142,872
PET Processing Fee Account (0278)	24,493,158
Various Other Funds or Appropriations	1,542,486
Total Due From Other Funds or Appropriations	$ 95,037,069

Table 2: Due From Other Funds or Appropriations (Continued)	
Fund 0269:	
General Fund	$ 4,100,000
Surplus Money Investment Fund	35,737
Total Due From Other Funds or Appropriations	$ 4,135,737
Fund 0276:	
Surplus Money Investment Fund	$ 4,845
Total Due From Other Funds or Appropriations	$ 4,845
Fund 0277:	
Surplus Money Investment Fund	$ 15,602
Total Due From Other Funds or Appropriations	$ 15,602
Fund 0278:	
General Fund	$ 4,400,000
Surplus Money Investment Fund	24,969
Total Due From Other Funds or Appropriations	$ 4,424,969

Table 3: Due To Other Funds or Appropriations	
Fund 0133:	
Integrated Waste Management Account	$ 4,725,675
Department of Justice	469,756
California Environmental Protection Agency	194,477
California Conservation Corp	80,720
Victim Compensation Appeals Board	43,330
General Fund	14,139
Various Other Funds or Appropriations	278,313
Total Due To Other Funds or Appropriations	$ 5,806,410
Fund 0269:	
CA Beverage Container Recycling Fund (0133)	$ 30,176,279
Total Due To Other Funds or Appropriations	$ 30,176,279
Fund 0277:	
CA Beverage Container Recycling Fund (0133)	$ 142,872
Total Due To Other Funds or Appropriations	$ 142,872
Fund 0278:	
CA Beverage Container Recycling Fund (0133)	$ 24,493,158
Total Due To Other Funds or Appropriations	$ 24,493,158

NOTE 5 Opening Fund Balance

The July 1, 2009 Fund balance reported in the CALSTARS financial reports was increased to reflect a prior period adjustment of $32 million. This correction is related to the Cash and Pooled Investments balance adjustment discussed in Note 2.

NOTE 6 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 2009, a loan of $99.4 million (loan number 249) was transferred out of the Fund to the General Fund. The repayment shall be made so as to ensure that the programs supported by the Fund are not adversely affected by the loan, but no later than June 30, 2015.
- Pursuant to the Budget Act of 2009, a loan of $35 million (loan number 263) was transferred out of the Fund to the Air Pollution Control Fund. The loan shall be fully repaid from revenues established by the State Air Resources Board pursuant to the California Global Warming Solutions Act of 2006 (Division 25.5 (commencing with section 38500) of the Health and Safety Code). The loan shall be repaid by the earliest feasible date. At least one-third of the loan shall be repaid on or before June 30, 2012, and the full amount shall be repaid on or before June 30, 2014. The loan shall be repaid with interest at the rate earned by the Pooled Money Investment Account at the time of the transfer.
- Executive Order No. E 09/10-50, pursuant to Item 3480-001-0001, Budget Act of 2009, Provision 1, authorized a loan in the amount of $5 million (loan number 264), which was transferred out of the Fund to the General Fund. Full repayment is due by June 30, 2014.
- Pursuant to the Budget Act of 1995, Chapter 624, CalRecycle shall expend the amount necessary to pay the processing payment established pursuant to PRC section 14575. Transfers to the PET Processing Fee Account amounted to $17.6 million. Transfers to the Glass Processing Fee Account amounted to $26.1 million.

Operating Transfers In represents the following item:

- Pursuant to the Budget Act of 2009, a loan of $8.25 million (loan number 252) was transferred to the Fund from the Renewable Fuel and Vehicle Technology Fund. The loan shall be fully repaid from revenues of the Fund. The loan shall be repaid by the earliest feasible date, and the full amount shall be repaid on or before June 30, 2013. The loan shall be repaid with interest at the rate earned by the Pooled Money Investment Account at the time of the transfer.
- The General Fund made loan repayments to the Fund in the amount of $28.9 million pursuant to Budget Acts of 2002 and 2003.

As of June 30, 2010, Interfund Loans Receivable and Interfund Loans Payable amounted to $496,847,000 and $8,250,000, respectively. A schedule of long-term Interfund Loan balances is shown in the table on the following page:

Table 4: Interfund Loans Receivable				
Fund	**Fund/Loan Number**	**Beginning Balance as of 7/1/2009**	**Ending Balance as of 6/30/2010**	**Repayment Date**
0133	0001/042	$ 188,000,000	$ 160,147,000	6/30/2013[1]
	0001/081	98,300,000	98,300,000	6/30/2015
	0001/245	2,000,000	1,000,000	6/30/2012[1]
	0001/249	0	99,400,000	6/30/2015
	0001/264	0	5,000,000	6/30/2014
	0115/241	32,000,000	32,000,000	6/30/2013[1]
	0115/263	0	35,000,000	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		**$ 386,300,000**	**$ 496,847,000**	

Table 5: Interfund Loans Payable				
Fund	**Fund/Loan Number**	**Beginning Balance as of 7/1/2009**	**Ending Balance as of 6/30/2010**	**Repayment Date**
0133	3117/252	$ 0	$ 8,250,000	6/30/2013[1]
Total		**$ 0**	**$ 8,250,000**	

[1] Full repayment of the loan was made on or before the due date.

NOTE 7 Subsequent Event

An amount of $2.1 million is due from a recycling center that is the subject of bankruptcy proceedings. It is not possible to determine the ultimate outcome of the proceeding at this time. Therefore, this amount is classified as a contingent receivable.

CalRecycle

DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

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July 31, 2014

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 June 30, 2014 2010 Financial Statement Draft Audit Report for the California Beverage Container Recycling Fund. The Department of Resources Recycling and Recovery (CalRecycle) concurs with the results. Our efforts to implement corrective action for those items referenced 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 and the DORIIS Support Unit, along with consultation from Maximus system designers and analysts, are in the process of developing reports that will aide in capturing point-in-time receipt applications and any changes to applications after the initial application. These reports, available approximately August 2014, will allow the Accounting Section to reconcile transactions posted in DORIIS with what is reported in CALSTARS.

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 complies with the State Administrative Manual.

The Accounting Section found that the coding structure in DORIIS included dated or inaccurate coding that caused some transactions to erroneously post in CALSTARS. CalRecycle has fixed much of the coding and a request to fix the remaining coding is in process. Lastly, many transactions posted in DORIIS included incorrect financial coding. These internal findings require extensive research and resolution by staff. Upon completion of this analysis, the Accounting Section will go back and reconcile the relevant past fiscal years using the proper methodologies. It is expected that any resulting adjustments will be minor in the context of the fund.

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

The DORIIS Support Unit and Accounting Section have worked together to develop a database that will assist Accounting staff to query DORIIS transactions that have open balances, receipts with unapplied amounts, and cases referred to the Legal Office. This database also will report on overpayments which will give the Accounting Office the ability to reconcile and ensure they are accurately recorded in CALSTARS. These reports are currently being tested and should be completed within the next few months.

