CalRecycle

DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

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August 21, 2015

Bob Peoples, Ph.D.
Executive Director
Carpet America Recovery Effort (CARE)
100 South Hamilton Street
P.O. Box 2048 Dalton, GA 30720

Re: CARE Independent Audit included in the California Carpet Stewardship Annual Report

Dear Dr. Peoples:

CalRecycle acknowledges receipt of the document, *Annual Report to CalRecycle, January 2014 – December 2014, California Carpet Stewardship Plan (2014 Annual Report)*, which includes an independent financial audit. According to regulations (see reference below), CalRecycle has 60 days to provide its finding on the audit contained in the *2014 Annual Report*. This letter informs you of the results of our review of the audit. For reference, the regulations that pertain to the Annual Report for the California Carpet Stewardship Program are found in the California Natural Resources Regulations, Title 14, Division 7, Chapter 11, Article 1, Section 18944 *Annual Report Compliance Criteria.* (*http://www.calrecycle.ca.gov/Laws/Regulations/Title14/Chap11/default.htm*).
We will be separately providing feedback on the rest of the Annual Report when we have completed our review.

Appendix IV, Section 10.4, Audited Financial Statements, presents a Schedule of Findings and Corrective Action Plans. This Section covers findings from the previous Audited Financial Statement (covers the year 2013) and how the findings have been addressed over the past year and it covers any new findings for 2014.

CalRecycle previously had concerns about Findings 13-1 and 13-2. Finding 13-1 concerns the need to update the Agreed Upon Procedures (AUP) to ensure they capture new reporting requirements whereby manufacturers and recyclers are to report and request payment within 30 days of the end of the calendar quarter. The independent auditor's recommendation was:

> *The timetable for the completion of the appropriate agreed upon procedures needs to be compressed to ninety days. Reporting of manufacturers and their remittance to the Plan is to occur within 30 days after each calendar quarter end. Recyclers, likewise, are to report and request payment within 30 days of the end of the calendar quarter. The agreed upon procedures need to take place within the 90 day window between reporting deadlines to be effective and reduce the chance for an excess payment to be made or recovered. Likewise an error in revenue recognition from the mills would be reduced.*

The independent auditor found the recommendation was fully implemented.

Finding 13-2 indicates a need for a central repository of documents pertaining to the program to facilitate future audits. The independent auditor made the following recommendations:

1. *We recommend that hard copies of all agreed upon procedure reports be maintained in a locked, confidential, fireproof cabinet in the CARE offices for access by management and auditors.*
2. *We recommend that hard copies of all minutes be maintained in the same cabinet.*
3. *Further, we recommend CARE's copy of the AB 2398 registration, annual filings, the approved stewardship plan, etc., likewise, be maintained in this repository.*

The independent auditor found that Recommendation 1 was fully implemented. Recommendations 2 and 3 were partially implemented. CalRecycle will wait for the results of 2015 audit to see if recommendations 2 and 3 are fully implemented.

One new finding was found in 2014. Finding 14-1 concerns the submittal by processors/recyclers of a signed request for payment within 30 days of the quarterly reporting period. The independent auditor recommendation was:

> *We recommend that a checklist be created for each quarter to verify that all necessary documents are received from processors/recyclers in a timely manner prior to issuing the disbursements and that the documents are properly filed within the system to allow for easy retrieval.*

CARE agrees to address this finding. CalRecycle has no further comment on the specific measures CARE has taken or plans to take to respond to this finding.

Additionally, the independent auditor has not commented on the current status of finding 12-4 from the year 2012. CalRecycle will wait for the results of 2015 audit to see if the independent auditor opines on the final resolution of this finding.

The regulations noted above require that the audit report include a separate State Compliance Report (SCR) on the carpet program requirements as directed by the department. CalRecycle provided CARE with guidance on the SCR in a letter dated June 4, 2014. CARE provided a SCR along with the audit report and it found the financial statements to be in compliance. CalRecycle acknowledges that SCR is included in the audit report and does have any issues to raise in this regard.

CalRecycle looks forward to continued improvements in the administration and implementation of the California Carpet Stewardship Program. If you have questions, please direct them to Kathy Frevert at 916-341-6476.

Sincerely,

Howard Levenson

Howard Levenson, Ph.D.
Deputy Director, Materials Management & Local Assistance Division