

**DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY**

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August 29, 2016

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 2015 Annual Report

Dear Dr. Peoples:

CalRecycle acknowledges receipt of the document, *CARE California Carpet Stewardship Program Annual Report January 2015 – December 2015*, which includes an independent financial audit. As per regulations¹, CalRecycle has 60 days to provide its finding on the audit contained in the Annual Report. This letter provides the results of CalRecycle's review of the audit. The regulations pertaining to the Annual Report for the California Carpet Stewardship Program are found in the California Code of Regulations, Title 14, Division 7, Chapter 11, Article 1, Section 18944 *Annual Report Compliance Criteria*¹.

Appendix 10.4 of the 2015 Annual Report presents the independent auditor's Schedule of Findings and Corrective Action Plans. This Section covers findings from the previous Audited Financial Statements, how previous findings have been addressed over the past year, and new findings for 2015.

PREVIOUSLY UNRESOLVED FINDINGS

There are a number of findings from the 2014 Independent Auditor's Report that have not been resolved and are repeat findings in 2015:

Finding 12-4: In the 2012 Annual Report Independent Audit, the independent auditor noted that no detailed accounts receivable reports are maintained to support the balances found in the general ledger, and recommended maintaining a detailed ledger. However, in the 2014 Annual Report Independent Audit, the independent auditor found that "*no further improvement is possible due to the structure of the Plan*". CalRecycle was not aware that the plan or its structure would prohibit this information from being able to be available for an audit. CalRecycle believes that this is not an appropriate limitation on the scope of the

¹ <http://www.calrecycle.ca.gov/Laws/Regulations/Title14/Chap11/default.htm>.



audit and would like to see that the 2017 Plan will ensure that detailed accounts receivable reports and a detailed ledger are maintained so that they will be able to be provided during an audit.

Finding 13-1: This finding 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 is as follows:

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.

CARE is in agreement with this finding. The independent auditor noted that this finding is to be maintained for follow up for 2016. CalRecycle accordingly expects CARE to update the Agreed Upon Procedures and take steps to ensure this is not a repeat finding.

Finding 13-2: This finding 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.*

CARE agrees with this finding. The independent auditor noted that this finding is to be maintained for follow up for 2016. CalRecycle accordingly expects CARE to develop and maintain a document repository to ensure this is not a repeat finding.

Finding 14-1: This finding concerns the submittal by processors/recyclers of a signed request for payment within 30 days of the quarterly reporting period. The independent auditor recommendation is as follows:

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 with this observation, but not with the finding, as articulated in the Independent Auditor's Report. The independent auditor noted that this finding is to be maintained for follow up for 2016. CalRecycle expects CARE to improve its payment procedures to ensure this is not a repeat finding.

NEW FINDINGS IN 2015

Two new findings were documented in the 2015 Independent Auditor's Report:

Finding 15-1: This finding concerns inadequate communication between CARE's operational staff and financial staff. Additionally, CARE's CFO does not receive all HA&W reports, and since she is involved in the disbursement of funds, she should be aware of any concerns or exceptions to the recyclers. The independent auditor recommendation is as follows:

We recommend that the financial and operational staff meet quarterly to exchange pertinent information in the management of the program. It is imperative that any concerns be shared among all in management.

CARE agrees with this finding and has already taken steps to remedy this. CalRecycle expects CARE to institutionalize communication between operational and financial staff to ensure this is not a repeat finding.

Finding 15-2: The independent auditor found that Collectors/Sorters Entrepreneurs (CSEs) began receiving subsidies in 2015 and are required to submit data, but have not been required to submit attestation letters as required in the AB2398 California Carpet Stewardship Plan. The independent auditor recommendation is as follows:

We recommend that CARE include the requirement of attestation letters for all processors receiving subsidies and incentives.

CARE indicated that it will require CSEs to submit attestation letters effective May 2016. CalRecycle expects CARE to improve its payment procedures to ensure this is not a repeat finding.

STATE COMPLIANCE REPORT

California regulations 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 in the 2015 Annual Report, which found the financial statements to be in compliance.

CONCLUSION

Several findings remain unresolved from year to year. CARE's lack of improvement relative to regulatory and statutory requirements may be further reviewed by the department.

Separately, CalRecycle will make a compliance determination on the 2015 Annual Report at the public meeting on September 20, 2016. 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 Fareed Ferhut at 916-341-6482.

Sincerely,



Howard Levenson, Ph.D.

Deputy Director, Materials Management & Local Assistance Division

cc: Scott Smithline, Director, CalRecycle
Brenda Smyth, Branch Chief, Statewide Technical & Analytical Resources, CalRecycle
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