Recommendation E: Transfer the 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 response to Recommendation A.

As detailed above CalRecycle is committed to implementing the recommendations noted in the audit report and will ensure 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:

Ken DaRosa
Chief Deputy Director

DEPARTMENT OF FINANCE
CALIFORNIA
EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Transmitted via e-mail

February 23, 2016

Mr. Scott Smithline, Director
Department of Resources Recycling and Recovery
1001 I Street, MS 25A
Sacramento, CA 95814

Dear Mr. Smithline:

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 year ended June 30, 2014.

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 results 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:

Cheryl L. McCormick, CPA
Assistant 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. John Halligan, Acting Deputy Director, Division of Recycling, Department of Resources Recycling and Recovery
Ms. Sarah Keck, Chief Financial Officer, Fiscal Services Branch, Department of Resources Recycling and Recovery
Ms. Jane Hayes, Chief Accounting Officer, Accounting Section, 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

A Financial Statement Audit

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

For the Fiscal Year Ended June 30, 2014

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

153970070/153970155

September 2015

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
Manager

Jennifer Arbis
Supervisor

Staff
Andrea Cortez
Jack Liu
Minh Nguyen

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
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985

Table of Contents

EXECUTIVE SUMMARY

The Department of Finance, Office of State Audits and Evaluations (Finance), performed an audit of the California Beverage Container Recycling Fund (Fund) and related accounts, administered by the Department of Resources Recycling and Recovery (CalRecycle), in accordance with Public Resources Code 14537. The objectives of our audit were to:

- Express an opinion on the *Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balance* of the Fund and related accounts for the fiscal year ended June 30, 2014.

- Verify that the financial statements were prepared on the basis of accounting prescribed by the State Administrative Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

- 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 year ended June 30, 2014, due to a material weakness in internal control. The Accounting Section and Division of Recycling 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 and those charged with governance, 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

Mr. Scott Smithline, 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 Sheet (statutory basis) as of June 30, 2014, related Statement of Revenue, Expenditures, and Changes in Fund Balance for the year 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 statues 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 sufficient 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, 2014 or the results of their operations for the year 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, 2014 or the results of operations or changes in their financial position for the year 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 September 30, 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 the Fund's management and those charged with governance, 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:

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations

September 30, 2015

Department of Resources Recycling and Recovery
California Beverage Container Recycling Fund and Related Accounts
Balance Sheet—Statutory Basis
As of June 30, 2014

	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	$165,345,066	$16,806,397	$5,510,546	$16,227,233	$24,487,754
Receivables	181,962,096	804,030	442,161	117,484	762,951
Due From Other Funds or Appropriations	19,529,465	104,865	3,158	13,093	134,522
Expense Advances	21,105	-	-	-	-
Prepayments to Other Funds or Appropriations	90,462	-	-	-	-
Total Assets	**$366,948,194**	**$17,715,292**	**$5,955,865**	**$16,357,810**	**$25,385,227**
Liabilities					
Accounts Payable	$134,095,855		-	-	$202
Due to Other Funds or Appropriations	798,376	$9,575,456	$51,478	$57,529	544,056
Due to Federal Government	299	-	-	-	-
Due to Local Government	13,680,937	-	-	-	-
Due to Other Government Entities	35,845	-	-	-	-
Uncleared Collections	409,255	-	-	-	-
Total Liabilities	**149,020,567**	**9,575,456**	**51,478**	**57,529**	**$544,258**
Fund Balance					
Reserved for Encumbrances	19,405,771	-	744	-	-
Deferred Payroll	2,426,162	-	-	-	-
Contingency Reserved for Economic Uncertainties	196,095,694	8,139,836	5,903,643	16,300,281	24,840,969
Total Fund Balance	**217,927,627**	**8,139,836**	**5,904,387**	**16,300,281**	**24,840,969**
Total Liabilities and Fund Balance	**$366,948,194**	**$17,715,292**	**$5,955,865**	**$16,357,810**	**$25,385,227**

The accompanying notes are an integral part of this statement.

[1] Polyethylene Terephthalate (PET)

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, 2014

	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	$1,200,703,139	$6,564,059	-	$1,333,377	$3,933,037
Interest	4,598,665	5,732,893	$13,160	37,147	3,968,785
Miscellaneous Revenue	(15,129)	-	-	-	-
Penalties	225,497	-	342,977	-	-
Total Revenue	**1,205,512,172**	**12,296,952**	**356,137**	**1,370,524**	**7,901,822**
Expenditures					
Payments to Recyclers, Processors, and Manufacturers	1,050,832,387	62,226,837	-	370,985	19,453,674
Handling Fee Payments	39,569,887	-	-	-	-
Local Conservation Corp Grants	20,159,021	-	-	-	-
Beverage Container Recycling Grants	991,798	-	-	-	-
Curbside Program Payments	15,000,000	-	-	-	-
Payments to Cities and Counties	10,500,000	-	-	-	-
Quality Incentive Payments	7,567,570	-	-	-	-
Plastic Market Development Payments	9,999,580				
Other Grants	2,455,628	-	-	-	-
Administrative Support	48,035,813	250,305	416,408	4,305	153,305
Total Expenditures	**1,205,111,684**	**62,477,142**	**416,408**	**375,290**	**19,606,979**
Revenues Over(Under) Expenditures	**400,488**	**(50,180,190)**	**(60,271)**	**995,234**	**(11,705,157)**
Other Financing Sources (Uses)					
Operating Transfers In	102,400,000	53,721,102	-	-	27,335,628
Refunds to Reverted Appropriations	2,642				
Reimbursements	1,280	-	-	-	-
Operating Transfers Out	(15,056,730)	-	-	-	-
Total Other Financing Sources (Uses)	87,347,192	53,721,102	-	-	27,335,628
Net Change in Fund Balance	**87,747,680**	**3,540,912**	**(60,271)**	**$995,234**	**15,630,471**
Fund Balance July 1, 2013	**130,179,947**	**4,598,924**	**5,964,658**	**15,305,047**	**9,210,498**
Fund Balance June 30, 2014	**$217,927,627**	**$8,139,836**	**$5,904,387**	**$16,300,281**	**$24,840,969**

The accompanying notes are an integral part of this statement.

Department of Resources Recycling and Recovery
California Beverage Container Recycling Program and Related Accounts
Notes to the Financial Statements—Statutory Basis
For the Fiscal Year Ended June 30, 2014

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 Air Resources Board (ARB). The program was created with the 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, 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) as established by the Governmental Accounting Standards Board (GASB). The presentation of the financial statements differs from GAAP primarily in the categorization of the fund balances. According to GASB Statement No. 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 1I.

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 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, ARB, or the State of California as of June 30, 2014.

