CALIFORNIA STATE AUDITOR

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FACT SHEET

Date: **June 22, 2010** **Report: 2010-101**

The California State Auditor released the following report today:

Department of Resources Recycling and Recovery

Deficiencies in Forecasting and Ineffective Management Have Hindered the Beverage Container Recycling Program

BACKGROUND

Administered by the Department of Resources Recycling and Recovery (department), the Beverage Container Recycling Program (beverage program) is intended to encourage and increase consumer recycling of aluminum, glass, plastic, and bimetal beverage containers sold in California that contain certain beverages. For every beverage container sold or offered for sale, beverage distributors make a redemption payment to the department's Beverage Container Recycling Fund (beverage fund). The cost of the redemption payment is passed along to consumers when they purchase beverages and to encourage recycling, consumers can return used containers to recycling centers and receive a refund value. The department has an auditing system to ensure the redemption payments and refund values paid comply with state law, and it investigates recyclers that collect used containers from consumers to ensure that they do not commit fraud when claiming reimbursements from the beverage fund.

KEY FINDINGS

During our review of the department's administration of the beverage program and beverage fund, we noted that the department:

- Has had trouble forecasting revenues and expenditures for the beverage fund—over the past five fiscal years, its forecasts have differed by between 3 percent and 15 percent from actual revenues and expenditures. Also, the department overstated the projected fund balance by $158.1 million in the 2009–10 Governor's Budget due to errors in forecasting the condition of the beverage fund.
- Incorrectly calculated a reduction in payments to recyclers and others due to an error in computing its reserve for the projected fund balance in its May 2009 forecast.
- Is not always aggressive in identifying or pursuing underpayments. The department:
  - ✓ Does not consistently audit all distributors as planned in its current audit cycle—it still had either not completed or not started 12 audits of its top 100 beverage distributors or 67 of the 309 mid-sized and other at-risk distributors.
  - ✓ Did not always audit beverage distributors with identified underpayments stemming from prior audits. One distributor (the fifth largest in the State) had an identified underpayment of $285,000 arising from an audit completed in 2005-06, yet it was among the 12 audits that had not been completed.
  - ✓ Takes too long to complete its audits and bill for underpayments identified. For the 11 audits we examined, the department took between 129 days and 854 days to complete the audit and as many as 24 days to collect from a distributor for an identified underpayment.
  - ✓ Did not collect up to $755,000 on three instances because it exceeded its two-year statute of limitations on collecting underpayments.
- Fails to document fraud leads it decides not to investigate and is potentially missing opportunities to detect fraud because it does not have a formal systematic and documented methodology for analyzing data regarding the volume of recycled containers.
- Did not consistently oversee recycling grants—for six completed market development and expansion grants we reviewed, the department did not ensure that grantees met their commitments—ultimately costing the State nearly $2.2 million.

KEY RECOMMENDATIONS

We made several recommendations to the department including that it implement a new forecasting model and that the department place appropriate controls over this model and ensure that it uses accounting records in identifying revenues and/or expenditures. We also recommended that the department strive to complete its audits in a more timely fashion and expedite reviews when an audit identifies a significant underpayment. Other recommendations are geared toward improving its management of fraud investigations such as tracking fraud leads and the disposition of those leads. Further recommendations were aimed at improving oversight of grants and ensuring the intended value is received from the grant funds it awards by conducting site visits, receiving regular status reports, and scrutinizing risks associated with market development grants.

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