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. The encumbrance balance outstanding at June 30, 2014 was $19.4 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 payments to recyclers, processors, and manufacturers; handling fees; Local Conservation Corp grants; Beverage Container Recycling grants; Curbside Program payments; payments to cities and counties; Quality Incentive payments; Plastic Market Development payments; and other grants. 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 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 are not material, no adjustment for this has been made in the financial statements. Deposits in SMIF are recorded in the accounting records as overseen by SCO. As the fund administrator of the Fund and related accounts, CalRecycle made the appropriate entries to record the ending balances of Deposits in SMIF to be in agreement with SCO per the reconciliation requirements in SAM. Therefore, the Cash and Pooled Investments line item includes the following balances of Deposits in SMIF as recorded in the SCO Fund Reconciliation Report dated June 30, 2014:

Fund	Deposits in SMIF
Fund 133	$162,230,000
Fund 269	16,804,000
Fund 276	5,507,000
Fund 277	16,223,000
Fund 278	24,447,000

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.

Prior to the audit period, CalRecycle discovered that the Accounting Section and the Division of Recycling (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 payments, 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*: Amount represents 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, 2014 by fund and type is provided below:

Table 1: Accounts Receivable, June 30, 2014	
Fund 0133:	
Beverage Container Redemption Fees – California Redemption Value (CRV)	$181,248,810
Reimbursements	1,281
Abatements	712,005
Total Fund 0133 Receivables	$181,962,096
Fund 0269:	
Beverage Container Redemption Fees – Processing Fees	$ 804,030
Total Fund 0269 Receivables	$ 804,030
Fund 0276:	
Penalty Assessments	$ 442,161
Total Fund 0276 Receivables	$ 442,161
Fund 0277:	
Beverage Container Redemption Fees – Processing Fees	$ 117,484
Total Fund 0277 Receivables	$ 117,484
Fund 0278:	
Beverage Container Redemption Fees – Processing Fees	$ 762,951
Total Fund 0278 Receivables	$ 762,951

NOTE 4 Due To/From Other Funds or Appropriations

The SCO requires departments to identify the intergovernmental receivable and payable balances that represent 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 2: Due From Other Funds or Appropriations, June 30, 2014	
Fund 0133:	
Deferred Payroll	$ 2,426,162
Glass Processing Fee Account (0269)	9,575,456
Penalty Account (0276)	51,478
Bimetal Processing Fee Account (0277)	57,530
PET[1] Processing Fee Account (0278)	544,056
Various Other Funds or Appropriations	6,874,783
Total Due From Other Funds or Appropriations	$ 19,529,465
Fund 0269:	
CA Beverage Container Recycling Fund (0133)	$ 99,136
Surplus Money Investment Fund	5,729
Total Due From Other Funds or Appropriations	$ 104,865
Fund 0276:	
Surplus Money Investment Fund	$ 3,158
Total Due From Other Funds or Appropriations	$ 3,158
Fund 0277:	
CA Beverage Container Recycling Fund (0133)	$ 3,946
Surplus Money Investment Fund	9,147
Total Due From Other Funds or Appropriations	$ 13,093
Fund 0278:	
CA Beverage Container Recycling Fund (0133)	$ 126,000
Surplus Money Investment Fund	8,522
Total Due From Other Funds or Appropriations	$ 134,522

Table 3: Due To Other Funds or Appropriations, June 30, 2014	
Fund 0133:	
Department of Food and Agriculture Fund (0111)	$ 358,000
Glass Processing Fee Account (0269)	99,136
PET[1] Processing Fee Account (0278)	126,000
Recycling Market Development Revolving Loan Acct (0281)	98,864
Various Other Funds or Appropriations	116,376
Total Due To Other Funds or Appropriations	$ 798,376
Fund 0269:	
CA Beverage Container Recycling Fund (0133)	$ 9,575,456
Total Due To Other Funds or Appropriations	$ 9,575,456
Fund 0276:	
CA Beverage Container Recycling Fund (0133)	$ 51,478
Total Due To Other Funds or Appropriations	$ 51,478
Fund 0277:	
CA Beverage Container Recycling Fund (0133)	$ 57,529
Total Due To Other Funds or Appropriations	$ 57,529
Fund 0278:	
CA Beverage Container Recycling Fund (0133)	$ 544,056
Total Due To Other Funds or Appropriations	$ 544,056

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.

[1] Polyethylene Terephthalate (PET)

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 Resource Code section 14575. As such, the following funds were transferred out of Fund 133 to the following:
    - PET Processing Fee Account - $336 thousand
    - Glass Processing Fee Account - $14.7 million

Operating Transfers In represents the following items:

- Fund 0133:
    - The General Fund made loan repayments to the Fund in the amount of $94.4 million pursuant to the Budget Act of 2009.
    - The Cost of Implementation Account, Air Pollution Control Fund made loan repayments to the Fund in the amount of $8 million pursuant to the Budget Acts of 2009 and 2013.
- Fund 0269:
    - The General Fund made loan repayments to the Fund in the amount of $39 million pursuant to the Budget Act of 2003.
    - Transfer from Fund 133 into Fund 269 in the amount of $14.7 million pursuant to Public Resource Code section 14575 (see previous Transfers Out disclosure).
- Fund 0278:
    - The General Fund made loan repayments to the Fund in the amount of $27 million pursuant to the Budget Act of 2003.
    - Transfer from Fund 133 into Fund 278 in the amount of $336 thousand pursuant to Public Resource Code section 14575 (see previous Transfers Out disclosure).

As of June 30, 2014, Interfund Loans Receivable totaled $82 million. A schedule of long-term Interfund Loan balances is shown in the following table:

Table 4: Interfund Loans Receivable

Fund	Fund/Loan Number	Beginning Balance as of 7/1/2013	Ending Balance as of 6/30/2014	Repayment Date
133	0001/081	$ 72,277,000	$ 72,277,000	6/30/2015
	0001/249	99,400,000	10,000,000	6/30/2015
	0001/264	5,000,000	0	6/30/2014*
	3237/263	8,000,000	0	6/30/2014*
0269	0001/082	39,000,000	0	6/30/2014*
0278	0001/083	27,000,000	0	6/30/2014*
Total Interfund Loans Receivable		**$ 250,677,000**	**$ 82,277,000**	

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

NOTE 6 Significant Effects of Subsequent Events

An accounts receivable abatement for restitution of $32.7 million and accounts receivable revenue for civil penalties of $18.7 million were accrued and expected to be received based on a court decision rendered on June 4, 2014. The involved parties filed an appeal for this court decision, and to date the case remains unresolved. Therefore, the $51.4 million abatement and revenue receivable were reversed, and are not reflected in the Receivables balances of Funds 133 and 276.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on Our Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Mr. Scott Smithline, 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 year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Fund's financial statements and have issued our report thereon dated September 30, 2015.

The Department of Finance (Finance) and the Department of Resources Recycling and Recovery (CalRecycle) are both part of the State of California's Executive Branch. As required by various statues 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 sufficient safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered CalRecycle's 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 a deficiency in internal control that we consider to be a material weakness and a significant deficiency. 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. This deficiency 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:

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations

September 30, 2015

Response

CalRecycle

DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

1001 I STREET, SACRAMENTO, CALIFORNIA 95814 • WWW.CALRECYCLE.CA.GOV • (916) 322-4027
P.O. BOX 4025, SACRAMENTO, CALIFORNIA 95812

January 19, 2016

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 December 24, 2015 Financial Statement Draft Audit Report for the California Beverage Container Recycling Fund for the fiscal year ended July 30, 2014. 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, developed an approach for implementing improved functionality of the general ledger module within DORIIS that could adequately provide the point-in-time documentation needed for system reconciliations. The general ledger improvements rolled out beginning August 1, 2015. With the availability of periodic data, CalRecycle successfully developed reports that will aide in capturing point-in-time funding for receipts. Reports that account for any changes to payment applications after the initial posting are currently in development with an anticipated release date within the first quarter of 2016. In the interim, CalRecycle staff developed a database that extracts information out of DORIIS to meet immediate reporting/research needs until the reporting functionality within DORIIS becomes available.

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.

CalRecycle reconciled receipt funding entries for the fiscal year 2009/2010 and posted the adjustments with the State Controllers' Office (SCO) and in CALSTARS. As of the date of this letter, reconciliation for the remaining fiscal years of 2010/2011, 2011/2012, and 2012/2013 have two (2) months remaining to reconcile. Once complete, CalRecycle will post the adjustments with SCO and in CALSTARS. CalRecycle's corrective action plan includes prior year reconciliations through fiscal year 2014/2015 and the development of an ongoing and year-end reconciliation. The former shall be addressed just as the other prior year reconciliations have and the latter is expected to utilize the functionality discussed in Recommendation B.

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.

CalRecycle developed processes regarding the unapplied receipts that improved reconciliation with the uncleared collections balance in CALSTARS and the issuing overpayment refunds when applicable. The audit report issued December 2013 identified $784,100 in unapplied receipts for the period of March 2007 through April 2012, as of October 31, 2012. To date, CalRecycle staff resolved all but $19,328 in unapplied receipts for that period.

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 Ken DeRosa for:

Scott Smithline
Director

DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. ▪ GOVERNOR

915 L STREET ▪ SACRAMENTO CA ▪ 95814-3706 ▪ WWW.DOF.CA.GOV

Transmitted via e-mail

December 12, 2013

Ms. Caroll Mortensen, Director
Department of Resources Recycling and Recovery
P.O. Box 4025
1001 I Street, MS 25A
Sacramento, CA 95814

Dear Ms. Mortensen:

Final Report—Department of Resources Recycling and Recovery, Internal Control Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its internal control audit of the Department of Resources Recycling and Recovery's (CalRecycle) fiscal processes and procedures as of October 31, 2012.

The enclosed report is for your information and use. CalRecycle's response to the report observations and our evaluation of the response are incorporated into this final report. 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
Acting Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

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
Mr. Howard Levenson, Deputy Director, Materials Management and Local Assistance Division, Department of Resources Recycling and Recovery
Ms. Audrey Traina, Chief, Audits Office, Department of Resources Recycling and Recovery
Ms. Sarah Keck, Chief Financial Officer, Fiscal Services Branch, Department of Resources Recycling and Recovery
Ms. Kellie Schneider, Branch Chief, Administrative Services Branch, Department of Resources Recycling and Recovery
Mr. Andrew Felsenstein, Chief Accounting Officer, Accounting Section, Department of Resources Recycling and Recovery
Ms. Suzanne Blihovde, Budget Officer, Budget and Economic Forecasting Section, Department of Resources Recycling and Recovery
Mr. Kevin Campbell, Senior Management Auditor, Audits Office, Department of Resources Recycling and Recovery

Audit Report

Department of Resources Recycling and Recovery
Internal Control Over Fiscal Processes and Procedures

CalRecycle Website at www.CalRecycle.ca.gov

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

133500013/133500054/133500079

September 2013

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
Manager

Jennifer Arbis
Supervisor

Staff
Andrea Cortez
Jason Craft
Minh Nguyen
Alice Yip

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
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985

TABLE OF CONTENTS

Executive Summary

In accordance with an interagency agreement with the Department of Resources Recycling and Recovery (CalRecycle), the Department of Finance, Office of State Audits and Evaluations (Finance), conducted an internal control audit of CalRecycle's fiscal processes and procedures as of October 31, 2012.

CalRecycle has implemented many effective fiscal processes and procedures. However, several internal control weaknesses were identified in the areas of governance, information systems, receivables, revenues, purchasing, and asset management. As a result, some critical fiscal information is not timely or routinely available and other fiscal information may be unreliable and inaccurate. This increases the risk of a material misstatement in the financial statements. Further, assets are not adequately safeguarded from unauthorized use or disposition. The weaknesses identified include the following:

1. The Division of Recycling's (DOR) Fiscal Functions Are Not Fully Integrated Within CalRecycle's Fiscal Operations

    - The Accounting Section and DOR have adopted separate incompatible accounting methods to record the Beverage Container Recycling Program revenue and receivable transactions.
    - DOR has not developed critical DOR Integrated Information System (DOR*IIS*) receivables and revenue reports at month-end and year-end, with historical data maintained as of a certain point in time.
    - DOR has not researched and resolved approximately $784,100 in cash receipts classified as unapplied in DOR*IIS* for the period March 2007 through April 2012.
    - DOR wrote-off receivables without complying with all required collection letter procedures and obtaining the State Controller's Office approval.

2. Assets Are Not Safeguarded from Unauthorized Use or Disposition

    - Furniture items do not have state property decals.
    - The property ledger was incomplete.
    - Acquisition and disposition of capitalized assets are recorded once per year using an allocation method that may not record costs to the fund(s) that benefitted from the asset purchase.
    - The property ledger was missing detailed information for disposed or surveyed items.
    - Property Survey Report forms did not include make, model, serial number, and state decal number to identify the specific item surveyed.
    - Periodic reconciliations cannot be performed because capitalized assets are only recorded once a year and the properly ledger is incomplete.
    - A physical inventory was not performed.

3. Incompatible Information System Access and Duties

    - *CALSTARS*—Multiple staff are assigned conflicting CALSTARS functions, staff CALSTARS access does not always align with job duties, and some staff perform conflicting job duties.
    - *Oil Recycling and Claims Automation (ORCA) Claims Processing*—One accounting employee performs incompatible duties of reviewing, approving, and processing the ORCA incentive payment claims in both ORCA and CALSTARS without the review and approval of a used oil expert.
    - *ORCA Programming*—One employee performs incompatible duties of designing, programming, and record file maintenance for ORCA.

4. Information Systems at Risk

    - DOR*IIS* access was not removed for several employees that left CalRecycle between August 2012 and October 2012.
    - ORCA does not require a second electronic approval for claims transactions related to closed, pending or expired participant status.
    - ORCA and the Covered Electronic Waste Payment Information System (CEWIS) do not require routine password changes to ensure data integrity and security of automated files.

5. Policies and Procedures Are Inadequate or Absent for Certain Functions

    - CEWIS—Claim review/data input process
    - CEWIS, ORCA, and DOR*IIS*—Access controls
    - Forecasting procedures
    - Signature authority to approve some budget documents
    - Decentralized check distribution process
    - Application of property decals upon receipt of state property

For additional details, see the Results section of this report. The findings and recommendations in this report are intended to assist CalRecycle in strengthening its internal control. We met with CalRecycle management and staff during fieldwork to discuss the internal control weaknesses identified in this report.

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

The Department of Resources Recycling and Recovery (CalRecycle) protects public health and safety and the environment through the regulation of solid waste facilities, including landfills, and promotes recycling of a variety of materials including beverage containers, electronic waste, waste tires, used oil, and other materials. CalRecycle also promotes source reduction, recycling and composting, and reuse waste diversion practices. Additional departmental activities include research, permitting, inspection, enforcement, public awareness, market development to promote recycling industries, and technical assistance to local agencies.[1] To accomplish these objectives, CalRecycle administered approximately 14 funds with approximately $1.45 billion in expenditures during the fiscal year July 1, 2011 through June 30, 2012.[2]

The Financial Integrity and State Manager's Accountability Act (FISMA), Government Code section 13402, requires state managers to establish and maintain an internal control system that regulates and guides operations. Internal control is defined as a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial and non-financial reporting; (b) effectiveness and efficiency of operations, including operational and financial performance goals, and safeguarding assets against loss; and (c) compliance with applicable laws and regulations. This definition of internal control includes the following five interrelated components:

- **Control Environment:** The set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. It enables management to carry out its governance oversight responsibilities and impacts the overall system of internal control.

- **Risk Assessment:** A process that identifies and assesses risks related to the achievement of management's established objectives.

- **Control Activities:** Policies and procedures that ensure management's directives are carried out and help ensure that necessary actions are taken to minimize risks to achievement of management's objectives.

- **Information and Communication:** Information must be identified, captured, and communicated in a form and time frame that enable people to carry out their responsibilities.

- **Monitoring Activities:** Assessing the quality of the internal control system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two.

1 Excerpts from www.calrecycle.ca.gov
2 Excerpts from the fiscal year 2013-14 Governor's Budget

SCOPE

In accordance with an interagency agreement, the Department of Finance, Office of State Audits and Evaluations (Finance), performed an audit of CalRecycle's internal control over fiscal processes and procedures as of October 31, 2012.

METHODOLOGY

To evaluate CalRecycle's internal control over fiscal processes and procedures, we performed the following:

- Gained an overall understanding of CalRecycle's operations.
- Performed a risk assessment to identify the areas of greatest vulnerabilities.
- Interviewed key personnel to obtain an understanding of business processes.
- Identified critical fiscal functions.
- Evaluated fiscal accounting and administrative processes through observation of current practices, review of policies and procedures, and review of various documents.
- Observed physical assets on hand, reviewed related documents, and evaluated the maintenance of CalRecycle's property tracking system.
- Evaluated policies, procedures, and documentation of receipts and disbursements for the following systems: Oil Recycling and Claims Automation (ORCA); Division of Recycling Integrated Information System (DOR*IIS*); and Covered Electronic Waste Payment Information System (CEWIS).
- Compared subsidiary system balances to California State Accounting and Reporting System (CALSTARS), the department's official accounting system, to determine if the subsidiary databases agree to the accounting books of record.

Except as noted below, the audit was conducted in accordance with *Government Auditing Standards* (GAS), 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In connection with this audit, there are certain disclosures required by *Government Auditing Standards*. 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.

The Department of Resources Recycling and Recovery (CalRecycle) implemented many effective fiscal processes and procedures. However, some significant controls are either not established or are not functioning in the areas of governance, information systems, receivables, revenue, purchasing, and asset management. As a result, critical fiscal information is not timely or routinely available and other fiscal information may be unreliable and inaccurate. This increases the risk of a material misstatement in the financial statements. Further, assets are not adequately safeguarded from unauthorized use or disposition.

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 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. 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. We consider Findings 1 and 2 to be material weaknesses.

The following findings and recommendations are provided to assist CalRecycle in its efforts to improve fiscal processes and procedures. Appendix A identifies the criteria for each finding. The results of our audit are based on our review of documentation, other information made available to us, and interviews with staff.

FINDING 1: The Division of Recycling's (DOR) Fiscal Functions Are Not Fully Integrated Within CalRecycle's Fiscal Operations

Several fiscal weaknesses discussed below impact the Beverage Container Recycling Program. While DOR program staff expertise is essential in maintaining the subsidiary records, the Fiscal Services Branch (FSB) is responsible for fiscal accountability and financial reporting for the department. Coordination between FSB's Accounting Section and DOR is imperative to ensure the department meets fiscal requirements.

- The Accounting Section and DOR have adopted separate incompatible accounting methods to record the Beverage Container Recycling Program revenue and receivable transactions. Receipts are applied differently by each unit. As a result, the California State Accounting and Reporting System (CALSTARS) records cannot be supported by or reconciled to the subsidiary system records in DOR*IIS*.

- DOR has not developed critical DOR*IIS* receivables and revenue reports at month-end and year-end, with historical data maintained as of a certain point in time. As a result, the Accounting Section has not timely and accurately recorded, reconciled, and supported the receivables and revenue transactions within the Beverage Container Recycling special revenue funds monthly and at year-end.

- DOR has not researched and resolved approximately $784,100 in cash receipts classified as unapplied in DOR*IIS* for the period March 2007 through April 2012. The unapplied cash receipts represent either receivables not properly credited to participant manufacturer/distributor reports or participant overpayments. As a result, participant account balances may be incorrect or the financial statements may inaccurately report revenue instead of a liability.

- DOR wrote off receivables without complying with required procedures and approvals.

  - Only 2 of the 3 required collection letters (30 and 60 day letters) were sent to the debtors.
  - Authorization from the State Controller's Office (SCO) was not obtained prior to discharging receivables.

Recommendations:

A. Consult with the Department of Finance's Fiscal Systems and Consulting Unit to implement department-wide uniform accounting procedures that are consistent with state accounting practices and requirements.

B. Develop DOR*IIS* receivables and revenue reports, with point-in-time historical documentation maintained, that identify the receivables and revenue in accordance with state accounting practices.

C. Record and reconcile the receivables and revenue accounts in CALSTARS and DOR*IIS* monthly and at year-end.

D. Research and resolve DOR*IIS* unapplied receipts. Verify overpayments are accurately recorded in CALSTARS.

E. Transfer the 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.

FINDING 2: Assets Are Not Safeguarded from Unauthorized Use or Disposition

Controls over property acquisitions, dispositions, record maintenance, reconciliations, and physical inventory are not sufficient to ensure assets are safeguarded and fiscal data is reliable. Collectively, these deficiencies create an opportunity for fraud or theft of state property without timely detection. Additionally, reliance cannot be placed on the accuracy of accounting records that support approximately $2.2 million of reported property as of June 30, 2012. Table 1 illustrates the asset acquisition and management processes and corresponding control weaknesses. The untimely recording, reconciliation, and inventory weaknesses are prior audit findings that have not been corrected.

Table 1: Asset Acquisition and Management Processes and Control Weaknesses

ASSET ACQUISITION AND MANAGEMENT PROCESSES	CONTROL WEAKNESSES
Apply property decals upon receipt of state property	**Not performed** • Furniture items do not have state property decals.
Record all acquisitions in property ledger	**Incomplete** • The property ledger was missing some of the following items: o Furniture o Equipment o Items from an old inventory database o Items acquired during the 2010 merger with DOR
Record acquisitions of capitalized assets in capital assets group of accounts	**Untimely and Inaccurate** • Acquisitions of capitalized assets are recorded once per year using an allocation method that may not record costs to the fund(s) that benefitted from the asset purchase.
Record all dispositions in property ledger	**Incomplete** • Property ledger was missing detailed information of items disposed or surveyed. These items could not be traced to the Property Survey Reports. • Property Survey Report forms did not include make, model, serial number, and state decal number.
Record disposition of capitalized assets in capital assets group of accounts	**Untimely and Inaccurate** • Dispositions of capitalized assets are recorded once per year using an allocation method that may not record costs to the fund(s) that benefitted from the asset purchase.
Perform periodic reconciliations of capitalized assets to the property ledger	**Not Performed** • Periodic reconciliations cannot be performed because capitalized assets are only recorded once per year and the property ledger is incomplete.
Inventory	**Not Performed** • A physical inventory including an inventory plan, count sheets, and reconciliations to the property ledger was not performed.

Recommendations:

A. Promptly apply property decals and record all state property in the property ledger.

B. Consolidate property lists into a centralized property accounting system.

C. Coordinate with the Department of Conservation to obtain all DOR property documentation to support acquired assets.

D. Ensure the following information is adequately documented:

   1. Property Ledger—Record the agency document number listed on the Property Survey Report in the Property Ledger.
   2. Property Survey Report—Document the make, model, serial number, and state decal number on the form.

E. Ensure that the allocation method used to capitalize and record disposal of assets accurately reflects costs charged to the fund(s) benefitting from the asset.

F. Reconcile capitalized assets in the Property Ledger to the Capital Asset Group of Accounts quarterly.

G. Perform physical inventories of all property at least once every three years and ensure that physical inventory counts are periodically reconciled with the accounting records.

FINDING 3: Incompatible Information System Access and Duties

Multiple staff have incompatible information systems access and perform incompatible duties as described below. This increases the risk of non-compliance with established policies, procedures, laws and regulations, and could result in errors or fraud without timely detection. Further, the CALSTARS and Oil Recycling and Claims Automation (ORCA) claims processing relate to prior audit findings that have not been corrected.

- *CALSTARS*— Multiple staff are assigned conflicting CALSTARS functions, staff access does not align with job duties, or staff perform incompatible duties as follows:

    - Multiple staff have CALSTARS access to all of the following incompatible functions: receipts, disbursements, receivables, vendor edit table, other tables, and/or check processing. This access does not align with assigned job duties.
    - One of the employees with conflicting access also has oversight authority for receivables, cashiering, and accounts payable.
    - Two accounting employees who authorize disbursements have access to enter disbursements into CALSTARS. These individuals also reconcile the monthly bank statement and have access to the safe containing CalRecycle's blank check stock.

- *ORCA Claims Processing*—One accounting employee performs incompatible duties of reviewing, approving, and processing the ORCA incentive payment claims in both ORCA and CALSTARS without review and approval of a used oil expert.

- *ORCA Programming*—One employee performs incompatible duties of designing, programming, and record file maintenance for ORCA. This could result in manipulation of the system without detection through programming or file maintenance activities.

Recommendations:

A. Limit CALSTARS access to functions necessary to perform assigned job duties.

B. Segregate incompatible accounting duties in accordance with the State Administrative Manual.

C. Limit safe access to blank check stock to those who do not reconcile the monthly bank statement.

D. Require a used oil expert to review and approve ORCA expenditures prior to payment processing.

E. Segregate the ORCA system design, programming, and maintenance functions.

FINDING 4: Information Systems at Risk

Several subsidiary information systems are at risk due to unauthorized access rights, lack of security features, and weak access controls. Unauthorized access and inadequate system controls increase the risk that critical information could be compromised, such as payments made to unregistered participants or other unauthorized system transactions. Effective security controls would allow accurate and reliable financial reporting, and concurrently prevent unauthorized users from accessing critical information systems to manipulate, destroy, or acquire CalRecycle data. See Table 2 for examples of the security weaknesses identified.

Table 2: Information Technology Security Weaknesses

SECURITY WEAKNESSES	DESCRIPTION
Unauthorized Access Rights	**DOR*IIS*** access rights were not promptly removed upon staff separation from CalRecycle. Four of the six employees that left CalRecycle between August 2012 and October 2012 still had write access to DOR*IIS*.
Lack of Security Features	**ORCA** does not require a second electronic approval for claims transactions related to closed, pending, or expired participant status. The claims payment process is performed by one staff. Transactions related to closed, pending, or expired status have a higher risk of unauthorized or fraudulent transactions being processed without timely detection.
Weak Access Controls	**ORCA** and Covered Electronic Waste Payment Information System (**CEWIS**) do not require routine password changes to ensure data integrity and security of automated files.

Recommendations:

A. Develop and implement procedures for systems access removal at the time of employee separation or internal transfer.

B. Modify ORCA system controls to require a second approval for transactions related to participants with a closed, pending, or expired status.

C. Require system users to change passwords at specified intervals.

FINDING 5: Policies and Procedures Are Inadequate for Certain Functions

Written policies and procedures that govern several essential business functions either do not exist, are outdated, or do not comply with SAM. Adequate policies and procedures would allow staff to clearly understand their roles and responsibilities, ensure consistency and compliance with requirements, provide a training and succession tool, and allow management to guide operations without constant intervention. See Table 3 for the affected areas. Except in the area of Information Systems, these are prior audit findings that have not been corrected.

Table 3: Schedule of Inadequate Policies and Procedures

FUNCTIONAL AREA	POLICIES/PROCEDURES	NON-EXISTENT	OUTDATED	NONCOMPLIANCE WITH SAM
Information Systems	CEWIS – Claim review/data input process		X	
	CEWIS, ORCA, and DOR*IIS* – Access controls	X		
Budgeting	Forecasting procedures	X		
	Signature authority to approve some budget documents	X		
Revolving Fund	Decentralized check distribution process	X		
State Property	Application of property decals for state property			X

Recommendation:

Develop, revise, or update policies and procedures and ensure consistency with SAM. Communicate changes to staff and maintain the policies and procedures in a centralized location.

CRITERIA FOR REPORT FINDINGS

FINDING NUMBER	CRITERIA	SUMMARY
1	SAM[1] 7120	Uniformity of accounts and accounting procedure among the agencies is necessary. Confusion would result if each agency maintained its individual methods and accounts. Comparison among agencies would be impossible. Consolidation of detailed statements of agencies, each with dissimilar methods and classifications, into any such documents as an executive budget or Annual Report of the State Controller would be an overwhelming task.
1	GAFRS[2] 1300	Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.
1	SAM 7800	Subsidiary records will be reconciled to the General Ledger monthly.
1	SAM 8776	Departments must ensure receivables are recorded promptly and accurately into the accounting system. Further, departments are to review and reconcile receivable accounts in the accounting system to accounts maintained in departmental program records. This reconciliation is to be prepared monthly within 30 days of the preceding month.

[1] SAM = State Administrative Manual
[2] GAFRS = Governmental Accounting and Financial Reporting Standards

FINDING NUMBER	CRITERIA	SUMMARY
1	SAM 8776.6	Requires three collection letters at 30-day intervals. The last letter will include references to prior letters and will state what further actions may be taken in the collection process. If receivables have been identified for discharge, departments must file an Application for Discharge from Accountability with the State Controller's Office (SCO).
2	SAM 7924	Agencies should reconcile the acquisitions and dispositions of capitalized property with the amounts recorded in the property ledger at least quarterly.
2	SAM 8660	Requires departments which acquire property with governmental funds to include a listing of investments in general fixed assets by sources of governmental funds used to acquire each. These amounts and funding sources are reported on the Statement of General Fixed Assets year-end report.
2	SAM 8602	Lists specific requirements for capitalization of state property.
2	SAM 8671	Requires recording capitalized assets into the General Fixed Assets Account Group per accounting event and adjust whenever property is surveyed.
2	SAM 8652	Agencies will make a physical count of all property and reconcile the count with accounting records at least once every three years. In addition, agencies are responsible for developing and implementing an inventory plan which includes (1) inventory taking, (2) internal control, and (3) reporting of inventory adjustments.
2	SAM 8601, 8650, and 8651	Requires departments to track all state property, including furniture, whether capitalized or not, in an automated property accounting system. Additionally, all state property is required to be promptly tagged and adequately recorded in the property ledger after acquisition.
3	CALSTARS[3] Vol. 1, Ch. 19	Only authorized users should have access to CALSTARS and access should be limited to areas that are necessary for the user to perform his or her duties. Further, for management who do not perform accounting duties, but do review CALSTARS tables and data, access should be limited to view-only access.
3	SAM 8080	Lists the specific accounting duties that should be segregated.

[3] CALSTARS = California State Accounting and Reporting System Manual

FINDING NUMBER	CRITERIA	SUMMARY
3	SAM 8080.1	Lists incompatible duties for automated systems. This section further states that employees from units other than accounting or data processing should be used to provide separation of duties, when necessary.
3	SAM 5315.1	Agency information technology management is responsible for (1) implementing the necessary technical means to preserve the security, privacy, and integrity of the agency's information assets and manage the risks associated with those assets, and (2) acting as a custodian of information per SAM section 5320.3.
4	SAM 5340	Agency management is responsible for ensuring the appropriate physical, technical, and administrative controls are in place to support proper access to agency information assets. These controls must be based on both business and security requirements to prevent and detect unauthorized access.
5	SAM 20050	Lines of organizational authority and responsibility should exist and should be clearly articulated.
5	SAM 2050	Each system an entity maintains to regulate and guide operations should be documented through flowcharts, narratives, desk procedures, and organizational charts.
5	SAM 5320.2	An agency unit that is designated owner of electronic records, files, or databases is responsible for defining precautions for controlling access to and preserving the security and integrity of records, files, and databases.
5	GC[4] 13402	State agency head responsibility includes documenting the system of internal accounting and administrative controls, communicating system requirements to employees, and ensuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

[4] GC = Government Code

DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

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November 13, 2013

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

Dear Mr. Sierra:

Thank you for the opportunity to review and comment on the October 14, 2013 Internal Control Draft Audit Report. Department of Resources Recycling And Recovery (CalRecycle) concurs with the results, and our efforts to implement each recommendation are detailed below.

Finding #1: The Division of Recycling's (DOR) Fiscal Functions are not fully integrated within CalRecycle's Fiscal Operations

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

> CalRecycle has already consulted with the Department of Finance's Fiscal Systems and Consulting Unit (FSCU). In order to achieve uniformity in our procedures, effective January 2014, all programs at CalRecycle will begin using the existing Accounting Office methodology to record revenue and receivable transactions. This will ensure consistency, as well as compliance with state requirements.

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 practices.

> The Accounting Office will work with CalRecycle's Information Technology Services to capture and report transactions/balances in fiscal periods reflective of the periodicity assumption in accrual basis of accounting.

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

To ensure proper oversight and reconciliation for the Beverage Container program participant accounts (receivables, collections and write-offs) responsibility will be transferred to the Accounting Office effective January 1, 2014. Organizational structure and reporting relationships will be modified accordingly.

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

Upon relocation of these functions, DORiis "Unapplied" receipts will be reviewed for the time period in question and anything remaining will either be posted or refunded. In the interim, as part of managing participant accounts DOR's Account Management Unit (AMU) will continue to research and work towards resolving unapplied receipts.

Recommendation E: Transfer the 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.

As stated in Recommendation A, the DOR receivables write-off responsibility will be transferred to the Accounting Office in January 2014. Meanwhile, an interim process has been in place since June 2012 where DOR refers write-offs to the Accounting Office. Once reviewed and approved, the Accounting Office sends the referrals to SCO for authorization to discharge. Accounts are not written off in DORiis until approved by SCO.

Finding #2: Assets are not safeguarded from unauthorized use or disposition

Recommendation A: Promptly apply decals and record all state property in the property ledger.
The Business Services Office will follow policies and procedures that were revised in August 2013 to ensure that decals are added to state property upon acquisition and that the decal numbers are entered into the property ledger as appropriate.

Recommendation B: Consolidate property lists into a centralized property accounting system.
CalRecycle will complete a comprehensive physical review of assets currently on-hand. State property, including that which was transferred from the Department of Conservation, will be tagged and entered into one centralized inventory system as appropriate.

Recommendation C: Coordinate with the Department of Conservation to obtain DOR property documentation to support acquired assets.

> CalRecycle will request records from the Department of Conservation to support property that was transferred over in 2010. Regardless of documentation received, CalRecycle will tag and enter state property into a centralized system during a physical review.

Recommendation D: Ensure the following information is adequately documented:

1. Property Ledger- Record the agency document number listed on the Property Survey Report in the Property Ledger.

> The Business Services Office will follow established policies to comply with SAM requirements for capturing assets at the time of acquisition and ensure that the items are entered into the property ledger, with appropriately cited documentation.

2. Property Survey Report- Document the make, model, serial number, and state decal number on the form.

> The Business Services Office will follow established policies to ensure that Property Survey forms are fully completed with identifying characteristics of property being surveyed.

Recommendation E: Ensure that the allocation method used to capitalize and record disposal of assets accurately reflects costs charged to the fund(s) benefitting for the asset.

> Beginning July 2013, the Accounting Office updated and implemented policies and procedures to ensure that capitalized assets are being recorded at the time of acquisition and disposition, and to the appropriate funds.

Recommendation F: Reconcile capitalized assets in the Property Ledger to Capital Asset Group of Accounts quarterly.

> In addition to what we implemented for Recommendation E, a monthly reconciliation process has been put in place to reconcile accounting records to the property ledgers.

Recommendation G: Perform physical inventories of all property at least once every three years and ensure that physical inventory counts are periodically reconciled with accounting records.

> The Business Services Office and Information Technology Branch, in concert with the Accounting Office, will engage in a physical inventory for all capitalized inventory annually and at least every three years for non-capitalized inventory.

Finding #3: Incompatible Information System Access and Duties

Recommendation A: Limit CalSTARS access to functions necessary to perform assigned job duties.

> The CALSTARS security officer is currently reviewing access for all employees and changes will be made to align access with assigned job duties. This review and any necessary access changes will be completed by December 2013.

Recommendation B: Segregate incompatible accounting duties in accordance with the State Administrative Manual.

> Effective October 2013, incompatible duties identified have been segregated to the extent possible. These duties will be continually reviewed and updated to reflect future changes to maintain compliance with this finding.

Recommendation C: Limit safe access to blank check stock to those who do not reconcile the monthly bank statement.

> Access to the safe has been updated as recommended.

Recommendation D: Require a used oil expert to review and approve ORCA expenditures prior to payment processing.

> The Accounting Office will begin working with Program staff in January 2014, to review and realign organizational structure and workflow of the ORCA claims process to the extent possible.

Recommendation E: Segregate the ORCA system design, programming, and maintenance functions.

> While the design and initial development of ORCA was performed predominately by one Programmer Analyst (PA), nine other PAs, one Information System Analyst (ISA), and the Database Administrator (DBA) are on record in the IT Services Project Tracking System as having contributed to this project. IT Services will segregate duties associated with on-going system maintenance and enhancements of ORCA in the next 30 to 60 days by dividing duties between the primary PA, and at least one additional PA.

Finding # 4: Information Systems at Risk

Recommendation A: Develop and implement procedures for systems access removal at the time of employee separation or internal transfer.

In September 2012 an enhancement to the Position and Employee Tracking System (PETS) was implemented. This enhancement sends notification email messages in response to employee record updates in PETS such as employee departures and internal transfers. One notification email is sent to the CalRecycle IT Services Help Desk, which automatically generates a Help Desk work order, including a user network credentials update. A work order, specific to a request for a DORIIS user account update, was also added to the Help Desk work order generation process in early October 2013.

Recommendation B: Restrict adjustments to claims in ORCA system for participants that have a closed, pending, or expired status.

Not restricting adjustments to claims in the ORCA system for participants that have a closed, pending, or expired status is necessitated by statute and used oil regulation as participants are not prohibited from subsequently filing claims for a period they were actively certified. Therefore, accounting staff need the ability to make adjustments to claims for these participants. However, as stated in the response to Recommendation 3D, the Accounting Office will begin working with Program staff in January 2014, to review and realign organizational structure and workflow of the ORCA claims process to the extent possible.

Recommendation C: Require system users to change passwords at specified intervals
By June 30, 2014, policy and procedures related to the security weaknesses identified in Table 2 of the Audit Report will be established and documented whereby users of the identified systems will be required to change their passwords on a frequent basis (frequency to be determined by June 30, 2014).

FINDING # 5: Policies and Procedures Are Inadequate for Certain Functions

Recommendation: Develop, revise, or update policies and procedures and ensure consistency with SAM. Communicate changes to staff and maintain the policies and procedures in a centralized location.

CalRecycle will develop, revise, or update as applicable, the policies and procedures identified in Table 3 of the Audit Report to ensure consistency with SAM. Specifically, CEWIS claim review and data input process procedures are up to date. Also as mentioned in Finding #4, Recommendation A Forecasting procedures have been developed and implemented as they relate to the Fiscal Services Branch.

Policies and procedures, consistent with SAM, regarding access controls and user status changes, associated with the identified systems will be developed in the next 60 to 90 days. Those policies and procedures will be communicated to staff and maintained in a centralized location. Training will be provided on the new procedures on an as needed basis.

A delegation of authority has been drafted outlining the signature authority granted for key fiscal documents in both the Accounting and Budgeting offices.

Check distribution procedures and a process of reconciliation will be designed that is similar to the Head Quarters check distribution desk for delegated check distribution occurring in remote offices.

As stated in Finding #2 Recommendation A, policies and procedures were revised in August 2013.

As detailed above CalRecycle is committed to implementing recommendations noted in the Audit report and will ensure processes are periodically evaluated to ensure compliance with applicable requirements. Upon request we will make available any of the policies, procedures, reports or other documents that were 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

Evaluation of Response

We reviewed the Department of Resources Recycling and Recovery's (CalRecycle) response, dated November 13, 2013, to our draft audit report. CalRecycle concurs with our findings, and we acknowledge CalRecycle's willingness to implement our recommendations. In evaluating CalRecycle's response, we further clarified a portion of Finding 4 and its related recommendation, and provide the following comments:

Finding 4: Information Systems at Risk—ORCA

CalRecycle agrees with our finding but indicated that closed, pending, or expired participants are allowed to submit claims for a period they were actively certified. Therefore, accounting staff need the ability to make adjustments to those claims.

We understand the occasional need for CalRecycle staff to process legitimate claims for participants with closed, pending, or expired status. However, the ORCA system currently allows one staff to process transactions with a closed, pending, or expired participant status, without additional approvals. Transactions related to participants with a closed, pending, or expired status have a higher risk of unauthorized or fraudulent transactions being processed without timely detection. To address this risk while recognizing the need to occasionally process these transactions, we revised the finding and recommendation in the final report.